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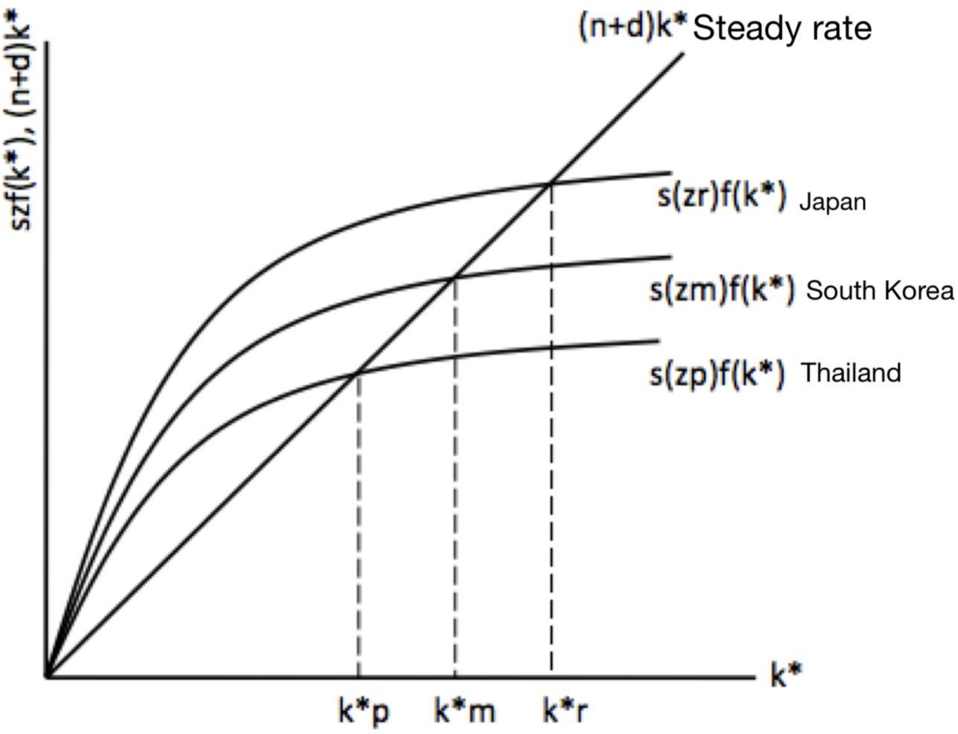
Since industrialization, many countries have developed differently. From agrarian to an industrial society. From private enterprises to state-owned enterprises. As a result, there are countries that have developed better than others. For instance, East Asia versus Southeast Asia. East Asia consists of many developed economic countries like Japan, China, South Korea, North Korea, Macau, Hong Kong, Taiwan. Moreover, many of these countries have interaction with one another. “The four little tigers”, called by the Chinese, are countries, which consists of Hong-Kong, Taiwan, Singapore, and South Korea, that have some interaction with China (Bela Balassa, 1988). On the other side, Southeast Asia has formed a union called the Association of Southeast Asian Nations(ASEAN). Thailand, Indonesia, Malaysia, Philippines, and Singapore are the founders of ASEAN in 1967. Not so long, other nations gain interest and start joining this union. How a country’s growth increases has always been a great interest to many economists as well as politicians. Moreover, since most East Asia country has proven to be more developed than southeast asia, it is better to analyze the key concept in those area and to compare with those country whose developed less, specifically Southeast Asia.

When it comes to a country's development, economists often observe the government spending, interest rate, and the GDP of the country, while politicians often observe the industrial organization, the role of the government, and the state power. However, a country's development is a mixed view of economists and politicians. Before the industrial revolution, prior to 1912, China was the most developed civilization. However, in the following year, China couldn’t keep up with western countries. Causing the country to have civil war, the domination of the warlord (supreme leader), and political fragmentation (Barry Naughton, 2007). In 1927, Guomindang, a nationalist party, made peace by unifying the country. During this period (1912-1937), China invested a lot in education, making labor productivity increase. The country was at peace for some time until 1937 when the Japanese invaded Manchuria. As a result, there are 2 industrializations: Treaty port industrialization and Manchurian industrialization. Treaty port is governed by the Chinese while Manchurian is governed by the Japanese. While Treaty port is into the light industries, textile, consumer goods, Manchurian were more into the heavy industries like coal, steel, and oil. Moreover, even though Manchurian is in China, since Japan took over, all the raw material from Manchuria is sent to Japan and also there is no competition. However, at the end of World War 2, Russia took over Manchuria and handed it over to China. China then sees its opportunity in the heavy industries. They invested a lot into heavy industries like oil, steel, and coal. It is worth noting here that they have the Soviet Union as their role model. The country shifted from private-owned to state-owned and agrarian to industrial society. The state has full control of the country. As expected, the market started to decline. The government controls everything and creates an imbalance in the society. There were lower numbers of workers in agriculture and higher workers in industries which led to lower prices on agricultural goods and higher prices on industrial material. As a result, farmer welfare got reduced, while industrial workers are better off. The sole purpose of financial sectors during the time was to work as an audit and monitor the industries, not to influence investor decisions. Nevertheless, China does learn from their failure, thus, They start investing more in their comparative advantage, which is low cost labor, high Labour participation rates . They learned that the state power needs to intervene at first to make democracy and laissez-faire work (Yi Wen, 2015). From 1978 to present, China decided to promote agriculture more, despite their modern technologies. They also invest heavily in infrastructure. This makes China's growth increase significantly just by investing in their comparative advantages. However, Japan and Korea have another approach to its high development.

