



ECONOMIC DEVELOPMENT PATTERN UNDER MILITARY REGIME:  
A COMPARATIVE STUDY BETWEEN PARK CHUNG HEE  
AND SARIT THANARAT ADMINISTRATION

BY

MISS MERICA CHANAKITCHINCHON

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR THE DEGREE OF MASTER OF ARTS  
(ASIA PACIFIC STUDIES)  
COLLEGE OF INTERDISCIPLINARY STUDIES  
THAMMASAT UNIVERSITY  
ACADEMIC YEAR 2017  
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ENTITLED

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THANARAT

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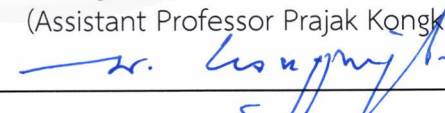
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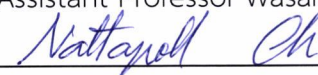
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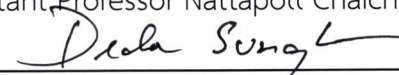
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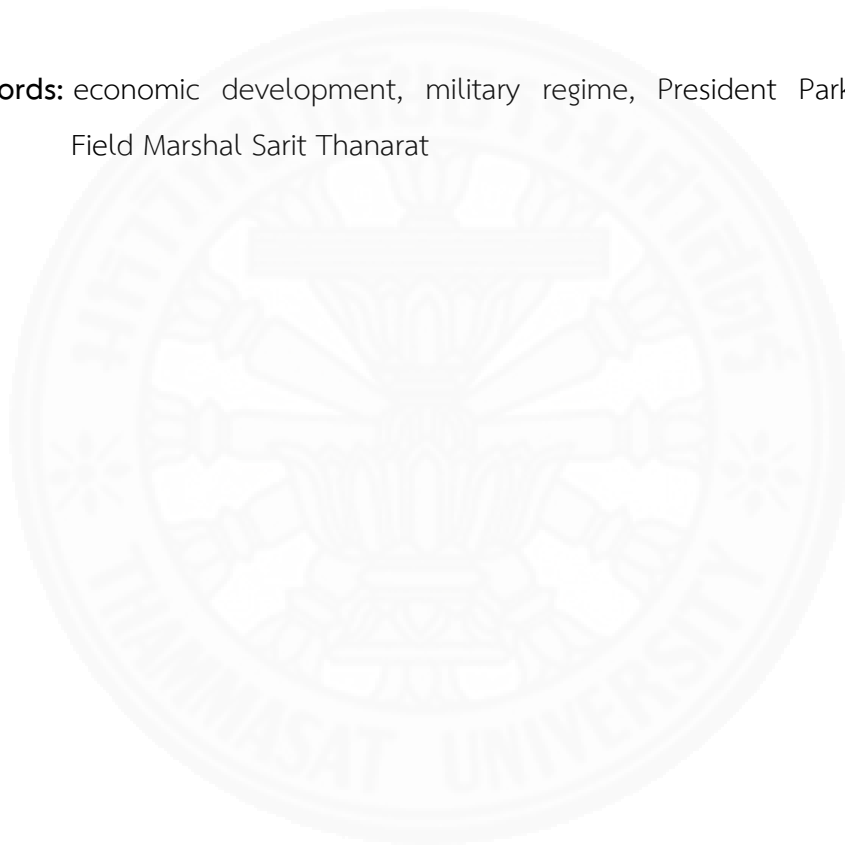
### ABSTRACT

Thailand and South Korea in the period of 1960s had some similar characteristics. Thailand was governed by Field Marshal Sarit Thanarat who was a military leader. South Korea also was under President Park Chung Hee. South Korea and Thailand established the economy plan that attempted to develop their economy at about the same time which were the First National Economic Development Plan in 1961 in Thailand, and the First Five-Year Plan in 1962 in South Korea. These two plans brought many significant economic changing to Thailand and South Korea.

This research is going to compare the economic development pattern under the military regime between Park Chung Hee and Sarit Thanarat administration during 1960s. The objective is to explore that what were the reasons that cause South Korea and Thailand had the different results in economic development and to analyze that what were the strength and weak points that Thailand should learn from South Korea. This study has been done by analyzing the key factors of development in these two countries, including the context of development, and the mechanism of development. The documentary research data was taken from the journals, scholar articles, books, and online databases in Thammasat University

Library. The results show that apart from the internal and external factor that pushed both countries have an economic changing, also the mechanism of development which were the role of military government, bureaucracy, and private sector was critical, as well as cooperation among these actors in order to dramatically development. Above all, the paper demonstrates that the strength of the governments were the most important driver in order to cooperate and manage all of mechanisms together.

**Keywords:** economic development, military regime, President Park Chung Hee, Field Marshal Sarit Thanarat



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“As a political scientist, we are a farmer, not a hunter. We have to wake up early and keep working every day because there is no shortcut.”

This noteworthy quote is what my advisor instructs me not only in academics, he motivates me about life as well. Thus first and foremost, I would like to express my deepest gratitude to my respectable advisor, Assistant Professor Dr. Wasan Luangprapat who has always been supportive and kind-hearted since the very first day. His guidance, patience, understanding, and encouragement importantly helped me in all of the time of research and writing this thesis. I am really honored and grateful to be under his supervision. Thank you for everything Ajarn, you are the best!

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Miss Merica Chanakitchinon

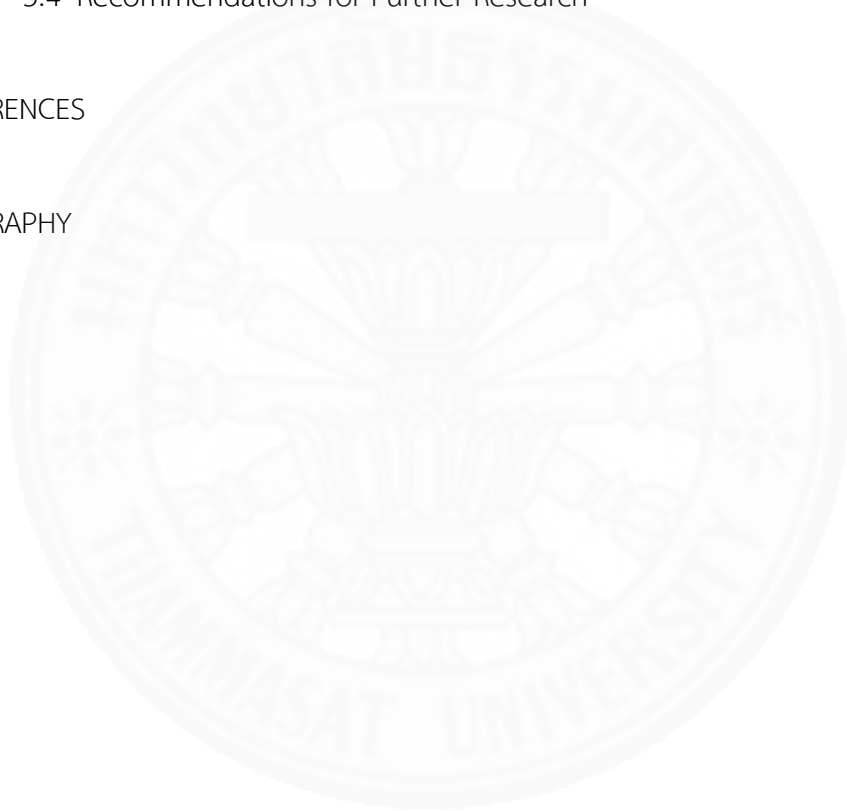
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## CHAPTER 1

### INTRODUCTION

#### 1.1 Introduction

Economic development is crucial to improving standards of living. Increasing standards of living indicates that an economy is developing as well. Different kinds of government expenditure have different effects on economic growth. The Classical Economic Models argues that an escalation in military budget will probably to decelerate economic growth (Pieroni, 2009). Moreover, there is the assumption that the greater size of government intervention the more negative impact on economic growth (Korkmaz, 2015).

Interestingly, this hypothesis does not explain the economic phenomenon in South Korea under Park Chung Hee in 1961-1979. After World War II, South Korea became the one of the poorest country in the world. Park Chung Hee became the authoritarianism president as a result of a coup d'état in 1961. Park Chung Hee's government laid the foundation for the modernization of South Korea, as a result of which Korea has been developed from being a country decimated by war, to one of the potential leaders of the Asia Pacific (Yi, 2006).

Under Park Chung Hee's, the government attempted to focus on industrialization. Park Chung Hee had a vision that South Korea should not excessively depend on the USA. Also South Korea was pressured by North Korea's invasion. This struggle was also a chance for South Korea to develop self-reliance. Therefore, South Korea emphasized industrialization. This approach achieved spectacular results and the economy recovered within only two years. Even today, most Korean people agree that Park Chung Hee is "most effective President ever" (Khaled, 2007).

At the same time, in 1959, the government of Thailand was also seized by Sarit Thanarat who installed himself as authoritarian prime minister in a coup d'état. Sarit Thanarat also had the opportunity to develop the Thai economy outside

the confines of a democratic system. He is the one who established The First National Economic Development Plan in 1961. The main objective of the first plan was economic growth, in a similar direction as Park Chung Hee was doing, emphasizing industrialization and promoting import. He encouraged the private sector to invest in industry and also attempted to utilize domestic resources as much as possible on industrialization. The government attempted to avoid engaging in any activity that could compete with the private sector. As a result of The First National Economic Development Plan, gross domestic product increased significantly. In addition, industry was developed, with many new domains.

To summarize, there were many similarities between these two countries. Before 1960, both South Korea and Thailand were poverty. In the 1960s, both countries faced coups led by the military, under Park Chung Hee and Field Marshal Sarit Thanarat. The new leaders of both countries had the same objectives in terms of economic development, such as modernization, increasing national income per capita, and human development. Despite these similar conditions, within a very short time, South Korea prospered and became a developed country, but Thailand has not had the same level of success. Therefore this research attempts to the reasons for this different outcome.

## **1.2 Background and Significance of Study**

In the 1960s, Thailand and South Korea had some similar characteristics. Thailand was governed by Field Marshall Sarit Thanarat who was a military leader, whereas South Korea also was governed by President Park Chung Hee. South Korea and Thailand established their economic plans at the same time: The First National Economic Development Plan for Thailand was in 1961, whereas the First Five-Year Plan for South Korea was in 1962. These two plans brought significant economic changes to Thailand and South Korea. Both countries developed rapidly at high growth rates. In addition to that, the World Bank identified them as part of the “East Asia miracle”. Sarit contributed to changes in economic policy and established many

economic institutions in Thailand. Park also led Korea to be an industrialized country through economic and industrial development. Overall, Thailand and South Korea had the similar objectives: industrialization, economic development, and raising standards of living.

Table 1.1

Comparative an export rate between South Korea and Thailand (Million USD)

Country/ Year	1960	1970	1975
South Korea	33	882	5,003
Thailand	408	710	2,208

Source: Asian Development Bank, *Key Indicators, and Bhung-Nak Song, The Rise of the Korean Economy*, Hong Kong: Oxford University Press, 1990.

Table 1.2

Comparative the GNP per capita between South Korea and Thailand (US\$)

Country/ Year	1961	1970	1980	1990	1995
South Korea	80	243	1,589	5,667	10,000
Thailand	100	195	686	1,508	2,750

Source: Asian Development, *Key Indicators of Developing Asian and Pacific Country*, Office of the National Economic and Social Development Board, *Bhung-Nak Song, the Rise of the Korean Economy*, Hong Kong: Oxford University Press, 1990. And Central Statistical Office, *Statistical Yearbook of Thailand*.

However, when examined in more detail from the table 1, even in the beginning Thai export rate was higher, the number of export in South Korea was greater than Thailand overwhelmingly in the end. In the table 2, particularly in the later years, living standards in Korea would eventually outstrip Thailand with two times its income rate in the 1960s and 3.5 times by the 1980s. From 1961-1995, Thai's GDP per capita increased from \$100 to \$2,750, but at the same time, Korea could increase from \$80 to \$10,000. Thai GNP increased by 27.5 times, but Korea

managed to increase by 125 times. This study investigates the reason why these two countries had very different outcomes within a short time despite starting from similar contexts.

### **1.3 Research Question**

This research attempts to answer the question that what are the differences and similarities of economic development pattern under military regime between Park Chung Hee and Sarit Thanarat administration.

