Why do developing countries get caught in the middle-income trap: A comparison of Thailand and South Korea

Tittarelli, Virginia

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Universiteit Leiden

Virginia Tittarelli
s2068729

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Thesis Supervisor: Dr. M. D. Sampson

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TABLE OF CONTENTS

INTRODUCTION

In 1993, the World Bank's report titled "The East Asian Miracle" highlighted the outstanding economic growth that the 8 high-performing Asian economies (HPAEs) in the region sustained from the 1960s to the early 1990s. With the help of private domestic investment and of an unparalleled accumulation of physical and human capital, the HPAEs outperformed the economies of Latin America and Sub-Saharan Africa, by growing – respectively – three and five times as much (World Bank, 1993).

However, the report also pointed at the intra-regional differences in economic performance that led the four Newly Industrialized Countries (NICs) – Hong Kong, Singapore, Taiwan and South Korea – to part ways with the four members of the Association of Southeast Asian Nations (ASEAN-4) – the Philippines, Indonesia, Malaysia and Thailand (Doner, 2012). Indeed, in the 35-year period, countries such as Singapore reached an annual GDP per capita of $11,861 while other Southeast Asian nations, like the Philippines, totaled an annual GDP per capita of only $715.91 in 1990 (World Bank, 2020a). Why is it that despite sharing several common characteristics in terms of both geographical and economic factors, the four NICs grew faster and more steadily than the ASEAN-4?

Within this framework, identifying which elements contributed to the ASEAN-4 growth slowdowns in the past 50 years in contrast with their Northeast Asian counterparts is of crucial importance for research conducted on economic development and its long-term sustainability. Taking note of those obstacles that affected the economic performance of Southeast Asian countries may prove especially relevant for those developing economies outside the region that are nowadays sharing a similar starting point on their pathway towards industrialization. By means of a comparative study, this thesis will narrow its focus on the contrasting economic performances of two exemplar countries in the Asia Pacific region, with the aim of identifying what are the primary lessons that

could be learned from such diverging cases. The following research question will be answered in this thesis:

"Why did Thailand get caught up in the middle-income trap? A comparative analysis with South Korea"

Throughout the present thesis I will show that Thailand stagnated in what has been referred to as the 'middle-income trap' (henceforth, MIT) for a variety of reasons which find their roots in both external factors – such as the lower amount of US financial aid that the country received contrary to South Korea (henceforth, Korea) – and domestic factors – like the country's incapability of implementing those economic measures that proved successful for the Korean case. In this regard, Thailand's represents the most illustrative example of 'middle-income trap' in the Asia Pacific region whereas Korea never faced the possibility of stalling in one to begin with.

Investigating the factors behind the MIT is of special importance as it is still a very relevant phenomenon. Indeed, examining Thailand's economic stagnation can shed additional light on those countries outside the Asia Pacific region – such as Brazil, Chile, Nigeria, India and Iran, among others, – that are embarking on similar modernization processes and that face the danger of incurring into the same growth slowdown (Glawe & Wagner, 2016). Nowadays, three-quarters of the population live in middle-income economies (Gill & Kharas, 2015) and, analyzing the root causes behind the MIT can help predict what are the best strategies to pursue in order to break through its hindering ceiling and can help policymakers guide the transition from middle to high-income status.

LITERATURE REVIEW

Since the early 1990s, there has been an explosion of studies trying to describe the outstanding growth of East and Southeast Asian economies (Booth, 1999). The works of Amsden (1992), Wade (1990) and Johnson (1982, 1995) concerning the role played by governments in the industrialization of East Asia can be regarded as the cornerstones of the literature describing the countries' booming development. However, a vast body of literature has tended to convey that the world's geographical area of 'East Asia' encompasses all those countries that experienced rapid economic development since the 1960s, thus merging them all into one single group from which general, overarching lessons could be drawn. For example, the 1993 World Bank's report on the East Asian 'Miracle' – while recognizing the slight differences in economic performances of these countries – stressed the importance of not only learning from the successful experiences of Japan and the four Asian Tigers – Taiwan, South Korea, Hong Kong and Singapore – but also from the expanding economies of Southeast Asia, such as Thailand, Indonesia and Malaysia.

Moreover, while there is a general agreement over the outstanding economic growth sustained by East Asia, scholars disagree on how the region achieved its 'miracle'. In trying to explain the phenomenon, the literature tends to fall into two main camps: the fundamentalists (or the market-friendly view) versus the mystics (otherwise known as 'revisionists') (McCord, 1989; World Bank, 1993). Fundamentalists such as Young (1993) tend to attribute East Asia's success to the efficient accumulation of both physical and human capital as well as to the systematic allocation of resources. Among the most important policies, fundamentalists stress measures of macroeconomic stability, the promotion of stable financial systems, little to no price distortions and countries' openness to foreign technology (Page, 1994). What is more, growth fundamentalists maintain that high investments in human capital – delivered on behalf of East Asian governments under the form of education and healthcare – played a crucial role in furthering the region's development (World Bank, 1991). By

contrast, mystics argue that the market failed to promote investment and that HPAEs' meteoric development was due to a state-led promotion of those East Asian industries that would have not flourished otherwise (Amsden, 1992). In opposition to market-friendly fundamentalists, mystics emphasize the importance of flexible government actions, which controlled the market and successfully promoted industrial development (Wade, 1990).

Economic development: the importance of culture and institutions

Several scholars – when trying to explain the different economic trajectories of East and Southeast Asian countries – focused primarily on the presence, or absence, of crucial institutional and cultural factors such as the countries' work ethic, educational systems or religious beliefs. In this regard, culturalist arguments credit the economic success of Northeast Asian economies to their 'Confucian Ethic' (McCord, 1989, p. 75).

For example, Yoshihara (1995) argues that Korea's impressive growth was further pushed by the presence of three main factors: (1) Koreans' lack of interest for leisure activities as compared to goods accumulation (leisure-goods trade-off), (2) Koreans' risk-taking predisposition and willingness to venture into business, and (3) their high demand for quality education following the great value that they attach to it (p. 389).

Along the same lines, scholars such as Aseniero (1994) and Wheeler (1990) argue that – contrary to Southeast Asian countries – all four NICs inherited a common Confucian philosophy, which is to be regarded as the main factor underlying the countries' unmatched economic development since the mid-1970s. A strong work ethic, corporatist practices based on familial ties and a sense of civil service which finds its roots in educational achievements are – according to the authors – the primary social features that more properly explain why the four NICs – and Korea in particular – outperformed the economic growth of every other country in Southeast Asia.

