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Comparative Analysis of Economic Development between Indonesia and South Korea: Institutional and Policy Perspectives

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Abstract

This study compares the trajectory of economic development in Indonesia and South Korea from 1960 to 2018, two countries that shared similar starting points after gaining independence in 1945 and experiencing political upheaval during the 1960s. Despite these similarities, South Korea transformed into a highly industrialized and prosperous economy, while Indonesia lagged behind. Through historical and policy analysis, this paper identifies key factors contributing to this divergence, focusing on differences in economic policy orientation (inclusive vs. extractive institutions), urbanization and human capital development (education and health), and industrialization strategies. South Korea's inclusive state-led industrial policy, investment in human capital, and effective urban planning under authoritarian rule created the foundation for rapid industrial growth, particularly through the development of chaebols. In contrast, Indonesia's extractive economic structure, reliance on oil and commodity exports, and weak governance contributed to slower growth and persistent developmental challenges. This comparative analysis concludes that institutional quality, policy coherence, and strategic prioritization of industrial and human development are critical drivers of sustained economic transformation.

Keywords: *Indonesia, South Korea, economic development, policy comparison.*

Abstrak

Penelitian ini membandingkan jalur perkembangan ekonomi Indonesia dan Korea Selatan dari tahun 1960 hingga 2018, dua negara yang memiliki titik awal yang serupa setelah meraih kemerdekaan pada tahun 1945 dan mengalami gejolak politik pada dekade 1960-an. Meskipun memiliki kesamaan tersebut, Korea Selatan berhasil bertransformasi menjadi ekonomi yang sangat terindustrialisasi dan makmur, sementara Indonesia tertinggal. Melalui analisis historis dan kebijakan, tulisan ini mengidentifikasi faktor-faktor kunci yang menyebabkan perbedaan tersebut, dengan fokus pada perbedaan orientasi kebijakan ekonomi (institusi inklusif vs. eksklusif), urbanisasi dan pengembangan sumber daya manusia (pendidikan dan kesehatan), serta strategi industrialisasi. Kebijakan industrialisasi yang inklusif dan dipimpin negara, investasi dalam pengembangan sumber daya manusia, serta perencanaan kota yang efektif di bawah rezim otoriter menjadi fondasi bagi pertumbuhan industri yang pesat di Korea Selatan, khususnya melalui pengembangan chaebol. Sebaliknya, struktur ekonomi Indonesia yang bersifat ekstraktif, ketergantungan pada ekspor minyak dan komoditas, serta tata kelola yang lemah berkontribusi pada pertumbuhan yang lambat dan tantangan pembangunan yang terus berlanjut. Analisis komparatif ini menyimpulkan bahwa kualitas institusi, koherensi kebijakan, dan prioritas strategis pada pengembangan industri dan sumber daya manusia merupakan penggerak utama transformasi ekonomi yang berkelanjutan.

Kata kunci: Indonesia, Korea Selatan, pembangunan ekonomi, perbandingan kebijakan.

INTRODUCTION

Indonesia and South Korea are two countries which have similarities at the start of their journey in many aspects. Upon experiencing colonialism, both countries became independent in 1945 (Booth, 1999). The two countries both witnessed political upheaval in the early 1960s, the civil war in the Korea peninsula that killed more than 2,5 million people and a change from the Old Order's regime to the New Order's regime in Indonesia. In addition, at the beginning of the 1960s, Indonesia and South Korea had similarities in the economic condition in which they were poor and were starting to recover from the destruction of the Second World War, and had around the same per capita GDP. In the 1960s, political instability had severely affected the Indonesian economy. South Korea has also been one of

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the world's poorest countries for more than a decade since the Korean War in the early 1960s (Lim, 2012). Unlike Indonesia, which is a vast and heterogeneous state comprising many races, ethnicities, and languages, the distinction between these two countries is that South Korea is a relatively small nation and homogenous in ethnicity, language, tradition and history (Hochul, 2003).