#### **1.3.1 Sub-Question**

- How did these economic development patterns contributed to economic performance of both countries?
- Why did South Korea develop more rapidly than Thailand?

### **1.4 Research Objectives**

1. To compare economic development in Thailand and South Korea while under their respective military regimes
2. To determine what successful economic measures Thailand could emulate from South Korea.

### **1.5 Research Methodology**

#### **1.5.1 Research Design**

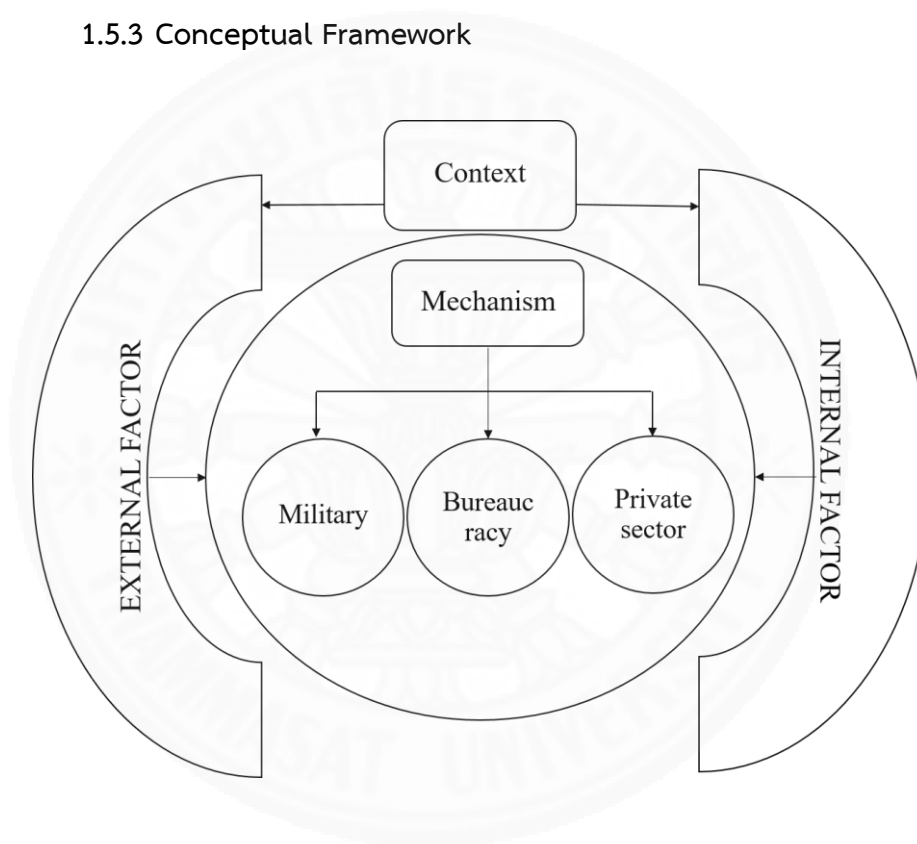
This thesis will answer the research questions by presenting a qualitative comparative study of the two economies. Accordingly, an extensive survey of the existing literature on the economic development of South Korea and Thailand in 1960s was conducted. This review comprises the main body of the

research material. Emphasis will be placed on the relationship among three main actors: the military governments, the bureaucracies, and the private sectors.

### 1.5.2 Data collection and Content Analyses

The research will refer to secondary data as the essential sources to answer the research question. Those sources may include academic journals, papers, articles, books, theses, and researches. Finally, all the data obtained will be synthesized and analyzed qualitatively through interpretation and discourse analysis.

### 1.5.3 Conceptual Framework



From literature reviewing, the author found that the changing of economy in both countries could be explained by the context and the action of its mechanism. Development comes from external and internal influences. The implementation of development measures is influenced by three main groups: the military government, the private sectors and the bureaucracy. In the case of Thailand and South Korea, these three actors became an important mechanism in economic development after seized the power by the two leaders. Thereby these all factors became this framework.

## 1.6 Scope of Research

To establish why South Korea developed more rapidly than Thailand in the 1960s, this research will emphasize economic development in both countries. It attempts to answer the research question that what were the differences and similarities of economic development pattern under military regimes. This research will present a comparative study of South Korea and Thailand in 1960s under Park Chung Hee and Sarit Thanarat.

## 1.7 Organization of the Research

This research consists of five chapters.

**Chapter one** includes the introduction, statement of the problem, research question, research objectives, research methodology, conceptual framework, scope of study, and organization of research.

**Chapter two** consists of a literature review in four parts: 1) definitions of economic development, 2) definition and characteristics of military regimes in Thailand and South Korea in the 1960s, 3) an exploration of developmental state theory in both countries and lastly, 4) a review of related studies.

**Chapter three** explains the historical background in both countries which created the economic conditions both regimes were confronted with.

**Chapter four** compares and analyzes the context and the mechanism of economic development in light of the conceptual framework. First, external and internal factors will be examined, followed by an analysis of the relationship between the three main agents: regime, bureaucracy and private sector

**Chapter five** concludes and answers the research question.



## CHAPTER 2

### REVIEW OF LITERATURE

This chapter begins by establishing definitions of development and military regime. Then follows an overview of developmental state theory which will examine the cases of South Korea and Thailand in more detail. Finally, this section also reviews previous research on Korean and Thai economic development.

#### 2.1 Towards a Definition of Development

Development is the process of changing to a new stage. Usually, it can imply something productive and pleasurable. In terms of a society or a socioeconomic system, development is improvement, both in situation of the system, or some constituent element. Development happens when some intentional action is carried out by single agents to achieve improvement, or better circumstances. Examples of such actions can be development policies or private investment (Bellù, 2011). There are many dimensions of development. Improvement of any system happens through different processes, at different rates, and pushed for different aims: economic, human, sustainable, or territorial. This research focuses on economic development in Thailand and Korea, therefore the researcher would like to explain economic development in more detail.

##### 2.1.1 Definition of Economic Development

Economic development happens when individuals have the opportunity to participate in and contribute to the economy. Individuals become the representative of economic change. They have the chance to understand their potential. The greater number of individuals that participate in economy, the greater the number of new ideas for development. Economic development can be measured by real per capita income, distribution of income, or even quality of life. Economic development is different from economic growth; economic development

brings a fundamental change in an economy such as new industrial structures, education, occupation, institutional structure, or even an entirely new society. Whereas economic growth can be measured by observing a rise in the number of people working in an economic framework, economic development is required to change the framework so that people work more productively, and the economy can move to higher value activities (Feldman et al., 2014). Economic development raises living standards through the development of physical infrastructure when based on the standpoint of equity and sustainability. Thus, the concept of economic development is concerned with creating choice and opportunities for consumers and businesses. The industrial sectors can benefit from renewing and improving the capacities and conditions that make growth. Also, economic development can be measured by innovation, prosperity, low transaction costs, and the mobilization and diffusion of goods and services. Effective institutions which are grounded in tolerance of risk, norms of openness, appreciation for generosity, and realization of public interest, can imply economic development as well (Sen, 1999, as cited in Feldman, 2014).

## **2.2 The Definition of Military Regime**

As a characteristic of states, a military regime can be understood in four different ways: military rule, a high level of military spending, a proclivity for aggression, and a predominant influence of military institutions (Berg & Berg, 1991). Militarism provides an obvious machinery to control the lives and behavior of citizens. Generally, the goal and values of a military regime is to dominate a state's culture, education, media, religion, politics, and even economy (Klare, 1978). Militarism, therefore, always intervenes in development. In terms of economic development, this is most keenly indicated by the fact that high military expenditure is usually associated with poor social indicators, given that development is not just economic but social as well (Drèze, 2000).

### **2.2.1 Thai Military Regimes of the 1960s**

Before the Sarit regime, Thailand had encountered political instability and economic stagnancy. At that time, the civil government was not strong, so they could not control the situation. Field Marshall Sarit Thanarat led the second coup and seized power in 1958 to maintain stability of the country, becoming the eleventh of Thai Prime minister. Aside from maintaining peace and stability, Sarit also wanted to develop the Thai economy. He established a new economic institution, the Economic Development Planning Board, and also supported the private sector. He believed that a basic infrastructure, such as roads, transportations, water, and energy, was essential for economic development. His leadership style was traditional and authoritarian. He played his role as leader as in a father-child relationship, following traditional paternalistic ideas. The state was a big family; Sarit took the role as a father and the citizens were his children. He wanted Thailand to be orderly and encouraged a conservative lifestyle in his people. However, Field Marshall Sarit Thanarat passed away unexpectedly in 1963 from liver failure. His deputy, Thanom Kittikachorn was transferred the power and became prime minister, thus Sarit's social and economic reform continued. Thanom maintained Sarit's authoritarian style, his anti-communism, and pro-American economic policies (Zarchi, 2014). Indeed, Sarit Thanarat was remembered as a genuine leader who brought peace and prosperity to Thai people.

### **2.2.2 The Korean Military Regimes of the 1960s**

In the 1950s, South Korea was an undeveloped country: inflation was crippling, commodities were more expensive, national production was dropping, and unemployment was rising. Park Chung Hee seized control and became Korean President in a coup in 1961. In his role, he dictated South Korean political order and became the initiator of South Korean economic development. He did not pay attention much to unification of Korea, but made economic development the first goal for South Korea (Khaled, 2007). Even though in his regime, the military government repressed citizen's civil liberty, it led to the rapid economic development for South Korea at the end. During Park's period, South Korea became

one of the strongest industrialized nations in the world. Park laid the economic foundations for modernization. Indeed, a survey in 1997 found that most Korean people view Park Chung Hee as the most effective president ever. His objective was to stamp out corruption, and make the autonomous ability of Korean people stronger. In terms of economic development, he favoured controlled economic development by state-led intervention in industrial enterprises to create economic order. He believed that this system would lead to equalization of income and public benefit from the economy (H.-A. Kim, 2004). Under his strong government, Park Chung Hee transformed South Korea to be a developed country. His model of industrialization could be a model for other developing countries. Park Chung Hee was remembered as an initiator of economic development of South Korea and unprecedented leader as well.

## **2.3 Developmental State Theory**

### **2.3.1 The Definition of the Developmental State Theory**

Meredith Woo-Cumings explains the developmental state or capitalist developmental state theory as the development pattern of East Asian industrialization (Woo-Cumings, 1999). Chalmers Johnson (1982) used this concept to explore Japanese economic development, emphasizing the important role of the Japanese government that led and controlled economic development from 1955-1985. After that developmental state theory became the model of development for other countries in East Asia such as China, Korea, Taiwan, and Mongolia (Johnson, 1982). The governments of these countries have favored government intervention over a liberal market until the present (Bolesta, 2007, as cited in Thaksinaphinan, 2008). Therefore, the developmental state theory is known as a very successful model which has been used to examine many countries.

Many scholars have studied and explained developmental state theory. For example, Manuel Castells has defined developmental state theory and applied it on Asia. Meredith Woo-Cumings has explored the concept in more detail in

her book, *The Developmental State* (1999). Castells explained that developmental state theory is characterised by economic intervention by the government. The government has strong influence and power to specify policies and guide the way to achieve economic development goals. Governments also have the power to transform industrialization by cooperation between public and private sectors. The main idea is state-led capitalism which is when the government has an important role to carry on and develop the economy. The government can intervene in the private sector as well. Their positive relationship can let economic growth faster. This model occupies the middle ground between laissez faire and free market capitalism. In state-led systems the private sector is a proprietor and the government is a consultant or adviser. The government will promote the private sectors to invest in industries. They also emphasize exports which is export-led economic development (Castells, 1991). Johnson mentioned that the state itself led the industrialization drive. While the US, the function of the state is a regulatory role, in Japan the government has played the role as a regulator and a developmental role (Johnson, 1982). The developmental states have an effect on the direction and sequence of economic development by state intervention in the development process (Low, 2004, as cited in Thaksinaphinan, 2008). Therefore, the researcher would like to conclude in short that the definition of the developmental state is an economic development pattern. It required a powerful state in order to control, intervene, and lead policies to achieve national goals and industrialization by cooperation between the government and the private sectors (Johnson, 1982). The state plays an important role in economic development and industrial transformation (Chang 1999,, as cited in Thaksinaphinan, 2008). Also, all countries move through developmental states in different patterns because of political, ideological, and economic variations. Many scholars have noted that this theory is state-led macroeconomic planning (Chang 2010, as cited in Thaksinaphinan, 2008). Many studies have examined the important role of the developmental state in economic development in individual countries. For example, Amsden and Woo observed on South Korea that the state had an important role in its industrial transformation to be a developed country

(Amsden, 1992). Wade explained that the state propelled Taiwan into a developed economy (Wade, 1990). For Singapore, the proactive state through a powerful bureaucracy could stimulate rapid economic development (Low, 2001, as cited in Thaksinaphinan, 2008).