In a similar fashion, McCord (1989) stresses how the most successful countries in the Asia Pacific region are those presenting a strong Chinese cultural influence in contrast with other traditions

such as Hinduism or Buddhism. In opposition to more classic traditions, the 'folk cultures' proper of Japan and Korea emphasize values of discipline, pragmatism and, more importantly, an active lifestyle rather than a more contemplative and static way of living (p. 74).

Furthermore, Doner et al. (2009) highlight the importance of political institutions in delivering the right guidance and policy decisiveness. For example, Singapore achieved high innovation levels thanks to the presence of hybrid arrangements that "tied the hands" of those veto players in the country obstructing productivity improvements and rapid growth (p. 165).

Overall, scholars such as Yoshihara (1995) and Scitovsky (1985) believe that the social features and domestic conditions proper of the four Asian Tigers – such as their class structure, the relationship between state and society, the levels of social integration and the cultural milieu in which they found themselves embedded – mattered crucially in delivering such impressive levels of economic growth in the period between 1960 and 1995. The four countries' social dynamics as well as their institutional framework – especially in the case of Korea – are regarded as the primary 'internal factors' that furthered high levels of industrialization in opposition to the stagnating development patterns that instead characterized the economic take-off of the ASEAN-4 and, particularly, of Thailand during the same period (Aseniero, 1994).

The middle-income trap: myth or reality?

Understanding whether an economy will be subject to sudden and prolonged periods of stagnation or whether growth recessions under the form of MIT are just a myth is of crucial importance to both scholars and policymakers as it affects the comprehension of real-world growth dynamics. Within this framework, it is important to take note of the general lack of consensus over the MIT as a concept, its possible definitions and overall existence.

Although the idea of a 'middle-income trap' was first advanced by Gill and Kharas (2007) following their fieldwork in Latin America, its conception remains widely used and just as contested. Indeed, a more skeptic side of scholars, such as Felipe et al. (2017), reject the truthful existence of a

MIT and claim that what truly differentiated the successful performances of the four NICs from those of the ASEAN-4 was the former group's capacity to leap over growth drawbacks, rather than structural factors inherent to those countries stagnating in the middle-income range. Along the same lines, Pritchett and Summer (2014) do not consider the MIT as a real phenomenon and regard the natural regression to the mean that follows periods of abnormal development as a more relevant feature of economic growth.

On the other side of the spectrum, scholars such as Aiyar et al. (2013) stress the connection between growth slowdowns and the possibility of falling into a middle-income trap. Not only the authors argue in favor of the trap's truthful existence, but they proceed to empirically show how those lower-middle income countries that initially experience patterns of sustained economic development are more likely to fall into growth slowdowns shortly after. Considering the four different income thresholds, growth decelerations have occurred more frequently at the lower-middle income level, therefore confirming that there is indeed a 'trap' (Aiyar et al., 2013). Along the same lines, Ohno (2009) gives credit to the MIT and refers to it as a "glass ceiling" (p. 5) that none of the ASEAN countries has managed to break through as they proved incapable of overcoming their dependency on external powers' financial support and technology transfers in the years from 1960 to 1990.

Overall, scholars' approaches to the MIT vary significantly as they revolve around the study of different geographical cases as well as of different political and economic issues. Not only scholars disagree on the very existence of the middle-income trap, but – for those who advocate in favor of its existence – further disagreements arise on what is the best strategy to tackle it.

In this regard, Kanchoochat (2015) categorizes the three main bodies of literature that focus on what are the best measures that countries ought to pursue in order to overcome the MIT. A first group of Neoclassical scholars such as Jimenez et al. (2012) and Jitsuchon (2012) believe that the inadequacy of educational systems and institutions are to be considered the main triggering factors of the MIT. It follows that minimal state intervention, the accumulation of human capital and the right system of incentives can help getting those institutions right.

A second body of literature argues that the major causes underlying the MIT reside in countries' inability to manufacture and subsequently export higher-technology products. Scholars such as Felipe et al. (2012) and Eichengreen et al. (2013) claim that export diversification paired with higher product complexity can help avoid growth recessions and falling into the MIT in the first place. In such a scenario, the state is meant to play a facilitating role: to support those national industries in which the country possesses a comparative advantage (Kanchoochat, 2015).

In a similar fashion, a third group of scholars such as Ohno (2009), Paus (2012) and Lin and Treichel (2012) highlight the lacking role of the state in encouraging the development of social and firm-level capabilities as well as the production and export of high-tech products in lower-middle income economies. A proactive state capable of furthering industrial upgrading and capabilities accumulation is therefore crucial to circumvent growth slowdowns and the middle-income trap (Kanchoochat, 2015).

Contributions

Within this field of research, this thesis aims to demonstrate that the economic performances of East and Southeast Asian countries must be differentiated from each other to systematically single out what worked out and what did not. I try to do so by comparing one of the two most contrasting cases and by spelling out the distinct natures of their economic development.

Concerning the fundamentalists-mystics divide, this thesis contributes by showing that the different growth trajectories of East Asian countries cannot be confined and restricted under the overarching umbrella of one single explanatory theory. A middle ground exists and different features belonging to both schools of thought account for the dissimilarities in the economic growth of Thailand as compared to that of Korea.

Moreover, while many academic works so far have tried to explain the contrasting economic growth trajectories of Asian economies through cultural and institutional lenses, the relevance of this

thesis is spelt out by its ambition to emphasize the domestic economic measures implemented – or not – by Thailand and Korea during their pathway towards industrialization.

Finally, this work contributes to the existing literature by shedding additional light on the dynamics underlying the middle-income trap, its concrete causes and possible solutions as well as by bridging different MIT definitions and their applicability to different contexts.

Conceptualization

To investigate the factors behind Thailand's growth slowdown as compared to the successful case of Korea, it is fundamental to define what it is meant by 'middle-income trap' in the present thesis.

I start by outlining the four main income-based groupings as presented in the Asian Development Bank (ADB) working paper written by Felipe et al. (2012). The main criterion used to classify the different economies is gross domestic product (GDP) per capita in 1990 purchasing power parity (PPP) dollars and the groupings are categorized as follows: (1) lower-income economies are those with a GDP per capita below $2,000; (2) lower middle-income economies are those with a GDP per capita between $2,000 and $7,250; (3) upper middle-income economies are those with a GDP per capita between $7,250 and $11,750; and (4) high-income economies are those with a GDP per capita above $11,750 (Felipe at al., 2012).