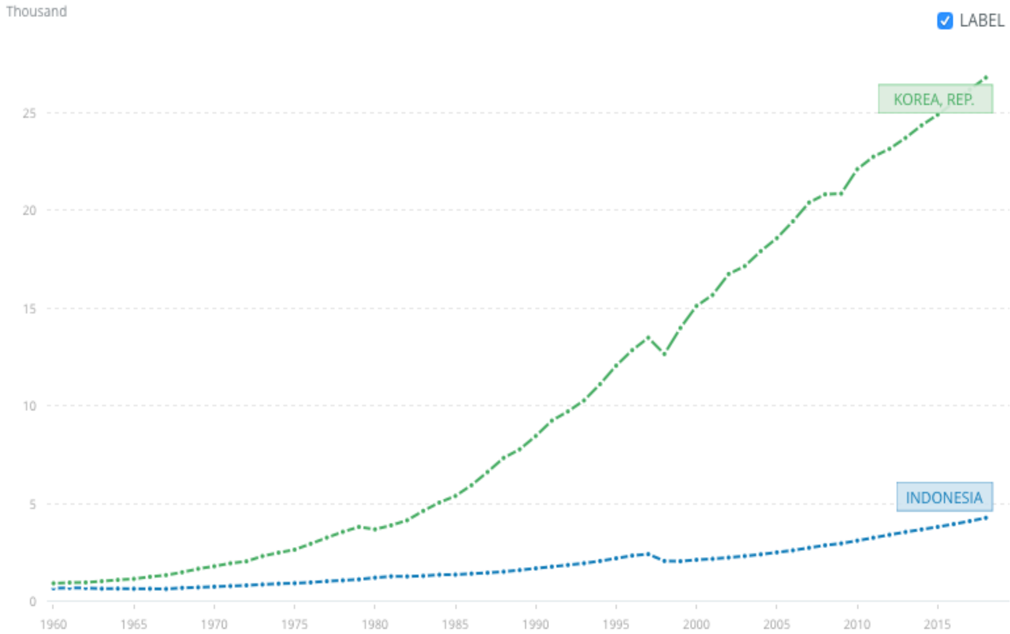

Figure 1. Indonesia and South Korea's GDP per capita in 1960-2018 (constant 2010 US$)
Source: http://data.worldbank.org

The two countries, then, had their own path of development where South Korea grew tremendously while Indonesia was left far behind. The economic divergence emerged in the 1960-2018 period. South Korea's GDP per capita rose from US$ 944.29 in 1960 to US$ 13,481 in 1997 before affected by the Asian Financial Crisis in 1998, and surpassed US$ 26,761 in 2018. While Indonesia's GDP per capita increased from US$ 690.37 in 1960 to merely US$ 4,284 in 2018.

Throughout this paper, the author would like to examine what policies differentiate the rate of growth and economic divergence between South Korea and Indonesia, given the similarities between the two countries in the 1960s. The author will compare the economic growth between the two countries and provide an overview of the policies adopted by the South Korean government that are not or have not been taken by the Indonesian Government, so that South Korea has achieved much larger growth than Indonesia.

LITERATURE REVIEW

A number of studies have explored the divergent development trajectories of Indonesia and South Korea from economic, institutional, and social welfare perspectives. Budiman (2009) identifies that the divergence in industrialization paths is influenced by internal and external factors, as well as the strength of the state. South Korea managed to build a strong state and relatively clean bureaucracy, supported by intensive external assistance, particularly from the United States who provided US$110 billion between 1946 until 1979 (Bizhan, 2018). The country pursued export-oriented industrialization. In contrast, Indonesia remained a weak state with an extractive economic structure, pervasive bureaucratic corruption, and the failure to implement agrarian reform. This situation was compounded by limited Western

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oversight, which prioritized anti-communist stability over institutional development during the Suharto era. Yuda, Pratiyudha, and Kafaa (2021) argue that South Korea's success is rooted in the adaptive and responsive capacities of its political institutions in responding to global changes. These capacities facilitated the emergence of a collaborative governance model in the delivery of welfare services. The authors suggest that Indonesia could draw valuable lessons from Korea's institutional flexibility and reform strategies to enhance its own welfare outcomes.

Kim (2005) emphasizes South Korea's integrated approach to industrial development, wherein trade policy, technology policy, and human capital development were strategically aligned with industrial policy. This synergy contributed significantly to Korea's sustained industrial growth. The study advocates for Indonesia to adopt a similarly coordinated policy framework to promote long-term industrial development. In a comparative study, Wardhana (2016) examines five key determinants of growth acceleration—initial conditions, institutional quality, public policy innovation, socio-political stability, and access to external resources. The findings show that South Korea consistently outperforms Indonesia in all dimensions, reinforcing the argument that institutional robustness and coherent policy are crucial to sustained economic advancement. From the perspective of social well-being, Wirutomo et al. (2019) propose a multidimensional measurement framework that includes structural, cultural, and processual dimensions. While Indonesia scored higher in cultural indicators (such as trust in cultural institutions), South Korea demonstrated greater balance across all three dimensions. This suggests a more integrated and stable societal system in South Korea, as compared to the more segmented social fabric of Indonesia. Overall, the literature underscores that South Korea's development success is not solely attributed to its economic strategy, but also to institutional quality, integrated governance, and a balanced approach to societal well-being. These insights offer valuable guidance for Indonesia in designing more comprehensive and sustainable development strategies.