### **2.3.2 Characteristic of the Developmental State**

Firstly, in the developmental state the role of the government is to lead in ways to achieve the national economic development. In this concept, the role of the state is of conciliator of political conflict in the process of growth and structural change. The government could freely choose products it supports and does not have to follow the market system (Chang 1999,, as cited in Thaksinaphinan, 2008). Because of its autonomy, the government could establish objectives and the policies as required. Some economists term this system as “State-led capitalism” (Siriprachai, 2000) in which the government uses its power in order to achieve economic development goals.

The government can intervene in private sector activities. Johnson distinguished government intervention between regulatory and developmental state. He explained that in the regulatory state in the US, the government are concerned with the functions and the processes of economic competition. Conversely, in the developmental state, Japan focused on industrial policy because it was concerned with the structure of domestic industry in order to increase the nation’s international competitiveness (Heep, 2014).

The concept of the developmental state occupies the middle ground between laissez faire and state-controlled economies. In laissez faire, or free market capitalism, the private sector has freedom to drive economic activities freely. The price of the product is set by the market or price mechanisms. In state-controlled, or socialist models, the government centrally plans economic activities. All business belongs to the state. On the other hand, for the developmental state, business belongs to the private sectors and the government acts as a consultant (Woo-Cumings, 1999).

In the developmental state, the government cooperates with the private sector. One of important factors of microeconomic development is the positive relationship between the government and private sectors. Private sectors become the government's partner to develop and bring faster industrialization (Thaksinaphinan, 2008).

In the developmental state, bureaucrats also have an important role. The developmental policies are promoted by bureaucrats or technocrats who should have high levels of education.

The government and the technocrats chose only some industries to be a strategic partners. The government must convince private sectors to invest in those strategic industries with the support of the government. At the same time, the government set tariff and nontariff barriers to restrict foreign direct investment that can compete with the domestic industries (Yoshimatsu, 2003).

The developmental state focuses on export-led economic development. Johnson (1982) has mentioned that there are some essential components for development. For example, the government gives autonomy to the bureaucrats and technocrats to plan, set, and control industrial affairs. Also the government can freely intervene in any kind of economic activity in the private sector, for example in Japan the Ministry of International Trade and Industry (MITI) itself is very effective.

In this study, this theory will explain development in other countries that in some way imitate the developmental state in Japan.

### **2.3.3 The Developmental State in Various Countries**

Japan's successful experience was emulated other countries, not only in Asia, but also other regions trying to develop their economic and industries as well. In some cases, countries sought suggestions and assistance from Japan as well (Johnson, 1982). In this exploration of the thesis topic, the author would analyze the developmental state theory so far as it applies to South Korea and Thailand.

### South Korea

South Korea was deeply influenced by Japan in its years of occupation. As a result, South Koreans were familiar with business transactions, technologies, Japanese culture and ideas, and even Japanese language. The influence of Japan as a model of economic and industrial development can be seen in South Korea since 1960. At that time, South Korea started to develop its economy and industries, restoring their country after the war. When Park Chung Hee became president in 1961, he decided to focus on exports since the US had stopped offering financial support. Therefore, South Korea had to rapidly produce necessary products for export and to satisfy their own needs (Li, 2003). Thus Japan became a model of development for South Korea.

After South Korea revived their relationship with Japan, Japan has increased their importance and influence in South Korea. South Korea started to take on loans from Japan. Also Park Chung Hee often went to Japan to appeal for aid and to gain knowledge about modern technology, and productive machinery.

For the earliest stages of development, South Korea had to import many types of machinery from Japan because their technologies were not good enough for production. South Korea learned about the mechanism of those machineries and also those products that South Korea had to import because they could not produce by themselves. South Korea hired many specialists from Japanese factories to instruct them. Therefore Japan had a very important role as an indirect development supporter.

South Korea learned not just the pattern of development and technology from Japan, but also about the pattern of organization. Many organizations in South Korea were similar to Japanese organization. The Ministry of Finance and Ministry of Trade and Industry resembled MITI (Ministry of International Trade and Industry) in Japan. For international trade promotion, Japan had established the JETRO (the Japan External Trade Organization), likewise South Korea had established the KOTRA (the Korea Overseas Trade Association) to be a trade and investment support organization as well. There is the AIST (the Agency for Industrial



Science and Technology) in Japan to control technology imports, whereas South Korea has the KIST (the Korean Institute for Science and Technology) for the same purpose as well. Japan has the Japan Development Bank and South Korea has the Korean Development Bank as well (Vogel, 1991).

In terms of trading, many firms in South Korea also imitated Japan. For example, the Federation of Korean Industries is similar to Keidanren (Japan's Federation Economic Organization), the Korean Employers' Association also has the same function as the Nikkeiren (Japan Federation of Employers' Association). Finally, the Korean holding companies, the Chaebol, have their equivalent in the Zaibatsu in Japan (Vogel, 1991).

Successful management of the Chaebol was another technique that South Korea learned from Japan. South Korea observed that Japan had prepared to open their market to the world by enlarging many Japanese firms beforehand to get ready for competing with the foreign firms. From this observation, Park Chung Hee decided to gather only successful firms. He supported these firms with low interest loans, reduced tariffs and non-tariff rates, and provided many resources that were needed to make the Chaebol stronger and more diverse. However the Chaebol is different to Zaibatsu, in that the Zaibatsu were managed by holding companies, so ownership could separate from control, but in South Korea, Chaebol were managed by the original founders (Vogel, 1991).

South Korea improved in many areas. It moved from an undeveloped country without any industrial technology to the developed industrial country of today. Some scholars have noted that the processes of Korean industrialization was even faster than in Japan (Vogel, 1991). Therefore Japan was a model of development of organization establishment, process of business transaction, modern technology, and new machinery for South Korea.

### **Thailand**

In 1957, Field Marshall Sarit Thanarat seized control from Plaek Phibunsongkhram. Reform of the Thai economy began with attempts to dismantle the state capitalist system under which most fund allocation was controlled by the

bureaucrats. He created a system of financial capitalism in which the allocation of funds was managed by bankers. There were two important components of financial capitalism: there was a shift away from economic nationalism and the government were to stop direct intervention in the economic system. The spearhead of investment should be from the private sector. Aphichat explains that the most important factor for economic achievement in this era was government reorganization. Improved government capacity allowed the private sector to accumulate funds and drive economic growth (Satitniramai, 2008). But Apichat argued that Sarit Thanarat could not accomplish this. Despite some improvement, the capacity of the Thai government was not strong enough to control or lead any investment for the private sector. Between the Pleak and Sarit eras, the Thai government shifted from the predatory state to an intermediate state, not to the developmental state (Evans, 2012). Also Somboon argues that the developmental state of the East Asia could not be applied in Thailand because of the different history and social contexts. The Sarit government established the Board of Investment (BOI) in order to support domestic and foreign investment. Sarit believed that the role of the Thai government was to act as a guardian or humanitarian dictator provide consistency to the private sector (Chaloemtiarana, 2007).

## 2.4 Related Analysis

### **The Nation and Economic Growth: Korea and Thailand by Yoshihara Kunio.**

Kunio has identified five differences between South Korea and Thailand that caused these two countries to have the different economic development outcomes.

Firstly, Thailand had a far stronger agricultural sectors because of its greater land area and location in the tropical zone. After South Korea shifted focus from agriculture to industrialization, Korea could caught up with Thailand by the end of 1960 and overtook Thailand in later years. In 1961 -1965, Korean GNP per capita

was 9.7 percent per year and Thailand's was 5 percent. In terms of exports, Korea exported 10 percent less than Thailand in 1960, but they could export three times more than Thailand in 1990. Korea emphasized value production, especially in machinery whereas Thailand still focused on fundamental production.

Secondly, the Korean government intervened in economy much more heavily than the Thai. The level of government intervention came from each experience. After a coup in 1932, Thailand changed from absolute monarchy to democracy. The coup council attempted to intervene harder, but it did not work. Therefore, the next government returned to the old view of light intervention. On the other hand, following Confucianism thought and mindful of the North Korean threat, Korean leaders believed that the government should have power more than other sectors. Park Chung Hee held 'garrison state' to be his political philosophy.

Thirdly, there were some special specific characteristic in each country that influenced long term economic development. Characteristics of each culture could affect behavior such as their complacency, attitude, value, and faith. And the disciplines from institutions could influence the citizens as well. Korean people were interested in education and training. In this point, we might think that Thai government did not invest in an education as Korea did, but Thailand was the one of country that had a large educational budget. Koreans were required to improve their quality of life by getting more education, working harder, and have more income. At the same time, Thai people valued recess, leisure and the natural environment more which was not necessarily conducive to earning more income.

Fourthly, another important factor of effective government is altruism among citizens. Put simply, Korean people cared about their nation more than Thai people did. The reason was constant threat from North Korea which threatened to occupy South Korea at any time. Therefore, in order to protect their nation, Korean people had the feeling of unity. On the other hand, although Thailand was faced with communist threat, it seemed not as severe as in South Korea. Thus Thai people did not have the same sense of corporation as Koreans. According to Yoshihara, without the altruism and unity of Korean people, there would have much more

government corruption. In Thailand, people were less concerned about the national interest, so corruption flourished.

Lastly, Yoshihara identifies the role of Park Chung Hee as being the deciding factor. His strong point was he is the leader who devoted himself to his country. He proved that without democracy, he could develop the country. On the other hand, Thailand had no effective and devoted leader. Even though Sarit Thanarat was strong man like Park and made many economic development projects, he became a millionaire as well. He could not make Thailand as strong as Park Chung Hee had made South Korea.

#### **Economic Development in South Korea and the Lessons for Thailand: Korn Tarnthip.**

Romer's Endogenous Growth Model served as the framework for this study of economic development in South Korea. Many economists are interested in this phenomenon that they called "Korean Miracle". They wanted to identify and explore the factors of economic development in that period.

The Endogenous Growth Model emphasizes that the factors of economic growth are technology and knowledge. The basis of this theory sees growth as driven by technological change that arises from international investment decisions made by profit-maximizing agents. Technology can affect an increase in productivity, with the same capital and labor factor. This means that this endogenous variable can increase total factor productivity and yield economic development in the end.

Tharnthip claims that in that period the Korean government focused on intervention in the market mechanism to lead to economic growth, especially in industrial sectors. Examples of an economic policy were support for research, development of high-technology and reduction of import restrictions. These were the first steps of trading in the world market. Moreover, he argued that this success was not only because of government, but also citizen's discipline, diligence, nationalism, and their strong faith to their leader. These psychological factors were critical in creating the commitment needed for that Korea to develop as a nation.

The Korean government also emphasized human resource development to compensate for their shortage of natural resources.

In terms of economic policy, Thanathip explains that the 1960s was a period of globalization and free trade. The Korean government focused on light industry development in labor intensive industries. The primary policy was export-oriented trade. Thanathip concluded that the First Five-Year Economic Plan of Korea was similar to the National Economic and Social Development Plan of Thailand. But in the deep particulars, there was an obvious difference. The Thai government focused on economic and social development at the same time and never planned targeted industry to trade and invest in the world market. On the other hand, the Korean government set targets for industry in the First Five-Year Economic Plan because they had predicted the direction of goods and services in the world market.

From these previous studies, it is clear that the authors agree on the high level of government intervention required in the development state. However, the South Korean government intervened in the Korean economy more than the Thai government did. Therefore, the Park government could control every economic activity such as planning, investment, policy, foreign loans, and even business activities. At the same time, the Sarit government allowed technocrats to control economic development. The second tendency is cultural. It appears that the Korean population was more disciplined than Thai. The North Korean threat brought a sense of unity which was the reason of they wanted to have better life. Finally, the relationships among the three main actors: military government, bureaucracy, and the private sector are critical. Because these three actors played a very important role on economic development in that period, so the author would like to focus on this dynamic.