In their paper, Felipe et al. (2012) define the economies stuck in the MIT as those that stagnated in the $2,000 - $7,250 income range for over 28 years. The case of Thailand, then, perfectly falls into such scenario: in 1990, the country's GDP per capita was $4,317, as opposed to that of Korea, which amounted to $8,273 (World Bank, 2020b). Overall, Thailand's GDP per capita grew on average by 4.7% annually and stalled in the lower-middle income range for exactly 28 years (Felipe et al., 2012, p. 16). By contrast, Korea spent only 19 years in the lower-middle income range, it turned into an upper-middle economy in 1988 and its GDP per capita growth rate was of 7.2% per annum (Felipe et al. 2012, p. 16).

In this thesis, I will adopt both Felipe et al. (2012)'s MIT definition as well as Gill and Kharas (2007)'s, the first ones to ever conceptualize it as a situation in which "middle-income countries [...] are squeezed between the low-wage poor-country competitors that dominate in mature industries and the rich-country innovators that dominate in industries undergoing rapid technological change" (p. 5). Overall, the middle-income trap should be understood as a situation where economies experience rapid growth patterns from the 1950s to the mid-1970s, so to stagnate – growth wise – from that point in time onwards (Gill & Kharas, 2007).

Table 1. Economies income-based classification on GDP/Capita PPP (current US$) (Source: Felipe et al., 2012).

Classification	Income Range
Low-income	$2,000 or less
Lower middle-income	$2,000 to $7,250
Upper middle-income	$7,250 to $11,750
High-income	$11,750 or more

METHODOLOGICAL APPROACH

This thesis will first investigate the primary factors behind Korea's rapid growth from 1960 to 1995. Afterwards, the same factors will be tested for Thailand's case to analyze how they influenced the country's economic development. My research question is:

"Why did Thailand get caught up in the middle-income trap? A comparative analysis with South Korea"

Methodology

In this thesis I will follow a Most Similar Systems Design (MSSD). The methodological approach entails selecting countries that share many common-base features – such as culture, history or social structure – while differing in one crucial aspect. The shared characteristics act as controlling variables in order to test whether the observed dissimilarities between the selected countries are associated with the variation in the dependent variable (Halperin & Heath, 2017; Porta, 2008).

In the present case, I will focus on the Asia Pacific region and carry out a cross-national comparison between two countries, namely Korea and Thailand, which are similar in many aspects but differ significantly in their levels of economic development. Indeed, while Korea managed to qualify as an 'high-income' country in 1995, Thailand stagnated in what has been referred to as the 'middle-income trap' for as long as 28 years since achieving the status of 'lower-income' country in 1976 (Felipe et al., 2012, p. 16). I will compare the economic development of the two countries in the period from 1960 to 1995, so to exclude from the analysis the impact of the 1997 Asian financial crisis, which might negatively skew the comparison between the different growth trajectories (Kumagai, 2019). Moreover, the first data on the economies of Northeast and Southeast Asia available

for analysis only date back to the 1960s (Booth, 1999).

The choice to compare Korea with Thailand lies primarily in the similarities shared by the two countries. Besides their common geographical location, the two nations were similar in size: in 1960, Thailand had a population of 27 million people, closely followed by Korea, which welcomed a total of 25 million people (World Bank, 2020c).

Moreover, both economies depended heavily on agriculture (Yoshihara, 1995), experienced strong military presence and orbited around the sound, anti-communist influence of the United States (US). Especially starting from 1961, Korea faced the military rule of Major General Park Chung Hee, which started consolidating friendly relations with the US as well as the economic development of the country (Cho, 2019). Similarly, Thailand witnessed a succession of military dictatorships, and, especially under the 1963-73 military rule of Field Marshal Thanom Kittikachorn, it experienced a process of modernization under the influence and financial aid of the US (Wilson, 1964). Furthermore, neither Thailand nor Korea have been colonized by European countries (Yoon & Hendricks, 2018). Finally, both nations shared similar initial economic conditions: in 1960, Thailand's GDP per capita amounted to $100.76 and that of Korea's totaled $158.21 (World Bank, 2020d).

In sum, the two countries were tied together by several common features, however, they differed on one crucial aspect: their economic growth performance. All other things being equal, the present thesis will compare the two countries on this stark difference.

Altogether, I will make use of both primary and secondary sources such as World Bank reports, UNCTAD policy papers, OECD statistics and academic articles that focus on the 1960-1995 economic development of the two countries. While secondary sources will provide notions on the historical background and on the overall economic growth of Thailand and Korea, the above-mentioned primary sources will supply the exact data associated with the performance of the factors considered to assess the reasons behind Thailand's stagnation in the middle-income trap.

Country choice: Thailand and South Korea

I have chosen to compare Thailand with South Korea primarily because of the two cases' uniqueness as compared to their neighboring countries. Among the ASEAN-4, Thailand is the only country that – in the period from 1960 to 1995 – stalled in the MIT. In fact, Malaysia rapidly transitioned into the upper-middle income range whereas the Philippines and Indonesia never really faced the possibility of getting stuck in the MIT as they proved incapable of reaching the lower-middle income stratum in the first place.

Specifically, Malaysia transitioned to the status of 'upper-middle' economy much earlier in time, in 1996, and it only spent 27 years in the lower-middle income range. Thus, it never stalled in the MIT to begin with (Felipe et al., 2012). Moreover, in 1995, Malaysia's GDP per capita already fell into the upper-middle income stratum, amounting to $10,698, whereas Thailand's remained in the lower-middle income one with a GDP per capita of $6,874 (World Bank, 2020e).

Concerning the Philippines and Indonesia, the two countries failed to reach the lower-middle income status in the period from 1960 to 1995. By the mid-1990s, with a GDP per capita of $1,062 and $1,026 respectively (World Bank, 2020f), the two economies remained in the lower-income range and proved incapable of transitioning towards higher income strata. Consequently, the possibility of getting stuck in the MIT never really occurred as they were still too far behind their Northeast and Southeast Asian neighbors, growth wise.

Looking at the four NICs, Korea is the only large country in the Asia Pacific region which managed to strikingly transition from a lower-income economy to a highly developed one since the second half of the 20th century (Amsden, 1992). Indeed, when focusing on the 1960-1995 timeframe, Singapore and Hong Kong could be hardly compared to the case of Thailand due to their significantly smaller sizes and to their exceptional conditions of sovereign city-state and of British colony, respectively.

Concerning Taiwan's case – while undoubtedly just as successful – it does not hold up with Korea which remains Thailand's most closely comparable country. From the very beginning, the

Korean government outperformed that of Taiwan in guiding and promoting economic development. Not only the interventionist model – associated with Thailand's growth in the 1970s – fits Korea better as opposed to Taiwan's market-led development (Hattori & Satō, 1997), but the country's economic performance is even more remarkable.