THEORY AND CONCEPTS

Factors that contribute to a country's growth and development performance put a significant emphasis on initial conditions and institutional quality. Lipset (1960) identifies initial conditions as a foundational determinant of economic performance, suggesting that variations in state formation, colonial legacies, human and physical capital, geographic location, and social structures shape the trajectory of a nation's growth. These conditions, largely predetermined and inherited, explain why some countries start with more favorable prospects than others. However, due to their fixed nature, initial conditions are often considered a less promising lever for sustained growth in developing nations. Expanding on the significance of initial conditions, Acemoglu, Johnson, and Robinson (2001) emphasize the lasting influence of colonial legacies, particularly through their impact on institutional formation. They contrast settler colonies like the United States and Australia, which developed institutions promoting property rights and rule of law, with extractive colonies like the Congo and the Gold Coast, where exploitative institutions undermined long-term development. These historical legacies have profoundly shaped the institutional quality of nations and continue to affect economic outcomes today.

Rodrik, Subramanian, and Trebbi (2004) assert that institutional quality outweighs geographic advantages and access to external resources in determining economic success. They highlight that transformative public policy, such as Japan's Meiji Restoration or South Korea's developmental reforms in the 1960s, can significantly alter a country's development path by building strong, responsive institutions. Glaeser et al. (2004) refine the concept of institutional quality by focusing not on regime types e.g., democratic vs. autocratic, but on

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the effectiveness of laws, rules, and enforcement mechanisms. They argue that regardless of the political system, what matters most for development is the protection of property rights and the capacity for institutional enforcement, even if democratization is not immediate. In addition, Hall & Jones (1999) and Dollar & Kray (2003) consistently underscore the importance of institutions that constrain arbitrary government power and ensure fair enforcement of laws. These institutions, which secure property rights and promote accountability, are strongly correlated with economic prosperity.

Although initial conditions set the developmental stage and create structural advantages or disadvantages, the quality of institutions emerges as the most critical determinant of long-term economic growth. Effective institution that secure property rights, enforce laws impartially, and adapt through innovative public policy can compensate for poor initial conditions and catalyze sustained development. Thus, while history shapes possibilities, institutional strength determines progress.

METHODS

This study adopts a qualitative approach using a literature-based method which emphasizes understanding the historical and social meanings of a phenomenon (Cresswell, 2014). In this context, the qualitative approach is employed to interpret and compare the historical trajectories and economic policies that shaped the development paths of Indonesia and South Korea from 1960 to 2018. The types of sources used in this research include peer-reviewed academic journal articles, scholarly books relevant to the study of political economy and development, official policy documents such as Indonesia's Repelita (Five-Year Development Plans) and South Korea's Five-Year Economic Development Plans, as well as economic and statistical reports from credible international organizations such as the World Bank and the OECD.

The literature search was conducted through several academic databases, including Google Scholar, JSTOR, ScienceDirect, and Scopus, using keywords such as: "Indonesia South Korea economic development comparison," "industrial policy in South Korea and Indonesia," "institutional quality in economic growth," "comparative welfare regimes Indonesia Korea," and "political economy of development in Southeast and East Asia." The initial search yielded a total of 52 documents comprising articles, books, and reports. These sources were then filtered based on specific criteria, including direct relevance to the topic and period under study, methodological clarity, academic credibility of the publisher or journal, and the recency of data—particularly for policy and statistical reports.

The screening process involved multiple stages, beginning with an abstract and conclusion review, followed by a full-text analysis to assess thematic alignment with the study's focus on industrial policy, institutional quality, social welfare, urbanization, and human development. After the filtering process, 22 key sources were selected and used in the final analysis. To ensure the validity of findings, source triangulation was employed by cross-verifying information across various scholarly documents and reputable data sources.

RESULTS AND DISCUSSION

1. Inclusive policy vs extractive policy

In the early 1960s, the South Korea economic policy had inclusive characteristics, namely the hierarchical relationship between the government and selected companies known as *chaebols* (Lim, 2012). The government guides and finances investment through state-owned banks, manages activities between related companies and sets out requirements that a

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company must meet to receive government support. This policy greatly encourages an environment of competition among local businesses, while at the same time providing protection from the manufacturing industries abroad. This system has led to the existence of giant South Korean companies such as LG, Hyundai and Samsung.