## CHAPTER 3

### HISTORICAL BACKGROUND

This chapter begins with an exploration of the economic and historical backgrounds of South Korea and Thailand. Particular attention is paid to the periods before and after both military governments were in power in order to demonstrate how President Park Chung Hee and Field Marshall Sarit Thanarat improved the Korean and Thai economies. The analysis concludes with a comparison of both countries which seeks to explain similarities and differences in both countries.

#### 3.1 Korea Historical Background

Korea is a peninsular country located in the northeast of Asia. The Korean peninsula is divided into North Korea (The Democratic People's Republic of Korea) and South Korea (Republic of Korea), and occupies 220,911 square kilometers (Lew, 2000). The population of South Korea was approximately 25 million in 1960. Park Chung Hee made economic development the first aim of his regime (Kamiya, 1980, as cited in Lew, 2000). In his period, the Korean economy flourished. Indeed, the growth rate was around 10 percent per year (Peterson, 2009). However, at the beginning of its development, South Korea faced many obstacles. Geographical and climatic extreme meant that much of the land was difficult to cultivate. In addition, South Korea has been confronted by many aggressors at various points in history, not least China and Japan. Therefore, understanding of Korean economic development, including the protection instincts of its government, cannot be separated from its turbulent history.

##### 3.1.1 Korea under Japan in 1910-1946

Korea was colonized by Japan and remained in Japanese control from 1910 to 1946. Korea was an agricultural country, with most of its population living as peasants. Japan developed a heavy industry, areas of intensive cultivation,

and remodeled the education system, in an attempt to hold Korea as a source of raw materials to develop its own imperial economic ambitions. For many years before the Japanese occupation, the ruling Yi Dynasty had sought to maintain only its self-interest and had done nothing to develop the country. All land belonged to the Emperor outright under a system of landlordism. Korean farmers were required to rent land for production. Therefore under the Yi Dynasty, the Korean economy was moribund and easily dominated by its more ambitious neighbors, Japan and China, who both wanted to possess Korea. The agricultural sector was by far the most important part of the economy and 80 percent of Korean people were agriculturists (Mizoguchi, 1979, as cited in Peterson 2009). It was not until after Korea was under Japanese occupation that any kind of industry developed. Over time, Korea became Japan's production base for the production of industrial goods and weapons for World War II. Japan forced Korean farmers to work in factories, which resulted in the industrial production rate increasing to 29 percent of Korean GDP. In addition, the Korean economic system was quite open because they needed to connect with Japan, so export and import rates increased to 50 percent of GDP. Therefore, although subjugated as a colony, Korea initially learned about industrialization from Japan.

### **3.1.2 The Korean War (1946-1960)**

As well as splitting the country, the Korean War brought devastation to the economy. Infrastructure was severely damaged- offices industries, forest's public facilities, dwellings, transport links were all destroyed. The total cost was \$3.0 billion or equal to estimated GNP for 1952 and 1953 combined. Moreover, one million Koreans were killed during the war. In 1956, agriculture production declined to around 6 percent and GNP growth declined as well. After population increase, the growth of mining and manufacturing was estimated at only 9 percent per year (Frank, 1975, as cited in Lew, 2000). Many other important industries were completely destroyed, for example textiles, chemicals, agricultural machinery industry, and rubber. Damage to the mining industry was the most severe representing a loss of US\$549 million to the economy. The total damage was around

US\$6.9 billion. All this destruction led to serious inflation. In the 1950s, the model of economic development was Inward-Oriented Growth Model and Import Substitution Policy in order to support and protect domestic industries through severe restrictions on imports.

Through a combination of aid and industrial development, the US gave South Korea around 6,000 million USD or 15 percent of GNP and 80 percent of Korean export income at that time. That money became an important source of support for industrial sectors. First, the Korean government could increase military spending, and divert income into growth economics in budgets. Second, the government had money to invest in education to turn Korean laborers into became well-educated workers. Thirdly, Korea had purchasing power to buy machines, capital goods, material goods from overseas.

### **3.1.3 The Park Chung Hee Era (1961-1979)**

A military coup by Park Chung Hee overthrew the Chang Myon government in May 1961. The military government took full control of the South Korean economy. The main causes of stagnation in the South Korean economy were political and social instability. The government adopted expansionary fiscal and monetary policies that brought back inflation and stimulated growth.

In 1962, agriculture, mining, and manufacture output did not grow significantly, but in 1963, both agriculture and manufacturing increased by 8.8 percent. The military government had made its mark through a variety of economic measures such as budget and tax reforms. In the budget, tax laws were revised to increase domestic revenues and support internal business savings. In addition, the government began to focus on earning foreign exchange and controlling imports.

The first National Economic Development Plan, Park Chung Hee focused on guided capitalism pattern which was liberal and the government would directly intervene and guide industrial sectors at the same time. The first Five-Year Plan was very important for Park's guided capitalism. In this plan Park Chung Hee shaped a Confucian military-style relationship between the government and business sectors. He aimed for the nation to achieve 7.2% annual economic growth. His vision was to



retain economic self-sufficiency while encouraging exports, sustaining industries that could substitute imports, and improving the balance of payments by increasing the influx of foreign currency (Yoshihara, 1999).

In terms of state planning, John Minns explains that in 1960s, the military government started to focus on industrial development through Import Substitution Industrialization (ISI) to produce goods which had previously been imported such as synthetic fibers, fertilizers, cement, and refined oil. In 1965, the state started to emphasize exports. By 1970, the state initiated a change from focusing on light manufacturing to heavy industry such as large-scale car and steel production. The Park Chung Hee government also established necessary bureaucratic apparatus, the Economic Planning Board (EPB), to drive Korean economic planning. The five-year plans resulted in South Korea developing its electronics industry on a major scale such as production of computers and semiconductors. Centralized economic bureaucracy meant that economic determinations were supported by political motivation.

In the case of export promotion, the essential factor for Korea's economic development was the import of inputs and then export of products to obtain foreign currency because South Korea lacked natural resources. The government would grant tax and financial incentives to the export oriented industries in terms of local and foreign capital. The government would also take direct control to resolve any problems. To expand industries, the government provided financial support to improve quality of products, enhance facilities for the assurance of exports, collaborated in expositions and exhibitions, and supported small and medium enterprises. Park Chung Hee believed that exports represented a nation's power

The Park government also shifted from focus on light industry to heavy and chemical industries. In time of shortage of natural resources, South Korea had to follow an export led industrial policy to develop their economy. Export-Oriented Industrialization has formed the basis of Korea's national economic policy since 1964. Moreover, Park Chung Hee decided to promote heavy and chemical industries,

which would strengthen Korea's military defense abilities. Park Chung Hee completely changed economic strategy in 1961 from inward-looking import substitution to outward-looking export oriented. The policy was supported by the development of a hard-working, good quality labor force with high education, an advantage that could not be found in other developing countries. Outward oriented is the strategy to operate foreign capital influx to support monetary and fiscal policy, and the government could intervene on the foreign exchange market (Yoo, 2008). Most developing countries focus on inward looking or import substitution that increases import tariff and protects domestic market than abroad. The result is a slowdown in extension of exports. The high cost of domestic production and large capital demand from import substitution can also interrupt economic growth (Haggard, 1988). Therefore, the lead role of government was very important in the success of an export oriented industrialization strategy

For industrial policy, initially the government maintained its focus still on import substitution industries to support the domestic market. When financial support from the US began to decrease, the government started to promote exports. The Park government controlled the import of goods strictly by allowing only necessary products and products that could be exported after. Luxury goods were not allowed. The restrictions were effective because the government set high tariffs to protect the domestic industry. At the same time those industries were to export their products as well. Import goods were expensive and export goods were cheap because the government also reduced the currency. The Park government made Korean industry more diverse by moving step by step. They started from import substitution industry such as textiles and other light industries and then they expanded to heavy industries such as automobiles, steel, and petrochemicals.

The government did not extend much support to foreign direct investment. Therefore, most foreign firms at that time were niche companies such as electronics. Most industries in South Korea still belonged to Chaebols which was a big family. Chaebols were similar to Zaibatsu in Japan in that they were diverse conglomerate and heavily connected among themselves. The big group of Chaebol

were Hyundai (car, cement, steel, ship-building, and construction), Samsung (amusements, hotel, publication, electric appliances, and electronics industry), Daewoo (shipbuilding, and electronics), and Lucky Goldstar (plastic, and electronics). Chaebols were traditionally large family companies, but were controlled by the Korean government which gave them special privileges. Also, many other mid-sized and small businesses were linked with the Chaebols because of the sub-contract system of the production process. Smaller companies looked to the Chaebols for support. However, offering government-led privilege to the Chaebols or private sectors could be a cause of inequality.

In technological development, South Korea initially imported those that suited them from Japan, though often these technologies were improved. Then South Korea developed their own technologies until they could sell those technologies to the US. The reason that South Korea could produce and improve their own technologies was their government. The Korean government pushed their citizens to learn about new technology, supported Korean engineers to train abroad, hired foreign consultants, and participated in technology negotiation and licensing. For the government, technology was not just machines and capital, but also human resource development which was developed by supporting secondary education. Therefore the rate of high school entrance was high. The role of government was not restricted to research and development, but also coordination and import of effective technologies without foreign domination.

### **3.2 Thailand Historical Background**

Thailand is located in continental Southeast Asia and occupies an area of 514,000 square kilometers. Thailand is the third largest country in Southeast Asia. During this and subsequent periods of development, the Thai economy improved drastically because of the National Economic and Social Development Plan of 1961 under Field Marshall Sarit Thanarat. In the 1960s, The Sarit government established three new institutions: the Budget Bureau (1959), the Fiscal Policy Office (1961), and

the National Economic Development Board (1959). It also gave high priority to development projects and infrastructure (Jitsuchon, 2002). The main industries were tobacco, sugar, cement, paper, cotton textiles, and gunny sacks. To achieve economic development, support for industry was a very important policy, but reducing the role of government was also a priority as well. Therefore, many state projects were wound up or sold to private sectors.

Before Thanarat's and the National Economic and Social Development Plan, Field Marshal Plaek Phibunsongkhram had propelled the Thai economy by state capitalism. His economic policies focused on economic nationalism, and state enterprise. He supported state investments and state enterprise. The United States attempted to persuade him to terminate support for state enterprises and change from state capitalism to capitalist by supporting private investment and free trade. Griffin Mission, of the US diplomatic corps, was sent to negotiate with the government of Thailand in 1950. Field Marshal Plaek Phibunsongkhram signed an agreement with United States which had two main principles. The first was that Thailand should repeal state capitalism because it was monopolised by the public sector and ran contrary the US capitalist objectives. Secondly, Thailand should admit foreign direct investment (FDI) by reducing tariff barriers and non-tariff barriers. Also the government should support investment from domestic private sectors.

Although Field Marshal Plaek Phibunsongkhram agreed with these principles, he did not obey this agreement strictly. He still supported state enterprise and also enacted state enterprise subsidies. As a result, foreign direct investment decreased gradually and domestic investment stagnated (Riggs, 1966). Thailand's main problem under Pleak Phiboonsongkram was not political, but economic. Pleak focused on a "Thai economy for Thai people." This represented an attempt to reduce the role of Chinese capitalist, and increase the role of government investment especially in state enterprise. He established many state enterprises to be mechanisms for what that Muscat called "bureaucratic capitalism" or state capitalism. This kind of system could lead to inequality and unfair market concentration. Suehiro noticed that the main purpose of bureaucratic capitalism was

not about economic ends, such as improving technology, or developing production. Although state enterprises were in the red, military officer and other confederates who were an executive director still have income from their salary, bonus, and requital. Thus the main objective was to maintain long-established political interests (Suehiro, 1985). The bureaucratic capitalism system was contrary to the concept of a capitalist or free economy. Fearing a rebounded communist opposition and also to further its own economic interests, the US attempted to change the Thai economy from state capitalism to free enterprise. Support for business sectors, private sectors, and foreign direct investment are the main features of a free economy. That was also the origin of the First National Economic and Social Development Plan in 1961- 1966.