Indeed, Korea's GDP grew by 9.7% in the early 1970s and reached the 10% threshold by 1990. On the contrary, although developing just as rapidly, Taiwan's GDP grew, on average, by 8.8% up until the late 1990s (Kai-Sun et al., 2001). Finally, just like in the cases of Hong Kong and Singapore, it is important to consider Taiwan's significantly smaller population size as opposed to Thailand and Korea, which are more closely related.

It is for these reasons that the present thesis specifically focuses on the exceptional cases of Thailand and Korea. Overall, both countries stand out for their unique features: Thailand embodies the biggest and exclusive example of MIT in the Asia Pacific region and Korea can be regarded as Thailand's most closely comparable case as well as the most striking example of rapid industrialization patterns among the four NICs in the period from 1960 to 1995.

ANALYSIS

To analyze what led to Thailand's stagnation in the MIT, I have selected five factors that proved especially meaningful for Korea's economic success in the second half of the 20th century. In this regard, Korea will function as the main baseline model against which Thailand's development will be compared. Firstly, I will investigate how the selected factors played out in Korea. Afterwards, I will analyze how the same factors performed in Thailand's case.

The Northeast Asian model: South Korea

a) US economic assistance

Following the outbreak of the Korean War in 1950, the US became aware of the strategic importance of Korea. In fact, soon after the Korean War ended in 1953, Washington incorporated the East Asian country into its anti-communist strategy and isolated those Eastern socialist nations that welcomed China as their leader (Cai, 2011).

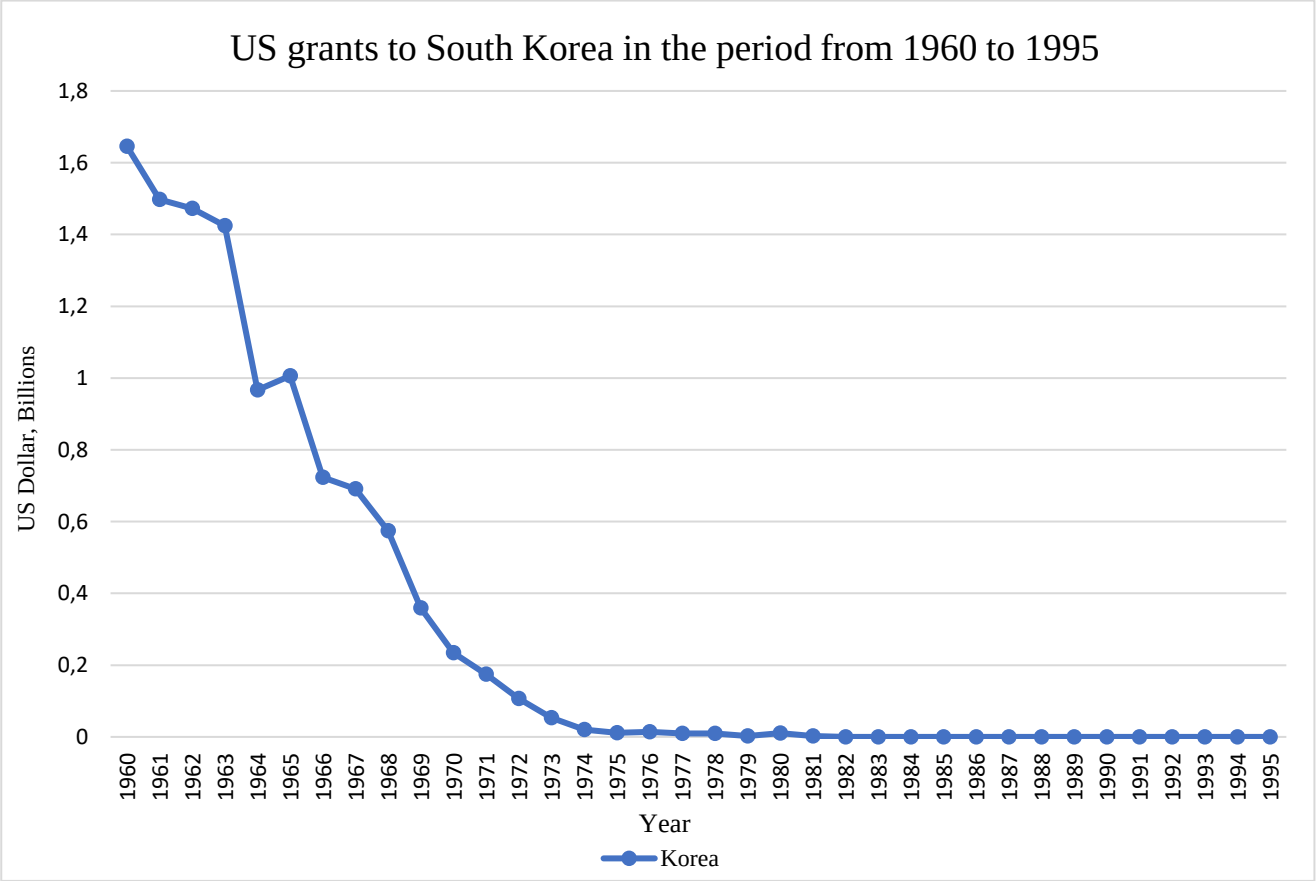
From the mid-1940s to the mid-1970s, the US military and economic aid programs proved essential for the country's early industrialization. In those years, Korea received a total of $12 billion in aid – an equivalent of $600 per capita – and, from 1953 to 1961, America's financial assistance accounted for 95% of Korea's total foreign aid as well as for 70% of the country's total imports (Cai, 2011). By contributing to the construction of infrastructures and to the formation of its human capital, Washington financed an average of 10.2% of the country's total investment, thereby strongly promoting its overall economic development and competitivity on the international market from 1965 to 1981 (Scitovsky, 1985).

Overall, it is important to consider two primary facts: (1) America's military and financial grants to Korea proved especially meaningful in the period prior to the 1960s, due to the outbreak of the Korean War in 1950 and because of Washington's strong anti-communist line of action. It follows

that (2) in the early-1970s, America's economic assistance started to wane (Table 2). After Korea's reprise and economic success in the 1960s – which culminated in the rapid expansion of the country's exports into the US market by the early 1980s – economic frictions emerged between the two allies. Consequently, Washington slowly retreated its financial aid and started to consider Korea as an economic competitor rather than as a satellite state in need of help (Cai, 2011).

