Abstract: The 2008 crisis revealed persistent socioeconomic cleavages between world-leading and peripheral countries. Peripheral countries can be characterized as the group of late industrializing countries that transitioned from mid- to high-income economies in or after the 1980s. Asymmetries between core and peripheral countries fuel political extremism and undermine the sense of solidarity and interdependence necessary to address transnational economic, environmental, and security challenges. At the heart of this problem stands the need to re-examine the economic models of peripheral countries and to develop strategies that will enable them to generate sustainable economic growth.

The analysis is based on a comparative study of the two largest peripheral economies, Spain and Korea, and their transformation from mid- to high-income economies between 1985 and 2011. What are the main obstacles to sustainable economic growth in Spain and Korea? And how can these two countries transform their economic models to continue generating sustainable economic growth and close the gap with world-leading economies?

The argument centres on the idea that Spain’s and Korea’s economic transformations relied on three common elements: proactive states, coherent bureaucratic structures able to withstand pressure from firms, and symbiotic or co-dependent state-firm interactions. However, the variances in the relative distribution of strategic-planning and financial capacities of states and firms, and the differences in external pressures from world-leading economies closest to their spheres, led Spain and Korea to pursue alternative upgrading strategies focused on complex services and manufacturing respectively. Today, dependence on the performance of a few large firms can be linked to sharp insider-outsider labour markets, low rates of productivity growth, and growing inequality.