### **3.2.1 Objectives of the National Economic and Social Development Plan (1961-1976)**

This research will focus on the first, second, and third plans from 1961 to 1976 which were enacted during the Sarit and Thanom eras. The First National Economic Development Plan was divided into two parts after Sarit passed away in 1963, but the main purpose of the second part under Thanom conformed to the direction of the first.

For the First National Economic Development Plan in 1961-1966, increasing national income per capita, supporting private sector activities, improving infrastructure, such as irrigation, communication, agriculture, community development, education, public health, and other social services, were the main objectives. Thus the first plan followed the lead of the US, requiring Thailand to focus on capitalism, industrial development, and also foreign direct investment.

In the Second National Economic and Social Development Plan in 1967-1971, Thailand started to focus on social development, hence the change from the National Economic Development Plan to The National Economic and Social Development Plan. In this plan, the overall direction was still the same, but more emphasis was placed on social and human development. Rural development was added into the plan as well. An important development was the increased role of

the private sector. Private investment was made more attractive. This situation led to a growing income inequality problem. Urban areas were developed more than the countryside. What is more, rural areas were exploited for their resources via the new road network. Another important point in the Second National Economic and Social Development Plan was the role of the private sector. This was also a cause of inequality, because the Government did not focus on fairness, individual rights, and the public interest. By the Second National Economic and Social Development Plan in 1967-1971, the gap between urban and rural areas was obvious. In Sarit Thanarat's era, the private sector was given an essential role in industrial development. At the beginning of a long period of continuous development (1958-1997), the private sector was in a dominant position. Assistance and investment from foreign investors became more important (Hewison, 1999). Even though the large firms in Thailand were smaller than in South Korea, the government tried to encourage them with loans allocated from some Thai banks (Pongpaichit, 1998). Thanarat allowed technocrats to be his representatives in the management of the development plan. These technocrats promoted private sectors to start their business by themselves without government intervention. The government controlled only at the macroeconomic level, leaving the microeconomic to be fully managed by the private sector.

The Third National Economic and Social Development Plan in 1972-1976 started to focus on national resources and exports. With Thanom Kittikajorn's determination, greater effort was made to increase income for rural people by improving agricultural sectors such as corn, soybean, domestic animal, prawn, cotton, and tobacco. This was the first time that the government started to emphasize industrial sectors for export, while continuing to support import substitution industries as well.

### **3.2.2 The Consequences of the National Economic and Social Development Plan**

From the first to the third National Economic and Social Development Plan, Thai economic growth rate increased to 7.2 percent per year

which was above expectations. Compared with the period before the plan, income per capita increased 50 percent. The main reason was Thailand is a country that has plenty of natural resources such as wood, water, and minerals.

Foreign direct investment significantly increased in Thailand from 1957 onwards with the industrialization of the country during the regime of Field Marshall Sarit Thanarat with the entrance of companies such as Shell, Singer, and Unilever. Foreign direct investment was also the outcome of the plan, especially multinational corporations, and transnational corporations. However, the government took loans from abroad to invest in infrastructures and levied taxes from the Thai population as repayment, so most of the profits went to those multinational corporations and transnational corporations. This led to a growth of relative poverty and increased income inequality problem because, while Thai people owned of national resources, they benefitted little. Moreover they lost their national resources creating yet more long-term problems.

Somchai explained that in terms of educational development during these three development plans, the government required to Thai population access high quality education without exception by expanding and improving both general and vocational education. The government also increased the number of qualified teachers and professors. By the Second Plan, a more genuine effort was made to align the education system with economic and social development. Moreover in the Third Plan, the Thai education system was adjusted to support and improve society at local levels. This means that education did not just improve the individual, but also society as well. Thus, these plans were focused on quantity and quality by increasing student numbers and providing more educational institutions, and improving the quality of the education system in areas such as the curriculum, methods of teaching, and teacher qualifications.

The Second National Economic and Social Development Plan defined that an important problem for development was the shortage of human resources in academia and the professions: medical, nursing, agriculture, administrator, engineer, and teachers. Also another important issue was the shortage

of skilled craftsman such as mechanics, electricians, carpenters, welders, and supervisors. Thus, the plan focused on human resource development and employment, especially in local areas, by more training and upgrading skills. Also the plan sought to upgrade living standards for workers, so it offered support on social welfare, labor income, residence, and social security. In period of the Third Plan, population increase was so high that it was now becoming a development issue. Thus this plan focused on reducing population growth rate, increasing jobs, controlling the quality of production, and protecting labor rights.

After a coup by Sarit Thanarat in 1958, the Thai economy changed direction. As Somboon has described, this period was a turning point in terms of economic development because Sarit shifted the Thai economic system from government intervention to a market-led economy. Moreover he started to lay the foundation of import substitution industrialization whereby the government focused on importing to support local production and consumption by generating employment, reducing foreign exchange demand, creating innovation, and making the nation self-reliant, more than producing for export markets. This period also demonstrates the increasing connection between Thailand and international economy. This is emphasized by the role of the World Bank in encouraging Thailand to focus on the private sector as one of its reforms (Siamwalla, 1991, as cited in Siriprachai, 2000). Therefore, Sarit Thanarat had a very important role in economic development. Thus international trade policy and the process of industrial development could conform to each other.

In the beginning of its development the Thai economy was based on the agricultural sector, so the main export products were rice, rubber, teak wood, and tin comprising 90 percent of exports. The plan made pricing the most important mechanism for resource allocation, therefore economic development needed capitalism or a free economy system, especially international trade. In the second half of the First National Economic Development Plan, the export rate increased from 8,600 million baht in 1960 to 13,000 million baht in 1996 because those four main products were reduced in their role. The government changed to focus on



industrial sectors, mines, and fisheries. For agricultural products, cassava, corn, and hemp were exported as well. However, policy makers still focused on import substitution industrialization, because they felt pessimistic the world market. Protecting domestic industries was appropriate to Thai economy. Therefore, 1958-1973 were golden years for the Thai economy. Moreover, the contents of the first plan to the third plan completely focused on import substitution industrialization.

The Sarit government supported industrialization by giving some privileges to investors such as reduced tariffs on machinery imports, guarantees that there would be no competitors, aided loans, and decreased cost of production through fixed pricing for particular raw materials. In this period, agricultural production in Thailand drove economic growth more than technology. The Government expedited export demand for some agricultural products. The foreign and government revenue came from agriculture exports which provided important resources for early industrialization and looked forward to substituting imports. A combination of support for economic growth by macroeconomic management, promotion of the business environment, institutional strengthening, and fiscal discipline were the main keys to success. Fiscal discipline created a public debt border that was a necessary component of stable economic growth during periods of military rule (Siamwalla, 1997, as cited in Siriprachai, 2000).

### **3.3 Conclusion**

Three significant conclusions can be drawn from an examination of the historical and economic context of both countries. First, in the case of government intervention, both Thai and Korean economies was controlled by the strong military governments, but the Park government intervened in the Korean economy much more heavily than the Sarit government. The Sarit government, as a 'guardian' government, let the private sectors manage themselves, whereas the Park government intervened in private sectors activities and even controlled the bankers to manage investment. Secondly, the Park government emphasized export

promotion in order to obtain foreign currency and then imported input production from foreign countries because Korea lacked natural resources. Park Chung Hee believed that exports represented a nation's power. While the Thai government held off, import substitution as an industrial policy could have helped the population find jobs, especially in rural areas. The resulting income, and reduced unemployment and underemployed, would have further reduced the poverty rate. Lastly, the Park government did not support foreign investment, so most investment in South Korea was domestic, particularly from the Chaebols who were also given some special privileges by the government. In contrast, foreign investment was very important for the Thai economy at that time. Indeed, attracting foreign direct investment was also a defined objective of the National Economic and Social Development Plan.



## CHAPTER 4

### COMPARISON AND FINDINGS

This chapter compares patterns of economic development between Thailand under Field Marshal Sarit Thanarat and South Korea under Park Chung Hee. It first establishes a background context, according to the conceptual framework. It considers the impact of the United States and global capitalist forces which pushed both nations to focus on economic development. Second, the research also demonstrates that there were also internal factors that shaped the economic direction of both countries. Finally, the research identifies the determining factors or mechanisms which account for the different outcomes in both countries.

#### 4.1 Historical Background

After the Second World War, the United States was the undisputed leader of the global capitalist order which believed held that the world economy should follow a liberal agenda (Satitniramai, 2013). As a consequence, the American government attempted to interfere in the domestic economies of many countries, both Thailand and South Korea were not exceptions. This research will demonstrate that economic changes in the 1960s in both countries came from external capitalist pressures. However, specific internal factors were also significant in shaping the economic direction in both Thailand and South Korea.

##### 4.1.1 The External and Internal Factor of Development in Thailand

##### The Impact of the United States and the World Capitalist in Thailand

The United States cemented its influence after the Second World War. As the leader of the capitalist world, the US was the main proponent of liberal economic ideology, not least because this could support their own advantaged position. The result for Thailand was the development of a closer relationship with

the United States. The World Bank sent specialists to survey the Thai economy under Field Marshal Plaek Phibunsongkharm. They commented that the pattern of state capitalism and nationalism under Plaek was not effective and it could be a barrier to development. Therefore the United States attempted to pressure Thai government to abolish this system and change to a liberal agenda. Finally, Plaek legislated the Industry Promotion Act, 1950, which was the first law to support investment promotion in Thailand. This act encouraged not only Thai activity but also invited foreign investment in Thailand. This approach contrasted completely with Plaek's nationalist agenda. However, this policy was not as successful as expected because the incentives were not attractive enough. Also, domestic politics interrupted investment procedures. As a result, both domestic and foreign investment gradually decreased (Riggs, 1966).

The end of state capitalism and economic nationalism came abruptly when Field Marshal Sarit took power in 1958. The new regime began a process of liberalizing the economy and closer cooperation with capitalist economies. Also, the new government allowed the American army to base themselves in Thailand and also sent Thai soldiers to participate the war in Vietnam. Therefore, the United States had a very important role and influence on Thai economic policy.

There were two main policies areas that the United States was anxious for the Thai government to implement. Firstly, as has been mentioned, the United States wanted to advance the cause of liberalism to expand its capitalist agenda. Therefore, the United States naturally required the Thai economy to adapt in that way. Secondly, the United States also pushed for rural development as a means of developing the economy. Rural development was the priority in many East Asian countries as a means of thwarting Chinese influence that would bring communism into those countries. Thailand was not an exception. The Sarit government focused on rural development because poverty was a weakness that communism could easily exploit. The United States had a very strong interest in protecting East Asia from communism. Also, Field Marshal Sarit was strongly anti-

communist, so these policies matched his personal beliefs. However, it should be noted that the liberalization of the economy of Thailand in the 1960s was not only impacted by the American government, the World Bank and the IMF also had an important role to play (Thanapornpan, 1989).

### **Conflict in Domestic Politics**

While the economic transformation of Thailand in the 1960s under Field Marshal Sarit Thanarat was influenced externally by The United States, there was also an internal factor. The impetus for economic development may be traced to political instability which developed between the ruling cliques. Two influential groups, “Si Sao Thewet” under Field Marshal Sarit Thanarat, and “Soi Ratchakru” led by Field Marshal Phin Choonhavan and Police General Phao Sriyanon, dominated Thai political activity. The conflict between these two parties had escalated since the Plaek government. When Sarit took power, he promised that the government would not create new industries and transfer private investment to state ownership (Satitniramai, 2013). In fact, the government announced The Investment Promotion Act, 1962, to increase privileges to investors (Ukrit, 1983, as cited in Thanapornpan, 1989). Moreover, he decided to stop expanding state enterprise so as not to compete with investors, and also to directly undermine sectors in which Soi Ratchakru was holding shares. Sarit and Si Sao Thewet directly benefited from many state enterprises such as the Ministry of Defense, and the Government of Lottery Office. Sarit himself had interests in some state enterprises such as the Royal Military Finance Department, Government of Lottery Office. He also held stakes in many private enterprises such as Asia Bank, Dhiphaya insurance (1951), Thai Military Bank (1957), Vichitra construction (1950), and so on (Piriyarangsarn, n.d.). He continued to support the state sector because he anticipated more cooperation with the United States in areas such as military, economic, and also academic aid. He intended to maintain state enterprises in size and function by ending support for those sectors little by little. At the same time, he also attracted increased domestic and foreign investment, further reducing the role of state enterprise in the Thai economy (Satitniramai, 2013). Soi Ratchakru also had significant interests in the private sector.