All in all, Korea did benefit from the American financial and security umbrella, but the importance of such aid for its economic growth may well be exaggerated in the period from the early 1960s onwards (McCord, 1989). Indeed, starting from the early 1970s, Korea managed to boost its economic performance without America's helping hand and additional explanatory factors must be considered to account for Korea's outstanding growth.

Table 2. United States aid funds to Korea in the period from 1960 to 1995 in US dollars, billions (Source: OECD, 2020a).



b) Mastery of Technology

In South Korea, economic development was favored by a government-led technological upgrading of domestic industries, achieved through the promotion of indigenous scientific capabilities. From the early 1960s to the mid-1990s, policies of innovation and technological development aligned with Korea's national efforts to move from an agricultural economy to a knowledge-intensive, high-tech one (Gill & Kharas, 2015).

To achieve technological mastery, the country began by learning from advanced foreign technologies such as those proper of the US and Japan. At the same time, the Korean government started investing heavily in research and development (R&D) as well as in the improvement of human capital to expand indigenous technological skills (OECD, 2012).

Specifically, from the 1960s to the late 1970s, the country focused on training low-skilled workers and on transitioning towards the heavy and chemical industries, whereas from the 1980s onwards, R&D expenditure grew exponentially and several programs were launched to support private investments in the country's primary sectors. Thanks to the implementation of such measures, by the mid-1990s, Korea had become a leading powerhouse in several technological fields – such as mobile phones and liquid crystal displays (LCDs) – and successfully entered the global market in a competitive fashion (OECD, 2012).

Of special importance to the country's technological development is the case of the automotive industry, targeted from the early 1960s onwards. In an early phase of industrialization, Korea produced its first car by assembling components imported from Japan. However, by the mid-1970s, domestic technicians and engineers successfully designed and produced Korea's first national car and only a decade later, the nation's major car conglomerates – such as Hyundai, Kia and Daewoo – set up their own brands, developed the first national models and entered the international market (OECD, 2012). Hyundai Motor Company is especially illustrative of the country's ability to develop domestic technological capabilities: the company managed to acquire new technology by working – on a temporary basis – with foreign experts and it learned how to produce its own technology without

remaining dependent on foreign companies (Henley, 2018).

Overall, Korea achieved rapid industrialization by incentivizing R&D investments, human capital accumulation and reliance – not dependence – on foreign technologies during its early catching up phase in the 1960s. By the time Korea shifted to more capital-intensive industries, its reliance on foreign technological know-how was very limited and the country successfully managed to compete with other world powers (Scitovsky, 1985).

c) Export Promotion

In 1962, the Korean government initiated an outward-oriented development strategy that promoted exports in those labor-intensive industries – such as the textile one – in which the nation had a comparative advantage. Particularly, the government adopted the strategy of a "temporary effective protection conditional upon export promotion (EPconEP)" (Jomo, 2003, p. 13). By means of a strong state intervention, the country employed a protectionist economic policy mixed with an outward-looking strategy that promoted a huge export push of labor-intensive manufactured products, which increased at an average rate of 41.5% annually (Cai, 2011).

To foster exports, the Korean government put in place a mix of incentives and acted through several channels: firstly, the exchange rate was adjusted in order to encourage the competitiveness of domestic industries; secondly, the government provided export subsidies and import concessions to meet the national export targets; and finally, it established free trade export promotion zones (OECD, 2012). If in 1960 exports amounted to 2.4% of the country's GDP, by 1975 they had increased to 22.6% (World Bank, 2020g) and, by the mid-1980s, machinery and transport equipment made up one-third of the country's exports (Panayiotopoulos & Capps, 2001).

Pushing for a strategic restructuring of its economy, the government started promoting heavy and chemical industries, such as shipbuilding and electronics and – following their transformation into new export sectors – the total amount of goods and services exported rose from around $1 billion

in 1970 to $144 billion in 1995 (World Bank, 2020h). Overall, Korea's impressive performance in export growth delivered a substantial amount of foreign exchange earnings, bolstered economic development and accelerated its industrialization.

d) Import Control

Parallel to the promotion of exports, the Korean government implemented strong import restriction policies, which rose sharply starting from the early 1960s. In this regard, import restrictions played a crucial part in the country's early industrialization strategy, as they effectively protected domestic industries from foreign competition (OECD, 2012).

Until the 1980s, the percentage of automatic approval (AA) – the number of items that could be imported with no prior government permission – was incredibly low. Throughout the mid-1960s, AA items accounted for less than 10% and those imports deemed likely to compete with domestically produced items (e.g. luxury goods) carried tariff rates as high as 100% (Yoo, 2017).

Liberalization of imports started only in the 1980s, when the number of imported products that required no import permits stood at 70%, so to reach the 95% threshold by the early 1990s (Sakong, 1993). From the 1980s to the 1990s, the Korean government favored the transition towards a private-led sectoral development and lowered its protectionist measures. However, while pushing for import liberalization, it retained the control over specific kinds of imported goods (OECD, 2012). Particularly in the case of Japan, it kept applying strong discriminatory measures and by 1990 the imports of about 250 Japanese products were banned, and the imports of another 490 categories of items were strongly discouraged (Yoshihara, 1995).

Overall, Korea is believed to have been the most protected market among the four NICs (Yoshihara, 1995). The country's protective industrial policy measures – such as import controls – focused on 'picking winners' rather than 'protecting losers' as its protectionist measures served two primary functions: (1) they provided a 'social insurance' to those domestic firms that could not

borrow their way out periods of temporary difficulty due to capital market imperfections, and (2) they promoted long-term structural change by easing resource upgrading (Jomo, 2005).

e) Foreign Direct Investment

Fearing foreign influence, the Korean government pushed for indigenous industrialization rather than for an FDI-based development. While the new export-led growth strategy gradually introduced FDI measures, foreign investment was only welcomed into selected industries such as the light manufacturing sector and, until 1980, almost 600 sectors of the Korean economy remained fully closed to FDI (Nicolas et al., 2013).

In fact, the national government continued to discourage foreign investment in those sectors that were still under the umbrella of import-substitution measures and it exclusively directed capital resources to those industries deemed vital for the long-term economic development of the country. In order to prevent foreign firms from entering the domestic economy, the government opted for foreign borrowing and successfully kept FDI to a minimum throughout the whole initial liberalization period that lasted from the 1960s until the mid-1980s (Kim & Hwang, 2000).