Back before the Meiji restoration, Japan was governed by a hierarchy system. Samurai are up in the triangle. They also indeed have the most education. At this time, rice is used as a commodity. Since education and industrial development is limited, it was hard for the country to grow. When industrialization took place, Japan invested a lot in textile products. Japan turned into their developmental state, which means that the state and private enterprise work together. Likewise, there is no laissez-faire whatsoever since the state is monitoring everything. The state would support a big firm (zaibatsu) and would work side by side with them. This zaibatsu would have sub-firms or cross shareholding. For instance, Toyota would be working in every industry like banking, steel, automobile, etc., This makes the company system to be very organized. Moreover, this system has proven to be successful to some degree. On the other side, Korea also used the same fundamentals, despite the love-hate relationship between them. Korea has Chaebol, a big firm. For instance, Hyundai. As expected, both Korea and Japan have been developed. Going back to Japan. In 1945, when the USA took over Japan, the USA did not permit the Zaibatsu and they destroyed the Zaibatsu by making the sub-firms into an actual company. The USA also makes Japan compensate for the damage they did to other nations. 1990 to present, Japan no longer has regulation, no more zaibatsu, and the country is more laissez faire. On the other hand, Park Chung Hee took over South Korea in 1963 and as mentioned earlier had changed chaebol. These big firms would have stocks in many economic sectors but their main industries were heavy industries. Park Chung-hee also decided to invest a lot of money into those chaebol by giving them big loans. He believes that with high cost, comes high return. His belief paid off, the country's growth indeed increased significantly. Since all the decisions must be made from him, the idea of democracy does not work. Until now, people have blamed him for destroying the democracy system. However, some people do praise him for the country's growth. So far, we could see that many countries in East Asia could develop in such a way that is unlike any other country. However, many southeast countries still couldn't keep up with the rest of the world, despite their technologies and education.

Compared with Thailand, one of the most successful countries in Southeast Asia and ranked as 2nd highest income per capita in Southeast Asia (Asian Development Bank, 2015), those countries in eastern Asia are found to be more developed. Despite the different geographic, industrial revolution hit globally. However, Thailand had another approach toward industrialization. Industrialization in Thailand started during the late 1980s. Unlike China, Thailand changed from agriculture to export-oriented manufacturing. Moreover, they focused on their light products like wood, sugar, tobacco, and prawn (Antonia Hussey, 1993). Thailand's growth has increased from 6.9% to 7.9 percent, in terms of GDP. With such growth, it draws attention to foreign countries like the USA. In 1954, after world war 2, the Southeast Asia Treaty Organization (SEATO), a treaty between Thailand and the USA. The USA supported Thailand with investment and Thailand's overall development. Like China, Thailand has a low labor cost, making foreign direct investment to increase. Thailand invested a lot in its comparative advantage, which also altered their status from low-middle income to middle-upper income. However, why aren't Thailand being compared with Japan or South-Korea yet? To answer this question, the Solow growth model can help explain the reason. Robert M Solow, American economist with the Nobel Prize, states that there are 2 types of long-term economic growth: Absolute and conditional convergence.

Figure 1: Solow growth model: Conditional convergence



Source: Jomkon Kannawat (2022)

However, I'll only focus on conditional convergence. Conditional convergence indicates that due to a different access to technology and education, each country will have its own growth rate. According to figure 1, where s is the saving rate, k is capital, z is the productivity rate, and (n+d)k is a steady state which is a rate which is ideal. We could see clearly that Thailand is below South Korea and Japan. This means that Thailand has a growth rate that is lower than those 2 countries. This could be because Thailand is still a country that has a lot of internal political issues. For instance, income inequality, poor education in rural areas, and corruption. As a result, compared with Japan or South Korea, Thailand has a mixed economic system. Private enterprise does have freedom. However, the government does regulate sometimes. Since Thailand knows its comparative advantage, which is low labor cost, this makes Thailand known globally. Keep in mind that Thailand is one of the most successful countries in southeast Asia. Other countries like Laos, Cambodia, or Myanmar are still in need for development.

Industrialization has impacted each part of the world differently. Moreover, each country deals with it differently. While China invested a lot in the industrial sector in Manchuria, Japan and South Korea supported their own big firm. The states worked side by side with the private firm. Zaibatsu and Chaebol would own some stock in each other sector and would help each other out. This makes Japan and South Korea grow significantly. Meanwhile, those in southeast Asia do not develop as fast as those in east Asia. Solow growth model helps analyze the reason behind the slow growth rate in Thailand, compared with those in Japan and South Korea.

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