However, those businesses were sidelined when Sarit assumed his position. Opening the country to attract more investment brought Thailand closer to the global capitalist system (Thanapornpan, 1989). Therefore, this period was marked by the end of nationalism and state capitalism under Plaek. However, rather than an abrupt shift, it can be seen more as a starting point of Thailand's economic transition.

#### **4.1.2 The External and Internal Factor of Development in South Korea**

##### **The Influence of the United States and Threat of North Korea**

The United States also had an important role in rebuilding the Korean economy after the devastation of Second World War. In the 1960s, under the Park government, South Korea suffered further damage as a result of the Korean War and became a less developed country. The relationship between South Korea and the United States was one of recipient-donor (Song, 1990). According to Edward Mason, from 1953 to 1962, 95 percent of the foreign aid to South Korea came from the United States. South Korea was the third largest recipient of financial assistance from the United States, after Vietnam and Israel (as cited in Song, 1990). However, the Korean economic situation began to change during the 1960s under the Park government. When Park Chung Hee took power by military coup, his priority was the economic development of South Korea. At the same time, the American government attempted to reduce the amount of economic aid to South Korea and pressure the Korean government to make adjustments in economic policy. Economic advisors from the United States were also significant in the drafting of the Five-Year Plan of South Korea. The Park government and the American government cooperated closely to promote Korea's economic development. With US support, the Park government was able to implement many reforms such as improving tax collection and increasing interest rates. These changes meant that Korea had more sources of capital to invest in infrastructure. Finally, Park followed an export-led economy, at Washington's prescription, which increased exponentially in the mid-1960s. Accordingly, South Korea became more self-sufficient and less reliant on the United

States with the result that it became a developed country with high growth rates (Brazinsky, n.d.).

At the same time, the impact of North Korean threats gave further impetus to South Korea's strong economic development. In 1953, as a result of the Korean War, the North and South were divided. What had been a relatively integrated economy was now separated into two parts. Though the Korean War destroyed the physical industries of both countries, North Korea had developed mining and other advanced heavy industries. As a result, North Korea was in a better situation economically than South Korea. On the contrary, in the South, 80 percent of industries, dwellings, and infrastructure facilities were damaged in the war (Song, 1990). The North-South division led to an increased rivalry as they followed very different strategies. The military threat from North Korea influenced the direction and the pattern of South Korea's economic development. South Korea spent about 6 percent of GNP on defense. The government also encouraged young people to get more education and become acquainted with modern organization and techniques. In the 1960s the military was the major modernizing organization in the South. The threat from North Korea galvanized South Korean nation-building. Therefore the influence of the United States along with the threat of North Korea influenced the Park government to concentrate on the economic development of South Korea.

#### **Devastation after the Korean War**

Apart from the external factors discussed above, one internal factor must be considered to explain South Korea's post-war development adequately. The Korean War devastated South Korea. The economy was so depressed that at one point it could be considered one of the poorest countries in the world (Mun, 2016). The war killed four million Koreans (Song, 1990) and injured many more. Numerous citizens were displaced. Around 25 percent of South Korean people became refugees. Almost the entire peninsula was destroyed. Only Busan, in the south-east, avoided destruction. Seoul was one of the worst affected areas during the war. The physical destruction caused by the war cost almost the equivalent of

the GNP of the year before the Korean War. Over 80 percent of manufacturing, public utilities, transportation, and dwellings were damaged.

In May 1961, after the military coup, the Park government saw the need for action and what followed was a great explosion of industrialization and modernization (Minns, 2006). The government started the economic reconstruction of the country with an emphasis on necessities. Importantly, South Korea needed to be a stronger player among its powerful neighbors (Song, 1990) Japan, and China, as well as to stand up to the global superpowers, the United States, and the Soviet Union. Korea was at risk of being ripped apart by conflicting ideologies, and the competing interests of the great powers. Also, South Korea had to face a more local threat from the strong communist regime in North Korea. North Korea after the Korean War still had better natural resources, greater industrial power, more political stability. It also had the support of China and the Soviet Union. Therefore, national security concerns also pushed economic development under Park Chung Hee.

According to Alvin Toffler, South Korea is one of those countries in the world where conflicting ideologies and the interests of more powerful countries confronted each other most nastily and dangerously (as cited in Song, 1990). South Korea was confronted with the conflict of the great powers as well as the threat from its unpredictable communist neighbor. South Korea was thus surrounded by nations incomparably stronger in both population and territory. Due to these national and geopolitical characteristics, the Korean government has to make difficult choices to ensure the survival of the country.

In summary, the 1960s can be seen as the starting point of economic change of both Thailand and South Korea. The United States was a crucial factor which influenced both governments to concentrate on economic development. The World Bank and IMF were also important to provide loans and other assistance. Moreover, there were internal factors in both countries that shaped the economic direction as well. For Thailand, the United States and the World Bank pushed Thai government to move from economic nationalism to liberalism and also focus on the rural development because of the context of the Cold War. In addition,



the conflict between political groups was an internal factor that pushed Sarit to stop the expansion of state enterprises and attract more investments. For South Korea, the United States was also a very significant actor to provide support to South Korea after the Korean War. The United States also pressured the Park government to make adjustments to their economic policy and start to apply export-led model as Washington's prescription so that became a self-sufficient and less reliant country in the end. Moreover, internal conditions of poverty and devastation stemming from war also pushed the Park government to focus on the economy in order to ensure the country's survival among its much larger neighbors. Therefore, both countries were similar in that their governments attempted to accelerate economic development not only out of economic necessity but also for national security considerations under the same crucial influence of the United States.

## **4.2 The Institutional Factors**

As both external and internal factors influenced the economies of Thailand and South Korea resulted in different outcomes, the reasons for this need to be explained. Various mechanisms were the significant drivers of the economic development of both countries. The process of development cannot be understood without examining the role of the military governments, the role of the bureaucracies, and as well as the role of the private sectors. This research will demonstrate how these mechanisms ultimately brought about the different economic outcomes of both countries.

### **4.2.1 The Role of the Military Government**

#### **Thailand**

Field Marshal Sarit Thanarat had first attempted a military coup in 1957 but was thwarted by his ill health. He returned in 1958 to finish the job, promising 'revolution.' Essentially he intended to abolish the political system that had developed after the 1932 revolution, as well as to bring modernization and

economic development through 'Thai' values and culture. He aimed to establish a modernized state that would realize the fundamental values of Thailand that could be expressed as King, religion, and nation (Chaloemtiarana, 2007). Field Marshal Sarit Thanarat believed that political stability was essential to guarantee the foundation of modernization in Thailand (Suchiro, 1985).

As outlined previously, the main economic policy that the United States required Thai government to implement was liberalist and a rural development. Accordingly, Field Marshal Sarit Thanrat initiated a program of rural development. He believed in modernization. His idea was that by responding to the people's needs he could bring about modernization because people could live better lives, and most of his project emphasized the rural areas because those areas heavily needed to develop. Therefore, one of the objectives of the national economic plan was that upgrade the standard of living. The main thing that Sarit government concentrated was water and road system (Jacobs, 1971). The United States provided 22.4 million dollars to Thailand; 30 percent was for agriculture promotion projects, and 29 percent was for transportation and communication (Caldwell, 1974, as cited in Thanapornpan, 1980). In 1959, the Sarit government concentrated heavily on building roads and highways to strengthen national security. Suitable roads would allow the government to approach rural residents easily and allow them to intercept the influences of communism which were particularly aggressive in 1965.

The Sarit government concentrated on social cohesion, morality, and livelihoods, but it left technocrats and private sector to control economic and industrial development instead. Accordingly, most rural development projects were not planned around long-term objectives such as national economic and social development, and labor employment (Nartsupha, 1970, as cited in Muscat, 2016). The military government and the army focused only on what Sarit thought was important, areas that tended towards social services, such as building roads, irrigation projects, educational development, communication, and public health. In this regard though, it must be considered that pulling people away from the Communist Party

was the main objective of the rural development initiatives, rather than the elimination of poverty and tribulations of rural people.

The nature of the projects suggests that the reasons why Field Marshal Sarit concentrated on accelerated rural development rather than national economic development were because of the context of the Cold War. Sarit himself was anti-communist and saw it as a threat to religion and the monarchy (Muscat, 1994). Thereby, the main economic direction of the First National Economic Development plan was the construction of roads, highways, and water under the rural development projects. The government drew on many resources to focus on this action directly such as American aid, foreign loans, and the national budget. The aim of rural development was not to raise the standard of the living or eliminate poverty in rural areas. In fact, the context of the Cold War dictated that this project would serve to maintain national security and allow the convenient transportation of armaments (Satitniramai, 2008). Second, the Sarit government came to power through a military coup without any democratic mandate. Thereby, Sarit Thanarat sought to develop rural areas in order to curry favor from rural people and seek their acceptance and appreciation.

However, in hindsight, the rural development program cannot be judged to have been as effective as expected. It can be seen as more of a “shot in the arm” rather than a long-term solution. For example, after the developmental units from the government had already finished the project and moved out, the local officer found that he or she had an insufficient budget to continue the project. Moreover, many areas were not selected for development which led to inequitable distribution. Further negative results were farmers whose land was taken for road construction were left without any compensation from the government. Also, the government levied taxes on the lands near the projects without consultation in advance. Lastly, rural development projects brought lots of foreign debts. While improvement did come, it was slow. At the same time, Sarit and the army did not consider national economic and social development which would have been more suitable long-term objectives.

### South Korea

During Syngman Rhee's regime, South Korea was poor in natural resources, and aid from the United States was not sufficient to compensate for the burden of maintaining an army to encounter North Korea. Therefore the Rhee government emphasized reunification of Korea as a goal rather than economic development. Economic policy in Rhee's regime was based around import-substitution industries and attempted to increase production by focusing on light industrial products such as textiles, food, beverages, tobacco, wood, leather, and paper. Rhee paid more attention to ensuring his political survival than development and eventually, the economy began to slow down. When Park Chung Hee took power in 1961, he recruited many specialists to begin the job of turning around the Korean economy. The most significant decision was the establishment of the Economic Planning Board (EPB) which was controlled by the deputy prime minister directly. The EPB manipulated both budget and planning functions and became the center of the economic policy of South Korea. An important economic policy was export-oriented industrialization which played an important role in economic and investment policy. Park government also switched from import substitution policy to export-oriented promotion and focused on heavy and chemical industries (Chong-sik, 2012). The reason for the change of direction was, primarily, South Korea's dearth of natural resources. Korea did not have the luxury of choosing a primary oriented strategy. Therefore they needed to concentrate on developing manufacturing to export. Second, regarding population, South Korea was a large country. Domestic industries thus influenced the pattern of economic policy with a focus on automobiles, color televisions, iron and steel, and petrochemicals. There were over million Korean households, which made the domestic market large enough to support this promotion. Many Koreans benefited from higher education which delivered an educated workforce with enough expertise to support export-led production (Kim, 1985, as cited in Kim 1995). Third, the strategy of export-oriented industrialization was the most suitable strategy to compete with North Korea and also to eliminate the circle of unemployment and poverty (Song, 1990).

The First Five-Year Economic Development Plan was characterized by the seriousness of its intention and the marked continuation of government intervention in production and marketing sectors. Under Park, the government aimed to transform South Korea to be a modern country and upgrade the economy to equal other developed countries by focusing on the industrial sector more than agriculture. The First Five Plan also indicated that the government should intervene actively in a range of areas, such as eliminating import tariffs, restricting products with domestic competitors, setting high tariffs on luxury products, and providing loans with low interest rate to the private sector. Moreover, the government also gave information and training for trade and gave funds for labor and technology development as well. Therefore the political changes resulting from the military takeover had profound effects on the development of the economy.

Through the strategy of export-oriented industrialization, the Park government intervened and provided private enterprises with many incentives. This procedure led the extension of military and enhanced the power of the arm forces in economic and politics (Alagappa, 2001). Park Chung Hee's military regime focused on his administration to prepare an organization for economic development. The role of military government was an important factor for the achievement of economic strategies. Park Chung Hee formed a strong bureaucracy by restructuring and appointing many specialists to the government. Military government controlled and dominated the company instruction, and if a company can achieve their goal, the government would provide attractive incentives. The economic policies were mainly controlled by the Economic Planning Board (EPB) which had authority over budget planning, resources allocation, and economic planning (Chung, 2005, as cited in Thaksinaphinan, 2008) The military government also supported infrastructure such as roads, highways, bridges, and cultivation of farmland (Park, 2008). According to the economic system of guided capitalism or state-led intervention by the Park government, the Korean economy was designed according to an economic order that would emphasize the equalization of income and public benefit.