However, soon after the government resorted to the liberalization of foreign investment since the mid-1980s, the country witnessed a rapid rise of FDI inflows into the economy. The annual average FDI net inflows increased from as little as $47 million in 1980 to $1.046 billion in 1990 (World Bank, 2020i) and – following an initial restrictive phase – the strategic sectoral distribution of FDI inflows bolstered the country's industrial development. In this regard, the Korean government directed the largest amount of FDI to the manufacturing sector – particularly in the heavy and chemical industries –, which, by 1986, absorbed 67.4% of the country's total inward FDI (Kim & Hwang, 2000).

Overall, Korea implemented restrictive foreign investment policies and until the mid-1980s, FDI played a marginal role in its industrialization process. Even after the country transitioned to a

more liberalized FDI regime, the ratio of inward FDI stock to GDP was still one of the lowest in the world, especially if compared with that of Southeast Asian countries such as Thailand. Very little liberalization occurred until 1995, and – in those sectors that have been opened – foreign investors still faced several horizontal restrictions (Nicolas et al., 2013).

The Southeast Asian model: Thailand

a) US economic assistance

Thailand differs substantially from Korea as it received significantly smaller sums of aid on behalf of the US. Drawing data from the OECD Statistics website, I have plotted together the total sums of aid received by the two countries from 1960 to 1995 (Table 3). The difference in economic assistance is remarkable: the grants received by Korea in 1960 exceeded $1.6 billion, whereas Thailand was granted less than $0.3 billion in the same year. In this regard, despite the aid received by Korea went declining over the years, the difference in the total amount of funds granted to the two countries remained substantial until the early 1970s.

America's involvement in Thailand peaked in the years between 1964 and 1976, following two major events: (1) the outbreak of the war against North Vietnam in 1965, and (2) the beginning of a Communist-inspired armed insurgency within the country (Muscat, 1990). During those years, the US Agency for International Development (USAID) initiated a large economic program meant to counteract the threat posed by the Communist insurgency in Thailand (Randolph, 1979).

Specifically, the US diversified the type of economic assistance destined to the country. The aid programs that took place between 1965 and 1975 were divided between those related to counterinsurgency projects and those intended to improve Thailand's overall economic conditions. During those years, Washington's funds exclusively served a security-oriented purpose and devoted around $131.3 million to keep the country safe (Muscat, 1990).

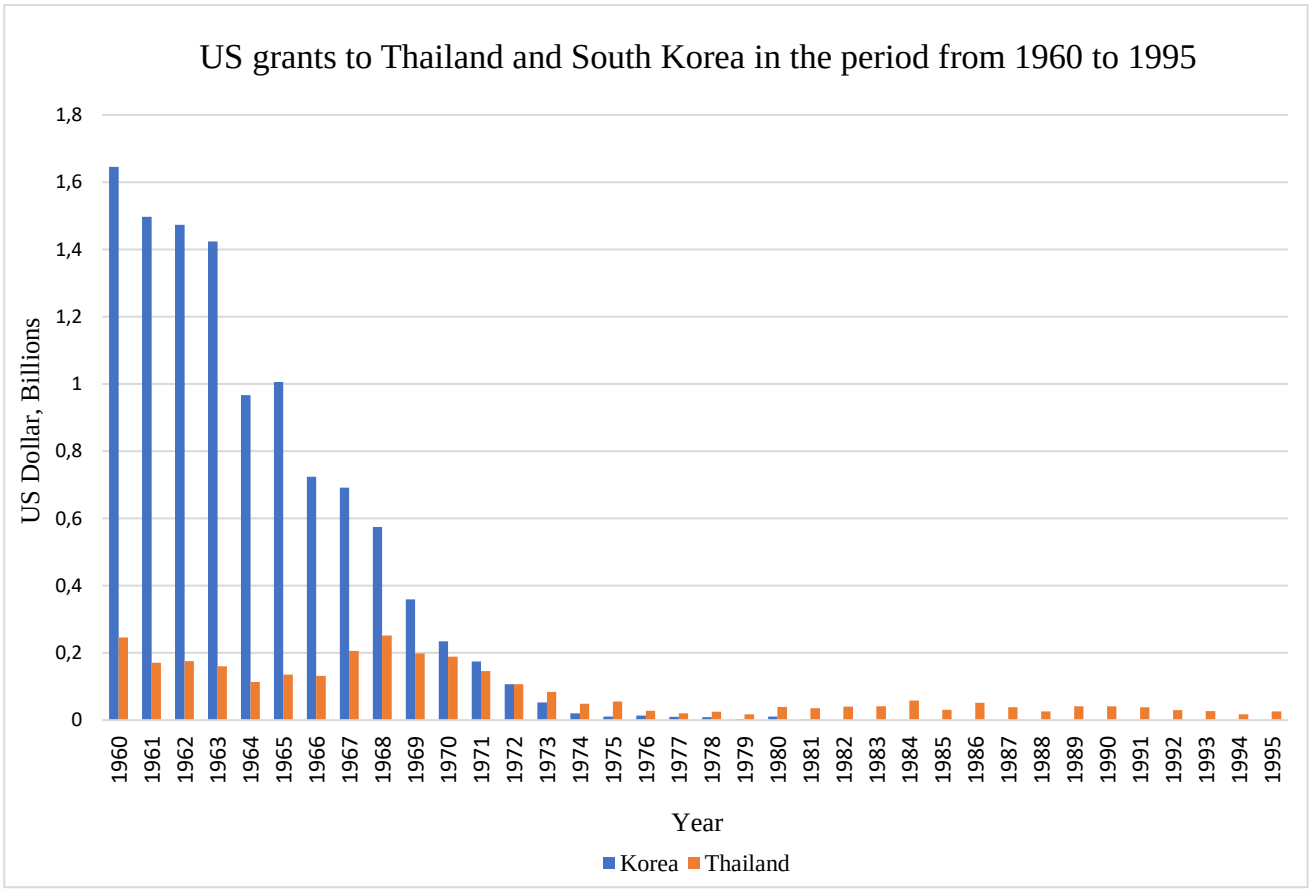
Nonetheless, the importance that Washington placed upon Thailand proved especially

beneficial to the country's long-term development: by 1975, America pumped around $3.44 billion into the Thai economy and the country's innovation capacity improved significantly (Abbott, 2003).

Overall, by focusing on deterring the Communist threat – the US indirectly contributed to Thailand's economic development. While granting drastically lower sums as compared to Korea, the US promoted many of Thailand's early infrastructural development. Moreover, while Washington completely interrupted its funding to Korea starting from the 1980s, Thailand kept receiving small amounts of aid until the late 1990s (Table 3).

Finally, just like in the Korean case, it must be noted that Thailand's growth accelerated during the latter half of the 1980s – a time in which US economic and military presence in the country had already significantly diminished (Abbott, 2003). Consequently, the role of the US, while important, cannot fully account for Thailand's economic stagnation in the mid-1970s.

Table 3. United States aid funds to Thailand and Korea in the period from 1960 to 1995 in US dollars, billions (Source: OECD, 2020a).



b) Mastery of Technology

Thailand's technological development and innovation capacity remained strongly dependent on both regional and international powers. In his book "The Rise of Ersatz Capitalism", Yoshihara (1988) argued that – while Korean companies like Hyundai and Samsung managed to develop in the heavy industry parallel to exporting textiles – Thai firms developed export capabilities in those industrial sectors considered 'blind alleys', and proved incapable of furthering technological self-reliance and diversification (p. 117).

From the early 1960s to the late 1980s, Thailand lacked its own technological bases and remained dependent on foreign capital and technology as well as on overseas companies, stalling in a vicious cycle of what has come to be known as “dependent development” (Henley, 2018, p. 33). In this respect, Thailand's industrialization has been largely “technologyless” as it failed to encourage progress in the field of science and the development of indigenous technological capacity (Yoshihara, 1988, p. 118).

Nowhere was the character of ‘ersatz’ – or fake – capitalism in Thailand more apparent than in the motor vehicle industry. While the number of automobiles produced in the country was increasing, Thailand's local manufacturers proved incapable of acquiring advanced technological skills from their foreign partners, and this resulted into the country's failure to develop its own export capacity (Henley, 2018). In this regard, by 1969, six major auto companies had set up joint ventures in the country and the Thai automotive sector remained dependent on Japanese firms and other foreign suppliers which kept dominating the ‘partnership’ by the means of satellite policies (Abbott, 2003).

In general, Thailand's weak engineering base and its inability to further the development of indigenous technological capacities stood in sharp contrast with the industrial efforts that were being made during the 1980s in Korea (Doner, 2009). The problem was further exacerbated by the worsening gap in the research and development spending: while Korea's R&D spending grew over 2% of its GDP by 1995**,** Thailand's investments in R&D stagnated below the 0.2% threshold of its

GDP (Gill & Kharas, 2007).

Overall, inefficiency and technological backwardness strongly affected Thailand's economic development and it is likely that its stagnation in the MIT resulted primarily from its dependence on, and domination by, external technological know-how in the industrial export sector.

c) Export Promotion

In Thailand, programs of export promotion started in the early 1980s, however, they relied very little on government interventions and more on market incentives and FDI (Page, 1994). Selective promotion by the means of credit and tax subsidies helped achieve substantial exports of its resource-based industries – such as those of food processing and jewelry – but their value-addition was not technology-intensive and foreign capital prevailed over major manufactured export sectors in the country (Jomo, 2003).

In this regard, Thai industries' participation in the production of manufactured products was greatly limited to low value-added processing tasks, with foreign firms controlling both the designs and the markets (Jomo, 2003). Moreover, while Thailand's exports had expanded by the 1990s – rising from $445.72 million in 1960 to $70.3 billion in 1995 – production costs increased accordingly (World Bank, 2020j).

From the 1960s to the mid-1990s, Thailand achieved some degree of structural transformation, but primarily through the export of low value-added manufactured items. The lack of government monitoring mixed with low standards of performance hindered its competitiveness and the rapid growth of exports was not followed by a parallel structural deepening (Amsden, 1992). While the Korean government managed to further industrial development parallel to export-level competitiveness, its Southeastern counterpart proved incapable of doing the same: interventionist measures did not occur in the resource-rich economy of Thailand, which left manufactured exports in the hands of foreign producers (Doner, 2012).

Altogether, Korea shifted to the export of manufactured goods faster than Thailand, the production of labor-intensive products substantially decreased and heavy industries became the primary export sectors. While economic growth was export-driven for both Korea and Thailand, the reason for the latter's stagnating development was its incapacity to shift exports from low value-added products to technology-intensive manufactured goods (Yoshihara, 1995). Incapable of transitioning to the production of value-added machinery, Thailand failed to achieve international competitiveness and receded into a growth slowdown.

d) Import Control

Concerning its trade policy, Thailand barely resorted to import restriction measures in the period from the early 1960s to the mid-1990s. While overall tariff levels – Thailand's main instrument to control imports – actually increased between the 1970s and 1980s (Doner et al., 2009), it is generally believed that the Thai government did not implement strong trade discriminatory practices and that – in contrast with Korea – it failed to deliver similar levels of domestic market protection (Yoshihara, 1995).

Differently from other developing countries, import restrictions were relatively low, with tariff protection ranging from 15% to 30% until the 1970s (Herderschee, 1993). In 1980, the proportion of goods restricted was less than 5% and by the early 1990s, out of 4.000 imported items, the products subject to import restrictions were only 75 (World Bank, 1987). Consequently, if by 1995, Korea's imports amounted to only 26.2% of its GDP (OECD, 2020b), Thailand's percentage of imported goods was much higher, making up 48.22% of its GDP (World Bank, 2020k).

Overall, Thailand's significantly lower levels of trade barriers could be explained by its high degree of import dependence on foreign capital to induce capitalist growth, especially in the manufacturing industry which lacked the capacity to produce basic machinery and to deliver large-scale production of manufactured goods (Permtanjit, 1981).

e) Foreign Direct Investment

Compared to Korea, Thailand resorted and depended much more on FDI, due to its weak industrial and technological capacities. Trapped in a vicious cycle of dependency on foreign investment and technical assistance, state policies were designed to serve the interests of foreign multinational firms to bolster domestic economic development (Permtanjit, 1982).

As early as 1960, the Thai government started welcoming foreign direct investment in the manufacturing industry and, by 1980, it began granting 100% foreign ownership and offering several incentives to those investors who could contribute to the promotion of manufactured exports (Yoshihara, 1995). Since the country did not possess the industrial and technological skills to sustain growth on its own, it became strongly dependent on foreign direct investment and – unlike its Northeast counterpart – it failed to render Thai firms competitive internationally (Yoshihara, 1988). As a matter of fact, the annual average FDI net inflows increased from $189 million in 1980 to $2.44 billion in 1990 (World Bank, 2020l) and, by the same year, Thailand's inward FDI stock amounted to $8.2 billion (9.7% of its GDP), standing in sharp contrast with that of Korea which only totaled $5.2 billion (2% of its GDP) (UNCTAD, 2007).