In short, the governments of both countries played different roles in economic development. The Park government applied the model of export-oriented industrialization to the Korean economy by commanding every sector directly to export. The government intervened in the private sector by motivating, pressuring and even coercing stakeholders. On the other hand, the Sarit government applied liberalization to the Thai economy and did not believe in government intervention. Therefore the government was not the one who controlled the direction of economic development for the whole country. Rural development was the priority concern for the Sarit government in the context of the Cold War. It can be analyzed that the Park government attempted to increase the role of the military government in Korean economic development. On the contrary, Sarit Thanarat reduced the role of the government in economic development and focused more on rural development, though he allowed the technocrats to play a very crucial role in the formulation of economic policy. Thai economic policy was not as stable or obvious as in Korea, which had certainly concentrated on export-oriented industrialization. Moreover, rural development, to which Sarit government was devoted, was ineffective as well. In the case of Park Chung Hee, it appears that strong government intervention did not always give a negative outcome on the economy. On the other hand, the government intervention of the Park government had better outcomes for the Korean economy than the less interventionist Sarit government had for Thailand.

#### **4.2.2 The Role of the Bureaucracy**

##### **Thailand**

The Sarit administration enhanced capacity and gave authority to the bureaucracy by reducing and adjusting some of their roles to improve their comparative advantage. Due to the limitations of state capacity and resources, the government should provide them the tasks that they were expert. Therefore the government changed the duty from producer to do what the private sector could not deal with such as physical infrastructure building. Also, the government stopped further expansion of state enterprise. Secondly, the government also enhanced more

bureaucratic capacity by adjusting the processing, regulating, and organizing. Providing more education and training to the government official was also critical. Thirdly, centralization to the Prime Minister was also another mechanism of the bureaucratic reform to control bureaucratic system by himself. This process was different from the Pleak government because the bureaucracy did not need to respond to the prime minister, so it was quite uncontrollable. Therefore Field Marshal Sarit was the center of state power and controlled the direction of Thai economic development by authorizing planning, macroeconomic control, and economic development planning decisions by the technocrats.

However, Thak explains that Field Marshal Sarit took his position with limited ideas about economic policy, as was mentioned earlier his understanding of development was about national cleanliness, roads, markets, water, rivers, public health, and so on, in addition to rural development. Thereby Sarit needed the technocrats as agents to handle with the detail of economic policy, and also the technocrats had more expertise and capacity to deal with an external source of funds which was the United States and the World Bank (Chaloemtiarana, 2007). The technocratic authority under Sarit was impacted through institutions that were established to precede government development activities. Field Marshal Sarit Thanarat had founded various new economic institutions to be mechanisms for development. At the macroeconomic level, there was the Office of the National Economic Development Board, the Bureau of Budget, the Fiscal Policy Office, and the Bank of Thailand. Microeconomic decision-making was conducted by the Board of Investment, and the Ministry of Industry.

The government established each institution to deal with different aspects. The Office of the National Economic Development was set to formulate development strategies at the national level, provide suggestions and recommendations to the government, offer, monitor, and evaluate the government policies. It also launched the First Economic Development Plan. The Bureau of Budget was the one that controlled, provided, and planned the government expenditures. The Fiscal Policy Office was the one that analyzed, offered, and

developed the fiscal policies. And the Bank of Thailand set the monetary policies and supervised the commercial banks (Satitniramai, 2013). Moreover, there were other two institutions to conduct microeconomic which were the Board of Investment that supported businesses and services by giving them the privileges, investment information, and also consultation (Thanamai, 1985, as cited in Doner, 1991). Another one was the Ministry of Industry that promoted environmentally friendly production in the industrial sector and integrated the works of related organizations to achieve development objectives.

The technocrats successfully managed macroeconomic issues because the four macroeconomic institutions were overseen by only one supervisor, Puay Ungphakorn. He was a governor of the Bank of Thailand, a director of the Fiscal Policy Office, a director of Bureau of Budget, and a managing director of the Office of the National Economic and Social Development Board. At the same time, he was the leader of Thai technocrats who were very conservative and emphasize efficient expenditure that conformed to the budget and economic policy. Dr. Puay also was confided by the US as a trustworthy person. On the other hand, the microeconomic institutions were supervised by different government administrators. Therefore these institutions were uncoordinated and characterized by disorder, overlapping projects, nepotism (Thanamai, 1985, as cited in Doner, 1991). Such mismanagement is one of the reasons that economic development under Field Marshal Sarit Thanarat was not as successful as expected.

### **South Korea**

In South Korea, Park Chung Hee established the Economic Planning Board (EPB) by combining the existing National Statistical Office and the Bank of Korea. The Economic Planning Board became the central Korean economic institution and a robust financial mechanism of Park Chung Hee to examine and plan Korean economic policy. The EPB was directly supported by the President that was the most significant strength of it because it usually responded to what Park Chung Hee considered to be the public benefit (K. S. Kim, 1995). The Economic Planning Board created the First-five year economic development plan in 1962 with the



principle of individualism and industrialization. Finally, the First-Five year plan under Park Chung Hee administration was very successful, and Korea became the newly industrialized countries (NICs) in the 1980s. The EPB had a dominant role in drafting Korean economic policy. It was centralized decision-making with the president, Park Chung Hee. Thereby Park Chung Hee was the one who had the highest authority in the process of economic planning. The EPB also had an influence on other institutions by the EPB was a more senior position than others. Comparing with the Office of National Economic Development Board of Thailand (NEDB), the EPB had more authority than the NEDB. The NEDB could only make a plan and could not command other related intuitions, but the EPB could even vouch for the foreign aid to the private firms. Because for Thailand the private companies had to take a loan by themselves, the government could not be the guarantor. Thus the authority of the Economic Planning Board was complete since planning, commanding, implementing, and allocating (Yoshihara, 1999).

This research compares the roles and responsibilities of Korea's and Thailand's most significant economic planning institutions which were the Economic Planning Board (EPB) of South Korea and the National Economic and Social Development Board (NESDB) of Thailand. Both EPB and NESDB played critical roles in economic development planning in the 1960s. Nevertheless, compared to Korea, the NESDB was less autonomous it had no authority to influence other institutions. For Korea, Park Chung Hee 18 years in position made a positive impact on political stability, but brought an adverse effect through its repressive hierarchy which was a weakness and threat in Korea. Thai politics was beset with instability due to frequent changes of administration within the twenty-year period. Moreover, Thai NESDB required more research and development and human resources. On the contrary, the EPB of Korea received research and development support and assistance for human resources. Moreover, the EPB was directly advised by the prime minister, so it had more freedom in making policies. The EPB also had more opportunities because it was recognized both domestically and internationally.

Comparison between the Economic Planning Board of Korea, and the National Economic and Social Development Board of Thailand, demonstrates four factors that impacted each institution's performance. The laws to control the structure, roles, and missions of the EPB gave it authority because the prime minister controlled it directly, so it had the power to manage economic policy and economic development. On the contrary, the National Economic and Social Development Board had nominal authority to manage and manipulate economic policy. Second, human resources were also vital. The EPB was provided full of research and development support in the process of planning. There were various domestic and world economic and politics turbulent in the 1970s such as Communist in Indo-China, October Uprising in Thailand, and the Oil Crisis. Both the EPB and the NESDB suddenly faced with a difficult situation. However, the EPB could solve it with great solutions because of research and development support. On the other hand, the human resources of the NESDB could not deal with these unpredictable situations. Third, government support was important as well, even though Park Chung Hee tended to interfere. His intervention in EPB had an advantage because he appointed many specialists to advocate in the EPB. Sarit also intervened but gave many heavy tasks to the NESDB. The NESDB was used to be a tool to reconcile the Board of Investment, to support the government and the stakeholders on import substitution policy. Thereby, the NESDB did not focus on promoting the export industry. The last one was government stability which could maintain and continue the procedure of economic planning and policy. Park Chung Hee made the EPB have a smooth economic development plan, as well as the government's policies. In contrast, the NESDB of Thailand had discontinued policies because of political instability that fractured economic policy implementation.

To conclude, bureaucratic reforms were initiated under Field Marshal Sarit Thanarat and President Park Chung Hee. The Thai bureaucracy less autonomous because each economic institution was directly responsible to the prime minister and none of them could command another. Moreover, the pattern of setting up of these institutions led to a lack of coordination in microeconomic and

macroeconomic policy. This caused the Thai government to lack capacity to manage microeconomic issues (Satitniramai, 2008). That was different from South Korea where the Economic Planning Board was the completed institution of economic development. Thus Korean government could have the exact and stable economic direction. Therefore, economic development in South Korea under President Park Chung Hee was more successful.

#### **4.2.3 The Role of the Private Sector**

##### **Thailand**

Following suggestions of the World Bank about the liberalization of the economy, the Sarit Thanarat government placed economic reform on its agenda. After receiving financial assistance from the United States and the World Bank, Sarit started to support industrial development and privatized some of the state enterprises. The government role was limited to providing only physical infrastructure, organizing society, and cleanliness of country to support the accumulation of the private sector which was the primary factor of development. Thus the primary action that Sarit did was that stopping the expansion of the state enterprise. Sarit Thanarat also promised that the government would not participate in any industrial activity to compete with the private sector. Therefore the Sarit government's period was the beginning of promoting private industry (Doner, 1991) which was different from the previous government that heavily supported state enterprise.

Thereby the First National Economic Development Plan in 1961 focused on industrial development and expansion of the private sector, and the government was the one that provided the physical infrastructures and promoting of domestic and foreign direct investment that was directly suggested by the United States. The government did not directly pressure the private sector but encouraged both domestic and international investment. Therefore the primary objective of the first development plan was promoting the private sector, and the government precipitated to create the physical infrastructures.

The Sarit government launched the economic policies in the First National Economic Development Plan to promote the private and industrial sector. Several essential components of these policies can be identified. Firstly, the government applied economic planning into Thai economy according to the World Bank's suggestion for the first time. The regime also established the National Economic Development Board (NEDB) as an organizational for making and carrying out the economic plan. Therefore the First National Economic Development plan started in 1961 which financial and institutional supported by the United States. Secondly, the government provided incentives policies to attract both domestic and foreign investment. The proclamation of the Revolutionary Party No.33 expanded the promoted firms' privileges to the private sector such as tax exemptions, tax holidays, freedom of profits' remittance, and so on (Laothamatas, 1992). The BOI also was enacted to have more power to conduct all of the industrial promotion. Thirdly, According to investment promotion, the government attempted to protect the infant domestic industries, including foreign investors in Thailand by restricting the tariff system of selected products. Fourthly, to protect the local manufacturers, the government was restrained to participate in those commercial and industrial activities that might directly compete with the private sector. Thereby the government also regulated the enlargement of existing state enterprises to not compete with the private sector as well. Fifthly, the role of the government was limited to provide the infrastructure such as roads, water, powers, and irrigation.

However, even though the private sector was an essential actor according to the First National Economic Development Plan, most of the time it was hardly involved in the economic formulation process. The technocrats entirely controlled policy and planning. Accordingly, the Thai private sector was still weak in management because most of the Thai population was agriculturist. A large number of Thai private sector promoters also lacked in knowledge of basic of business management (Muscat, 1994). Therefore the role of private sectors on economic policy in the 1960s was limited. The business sector had no influence that much on economic policy. Many big businesses also invited the senior government official to

be a nominal executive. The relationship between the government and private sector was abundant patronage and personal ties (Laothamatas, 1992). Due to the private sector could not express their opinion, information, and requirement, thereby the government could not understand the real needs of the private sector. Sometimes these two actors conflicted because of inefficient policies. According to Silcock's opinion, although supporting the private sector was the primary objective of the First National Economic Development Plan, he argued that the plan was hardly a plan at all. Sometimes the private sector was importantly ignored (Silcock, 1967, as cited in Muscat, 1994). Therefore the private sector in the 1960s was not an organization for conducting cooperation of economic development policy.