In sum, Thailand's lacking economic achievements in the 1960-95 period and its stagnation in the middle-income trap have been caused by several factors, including its weak capacities of industrial policymaking and its strong reliance on FDI to promote an export-oriented manufacturing industry. Such weaknesses have not been compensated by the development of indigenous technological know-how, the use of alternative non-trade industrial policy measures or by a strong government intervention, which remained dependent on the capacities, resources and economic directives of external powers.

Table 4. Summary of the primary factors that affected Korea and Thailand's economic development in the period from 1960 to 1995 (Source: author's compilation).

Factors	***Korea***	***Thailand***
US funds	US economic aid programs fostered the country's early industrialization. In total, Korea received $12 billion in aid and successfully entered the international market.	US funds bolstered Thailand's long-term development: by 1975, America pumped $3.44 billion into the Thai economy, improving the country's innovation capacity and infrastructural development.
Mastery of Technology	State-led technological upgrading of domestic industries, promotion of indigenous scientific capabilities, high R&D investments, and limited reliance on foreign technologies.	Lack of national technological bases, poor innovation capacity and limited scientific know-how. Strong dependence on foreign capital and technology. Stagnation in a cycle of 'dependent development'.
Export Promotion	Strong government monitoring, industrial deepening, and export promotion of technology-intensive manufactured products. Exports were fostered in the industries in which the country had a comparative advantage.	Absence of interventionist measures and incapability of shifting towards the export of high-value manufactured goods. Manufactured exports remained in the hands of foreign producers.
Import Control	Implementation of strong import restriction policies. Trade barriers favored early industrialization and effectively protected domestic industries from foreign competition.	Little to no import restrictions. Thailand did not implement strong trade discriminatory practices and it failed to deliver high levels of domestic market protection.
FDI	Push for indigenous industrialization rather than for an FDI-based development. Implementation of restrictive foreign investment policies to protect the domestic market.	Heavy dependence on FDI flows to induce growth. State policies served the interests of foreign firms and Thai companies failed to become competitive internationally.

CONCLUSION AND DISCUSSION

Conclusion

This research has shown that the reasons behind Thailand's stagnation in the MIT are numerous and strongly interlinked with each other. It is not possible to single out individual causes but, rather, there is a plethora of external and domestic factors that must be considered to account for Thailand's growth slowdown in the mid-1970s. After having compared the growth process of Thailand with that of Korea, I was able to conclude that there is indeed a sharp difference between the two countries' economic performance. From 1960 to 1995, Thailand proved incapable of bolstering its growth process and – unlike Korea – stalled in the lower-middle income stratum.

In answer to my research question, the following can be concluded: there are five primary factors that contributed – to different degrees – to Thailand's recession in the MIT.

Firstly, in the 35-year time frame, Thailand received significantly smaller amount of US financial aid as compared to Korea. However, Washington's intervention proved especially beneficial to Thailand's long-term development and it indirectly contributed to its economic expansion. Moreover, Thailand's growth accelerated in the mid-1980s – a time in which US economic presence in the country had already significantly diminished. Consequently, America's financial assistance alone, while important, cannot fully account for Thailand's economic stagnation.

Secondly, Thailand's weak innovation capacity and strong dependence on foreign technology substantially hampered the development of its own engineering bases and scientific know-how. The reliance on – and domination by – external powers hindered the country's economic development and further pushed it in a vicious cycle of what has come to be known as 'dependent development'.

Thirdly, Thailand's proved unable of furthering industrial deepening and its manufactured exports remained in the hands of foreign producers. The reason behind Thailand's stagnating development, then, lay in its incapacity to shift exports from low value-added products to technology-intensive manufactured goods. Unable of transitioning to the production of value-added machinery,

the country failed to achieve international competitiveness and receded into a growth slowdown.

Additionally, Thailand did not implement the same trade policy measures that the Korean government effectively put in place to protect domestic industries from foreign competition. Actively limiting the number of import restrictions, the country remained dependent on the imports of foreign capital and it lacked the capacity to deliver large-scale production of manufactured goods.

Finally, Thailand resorted massively to a liberalized, FDI-based development and failed to promote indigenous industrialization. To promote the export of manufactured goods, the country welcomed foreign investment into domestic industries and opened its door to the intervention of foreign companies without being able to compensate with domestic production.

Discussion

In this thesis, I have analyzed the five primary factors accounting for Korea's impressive economic development and for Thailand's parallel growth slowdown in the second half of the 20th century. However, additional dimensions such as industrial policy initiatives, measures of financial repression and the role played by state-owned enterprises in encouraging – or hindering – economic development could be further integrated into the analysis on Thailand's stagnation in the MIT. Moreover, Thailand's resource abundancy versus Korea's resource scarcity and the presence – or absence – of ethnic capitalism could add additional explanatory power.

Nonetheless, this thesis contributed to the literature on the middle-income trap by shedding additional light on its underlying dynamics. Firstly, it showed that the distinction between market and state as alternative means for economic development is not as clear-cut. The case of South Korea – in contrast to Thailand – proved that both a strong government intervention as well as a certain degree of market openness must be present to avoid receding in the MIT and achieve international competitiveness. Indeed, as demonstrated by the case of Thailand, the lack of import restrictions and the heavy promotion of foreign direct investment do not always represent the best strategy to implement when pursuing economic development. Secondly, this thesis contributed to the research

conducted on the MIT by emphasizing the domestic economic measures implemented – or not – by the two countries during their industrialization processes rather than focusing solely on the cultural aspects that delayed or further promoted it. Moreover, this work delved deeper into the trap's concrete features and analyzed its applicability to different countries and economic contexts.

To further investigate the reasons behind Thailand's recession in the MIT and, more generally, to best account for the phenomenon's triggering causes, future research should include the factors that this thesis could not analyze due to space constraints. In this regard, I have found that – while several scholars so far have stressed the importance of trade, technological upgrading and human capital accumulation for economic growth – additional research should be conducted on the relationship between the MIT and socio-economic indicators such as income inequality, corruption levels, institutional stability and the type of political regime. Indeed, countries that are now stuck in the MIT often struggle with tackling corruption, transitioning towards democracy and have yet to develop the institutional structures necessary to reach the high-income status. As for this research, I have provided a deeper understanding of Thailand's recession in the MIT. This will help economists to better comprehend the phenomenon, to further understand the primary reasons behind prolonged periods of economic inertia and to develop possible solutions that could be extended to other economies outside the Asia Pacific region that are currently facing the danger of receding into the MIT or that are already stuck in one.

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