### **South Korea**

As in Thailand, the last significant factor of economic development in South Korea was the private sector. Korean companies started to accumulate capital before the period of President Park Chung Hee, and the Korean government also had to rely on these actors. The big firms such as Samsung, Hyundai, Daewoo, Lakhee, and Sangyong had invested in various kinds of industries since 1960. At the same time, these firms were gotten lots of privileges by the government to expand their business and export, so these companies earned a lot of profits and finally dominated the economy in the whole country. The government gave exclusive treatments to some companies to industrial enlargement and economic development. Following the pattern of Ministry of International Trade and Industry in Japan, Park Chung Hee awarded the Korean firms with preferential projects, He also provided various channels to provide funds, for example, tax reductions, export subsidies, or loans without any collateral. The Chaebols were supported by the government from the end of World War II and became the "miracle on the Han River" (Murillo & Sung, 2013) Park Chung Hee recreated the relationship between military government and private sectors. Therefore, many Chaebols grew faster than the rest of the economy. Strengthening the Chaebols group was one of the objectives of industrial development under Park Chung Hee.

A strategy of export-oriented industrialization was developed in which the government provided the private firms with investment incentives to export. The private sector was granted special privileges in obtaining low-interest loans, import privileges, and tax advantages. These investment incentives were significant because of the difference between bank loans and private loans. The government guaranteed foreign loans which very low-interest rates. Thus the characteristic of Park's policy was guided capitalism through encouragement, support, and coercion. The Chaebol phenomenon occurred as a representation of South Korea industrialization. They were protected by the government and were able to monopolize and accumulate capital. However, the Chaebols needed to depend on government guaranteed external financing,

For the industrial policy, the domestic market in South Korea was quite small, so the government could not focus on investment-led that all of the large, medium and small-sized firms could develop in parallel. Thus, the government chose to promote only some of the large firms. The industrial objective was to enlarge export manufacturing capability. To support export production, the government permitted the private sector to import parts, machinery, raw materials freely. The number of import depended on the number of their export gaining that was the reason why the import rate could expand at the same time with the rise of export. The relationship between the government and the private sector was a cooperative effort which the central organization was the president supported by the Economic Planning Board. The primary characteristic of the collaborative relationship was that government was the leader and private sector followed. Cooperation between the private sector and the government created the unprecedented economic success of the 1960s.

Strengthening the Chaebols and involving them in the development process was an essential characteristic of industrial development policy of Park Chung Hee in the 1960s. The Chaebol were large company groups which echoed the Zaibatsu system of Japan during the Meiji Era. Many of them were given special favors by the government such as unprecedented protection, privileges, foreign loan

guarantees, and financial assistance. Finally, the Chaebols became importantly involved in national economic development spheres according to the First Five-Year Economic Development Plan. State-Chaebols cooperation created a fantastic success in the 1960s under the Park government. Park Chung Hee created the Chaebol expansion project in the plan as well. Thus chaebol-led industrialization became the monopoly and oligarchy economy in South Korea (Khaled, 2007).

Park Chung Hee transformed the relationship between the government and private sector to be the dominant partner and the tamed follower which was a productive partnership based on formal working more than on personal ties. Park Chung Hee considered choosing the private sector to be the primary partner for economic development of South Korea. The private sector was the best choice, and many other industries were removed from the potential partnership. Due to historical insularism in South Korea, foreign actors were not trusted as the primary sector for national development. Also, South Korea got little benefits from the multinational corporations. Therefore the multinational corporations did not choose to be partners for economic growth. State enterprises were not a selected choice as well. According to the corruption and personal ties among these sectors that brought about economic stagnation during the Syngman Rhee administration. As well as the small and medium-sized enterprises (SMEs) were not considered as the proficient partners because they were not big enough to bring economic development. Therefore, the vast private sector Chaebols were chosen as partners for the economic development of South Korea. Amsden (2010) also explained that South Korea's developmental state could not effectively bring about economic development in the long term without the private sector (E. M. Kim, 2015).

In short, the role of private sectors of Thailand and South Korea were also different. Under Field Marshal Sarit Thanarat in the 1960s, Thailand underwent an authoritarian period in which the military government entirely controlled it. According to Fred Riggs (as cited in Wanthanakorn, 2009), Thai politics in 1957-1973 was a bureaucratic polity that the military government entirely dominated the process of policy formulation. Other sectors hardly involved in that process

(Wanthanakorn, 2009) because of their weakness, and inexperience, as well as the dictatorial power of the Sarit government. On the other hand, the role of Korean private sectors was very significant to the economic development of South Korea in the 1960s. President Park Chung Hee considered large private enterprises as a productive partnership in economic policy formulation. By the way, these businesses needed to rely on the Park government because they were directly controlled as a dominant leader and a tamed follower. The concept of authoritarian corporatism could describe the Government-business relationship of South Korea. Although the private sector had a role in policy formulation, it was still limited. The Park government was independent in its desire to set up and implement the policy by ignoring the opinion from other sectors. Therefore Korean private industries had more role in economic development than Thais. As well as the way that Park government-controlled Korean business was harsher such as coercing, pressuring, and even intimidating. On the contrary, in the case of Thailand, also though the plan indicated the role of the private sector in policy formulation, but this could not happen practically (Laothamatas, 1992). Therefore the private sector hardly influenced the economic policy process. Neither was there any explicit policy collaboration with the private sector.



## CHAPTER 5

### CONCLUSIONS AND RECOMMENDATIONS

First, this chapter explains the legacy of both President Park Chung Hee and Field Marshal Sarit Thanarat. It considers the impact they had on their respective countries, especially regarding their economic and social legacies. Finally, the conclusion discusses the findings in relation to the research question. And the last one is the recommendations for the further research.

#### 5.1 The Legacies of Both Governments

##### 5.1.1 The Legacy of President Park Chung Hee

President Park Chung Hee and the military government left an enormous legacy to South Korea which remains today. First of all, the bureaucracy could not propel economic development by itself, so it was centralized around Park Chung Hee himself. Interestingly, behind this movement lay a nationalism in which Park Chung Hee was trying to pull away from the US. Moreover, the coercive system that Park Chung Hee applied to the private sector, especially the Chaebols, has not been eliminated. While other countries believed in a market-led economy in which the government should not intervene in the market so much, the Korean government was still using state-led economy, government intervention, or state commanding. Regarding economic policy, just as the Park administration's export-led economic policy made the Korean economy stronger; the current Korean government retains this as its investment policy. The government also selected its most substantial investment to be in the export sector and secure a foundation for the future development rather than in small domestic investment. Moreover, according to his conviction, Park supported increasing educational opportunities for Korean people. Consequently, most Koreans believed that training could make them have a better life. Thus South Korea has many highly-educated human resources.

### 5.1.2 The Legacy of Field Marshal Sarit Thanarat

Field Marshal Sarit Thanarat began to transform the Thai economy from agriculture to industry, and the process has continued under subsequent governments. Many local laborers moved to live in urban areas, especially in Bangkok, with population expansion twenty times greater than that of the prior administrations. People from the northeast switched from casual labor to more skilled work. This success could never have resulted from Sarit's influence alone, but cooperation among the technocrats and the private sector contributed hugely. Regarding economic policy, import substitution was emphasized to protect domestic industries. Sarit also adopted the same tax base as other countries to attract foreign investment. This period was the beginning of permitted foreign direct investment in Thailand, mainly because of encouragement from the US and shared opposition to communism. Moreover, most important of all was the role of infrastructure. Before this era, there was never any government focus on developing the infrastructure as Field Marshal Sarit did. Thus it could be said that Thailand's modern infrastructure such as public roads, the telephone network, electricity, and even water, is the legacy of the Sarit era.

## 5.2 Conclusion

	Thailand	South Korea
<b>External factors</b>	<ul style="list-style-type: none"> <li>- The United States and the World Bank</li> <li>- Context of the cold war</li> </ul>	<ul style="list-style-type: none"> <li>- The United States</li> <li>- The threat of North Korea</li> </ul>
<b>Internal factors</b>	<ul style="list-style-type: none"> <li>- Conflict of domestic politics</li> </ul>	<ul style="list-style-type: none"> <li>- Devastation after the war and survival among big countries</li> </ul>
<b>The role of military government and level of intervention</b>	<ul style="list-style-type: none"> <li>- Rural development</li> <li>- import substitution</li> </ul>	<ul style="list-style-type: none"> <li>- Guided-capitalist and command economy</li> <li>- export-oriented</li> </ul>
<b>The role of bureaucracy and institutions</b>	<ul style="list-style-type: none"> <li>- Macro and micro were controlled by different institutions</li> </ul>	<ul style="list-style-type: none"> <li>- Macro and micro were controlled by the same institution</li> </ul>
<b>The role of private sector</b>	<ul style="list-style-type: none"> <li>- hardly involved in economic policy process</li> </ul>	<ul style="list-style-type: none"> <li>- were considered as an economic partnership</li> </ul>

Firstly, the economies of both Thailand and South Korea were influenced by the United States in the context of the Cold War. The Thai government changed its policy from economic nationalism to liberalism. Moreover, rural development projects were initiated, with American support, with the express purpose of preventing the spread of communism. On the other hand, the Korean government heavily emphasized its export-oriented economy which became the primary characteristic of the Korean economy.

Secondly, both Park Chung Hee and Sarit Thanarat focused on economic development through the wielding of absolute powers. Nevertheless, the ways that both leaders conducted policy and contributed to the economy were different. Field Marshal Sarit decreased the role of government intervention and provided only

physical infrastructure, but Park Chung Hee applied the guided or command economy to every sector.

Thirdly, both President Park Chung Hee and Field Marshal Sarit Thanarat reformed the bureaucracy. Thailand successfully managed macroeconomic institutions only, but microeconomic institutions were ineffective, beset with disorder, overlapping projects, and nepotism. On the other hand, the economic institution of South Korea, the Economic Planning Board, could actively control both macro and microeconomic scales. That was the reason why Korean economic policy was more stable and had a noticeable impact.

Fourthly, regarding the role of the private sectors, although Thai private industry was allowed to initiate in the economic planning, it did not happen practically. The Thai private sector had a minimal role in that process. The government and the technocrats entirely controlled the economic foundations. On the contrary, Korean private industry was strengthened to be a commercial partnership in which the government was a leader, and the businesses were the tamed followers. Nevertheless, their roles were still limited because the government could also implement policy without listening to any other sectors. Moreover, while the government-private sector relationship of South Korea was much closed until they had the distinct and stable economic direction to drive economic development together, the Sarit government had no exact policy or guidance to collaborate with the Thai private sector unlike in Korea.

### **5.3 Lessons Learned**

The earlier part demonstrates that those different contexts and mechanisms were the reasons of different economic performances of Thailand and South Korea. Even if the GNP of Thailand was much higher than South Korea at first, the GNP of South Korea exceeded then carry on to surpass the GNP of Thailand in the end (Yoshihara, 1999). This research argues that no matter how far they had developed, this would have never achieved by the leader only. Cooperation and

synergy among the main actors, which were the military government, the bureaucracy, and the private sector, was also crucial. Therefore the strength of the government is a very significant key to cooperate with these actors smoothly and decisively. The case of South Korea could be a compelling example from which Thailand could learn. The strength of the Park government was a very powerful as the developmental state to influence and specify the economic policies, as well as to guide the way to achieve economic development objectives. Park Chung Hee also bound and cooperated with those crucial sectors very well under the state-led capitalism pattern. On the other hand, even though the Sarit government was also stable and brought about business accumulation, according to Evans, Thailand was changed from a predatory state to an intermediate state only, but not a developmental state (Evans, 2012). The Thai government was not powerful enough to guide with stable and common economic direction to other sectors.

#### **5.4 Recommendations for Further Research**

Firstly, most of the measurement points and variables in this research were the advantages of economic development patterns under these two administrations. Further investigation is needed on the disadvantages of this situation as well.

Secondly, this study considered the role of the military government, the bureaucracy, and the private sector. Civil society is also an important area to be analyzed as one of the economic development factors.

Thirdly, another factor is the reasons why people in both countries have different political perspectives. As we know, Korean people have a sense of unity, so they can cooperate with each other to make their country better. On the other hand, Thai people seem not care much about the public interest or civic duty. Without a doubt, different behaviors resulting from education, or religion, have had profound impacts on economic development in both countries.

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