While in Indonesia in the early 1960s-1970s, economic policy was characterized by extractive interest and government efforts aimed at encouraging the growth of native entrepreneurs by providing state-owned banks with priorities for native entrepreneurs. Unfortunately, that results in unhealthy practices as there has been a change from government workers and politicians to be business people without entrepreneurial skills and capacities (Fisman, 2001). Another mistake that the Indonesian government made at the time was the lack of foreign capital investment funding as the government has high trust in SOEs as the economy's backbone. This proved to be a failure because many SOEs experienced poor management since managers' appointments were mostly influenced by personal and political interests. The authoritarian leader at the time, President Suharto, granted his network benefits mainly from the military and business community, such as monopolies of state-owned companies, exclusive procurement contracts and tax cuts (Barter, 2008). In addition, the bureaucracy has frequently been utilized as an instrument of power to serve and perpetuate the interests of political elites, particularly during Soeharto era (Kartika, et al, 2025). As the result, it turns to many illegal activities like corruption, bribery, gratification, and favoritism practices carried out by the Indonesian government which hinders Indonesia development.

While both South Korea and Indonesia experienced authoritarian rule during their early development stages, the divergence in their institutional frameworks explains why South Korean *chaebols* flourished while Indonesian SOEs largely stagnated. In South Korea, authoritarianism under Park Chung-hee was paired with a technocratic, performance-based bureaucracy that implemented disciplined industrial policy and ensured that state support was conditional on export performance and productivity gains (Jwa, 2017). In contrast, Indonesia's New Order regime under Suharto fostered personalized patronage networks, where state-owned enterprises were handed to political allies or military figures who often lacking the capacity or incentives to innovate or compete (Aspinall & Fealy, 2010). The success of *chaebols* also cannot be separated from external geopolitical factors. During the Cold War, South Korea was seen by the U.S. as a strategic bulwark against communism in Northeast Asia. As a result, the country received sustained U.S. economic aid, military support, and preferential trade access throughout the 1950s and 1960s. This external backing created a stable macroeconomic environment, supplemented foreign exchange shortages, and facilitated technology transfers which were instrumental in the early development of South Korean industrial firms (Bizhan, 2018). Indonesia, although geopolitically relevant, especially after the 1965 anti-communist purge, did not receive similar levels of targeted industrial aid or technical assistance and its institutional configuration failed to convert oil revenues and foreign aid into long-term industrial competitiveness (Thee Kian Wie, 2006).

To conclude, as opposed to Indonesia, South Korea has a good quality of economic and public policy, good governance and law enforcement. This leads to development in South Korea consequently more successful than in Indonesia (Rodrik, 2004).

2. Urbanization and Livability

2.1. Urbanization

In the 1960s South Korea began a phase of economic growth under the authoritarian

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government of President Park Chung-hee. President Park is strongly committed to developing the country through rapid industrialisation. The growth of industrial development in the center of the city draws many people to get jobs so that economic management is established in certain areas only (Bae, 2003). The rapid flow of urbanization from rural to urban and industrial centers draws a great deal of human labor. The following table shows the change in population in each South Korea’s region from 1970-1985.

Table 1. Population Change among Regions in South Korea in 1970-1985

Regions (Cities)	Year			
	1970	1975	1980	1985
Central and Capital City Region (Seoul, Incheon, Gyeonggi)	28.3	31.5	35.5	39.1
Southwest Regions (Chungcheongbuk, Chungcheongnam, Gangwon)	19.7	18.2	16.5	15.1
Southeast Regions (Gyeongsangnam, Gyeongsangbuk, Ulsan, Busan)	30.4	30.5	30.5	29.8
Rural Regions (Jeollanam, Jeollabuk, Gwangju)	21.6	19.8	17.4	18.9
Percentage	100	100	100	100
Total of Population	32.240.827	35.280.725	38.123.775	40.805.744

Source: Sam Ock Park, *A History of the Republic of Korea’s Industrial Structural Transformation and Spatial Development*, (Washington: World Bank, 2009), pp. 325

From the above table, it can be inferred that the number of people moving to urban areas and the center of industrial and manufacturing areas such as Seoul and Busan increased annually during the years 1970-1985 or during the Park’s administration. This is inversely proportional to the rapidly population-declining in the rural area. The growth of rural people moving to urban area hit a peak in 1990, then started to decline until now.

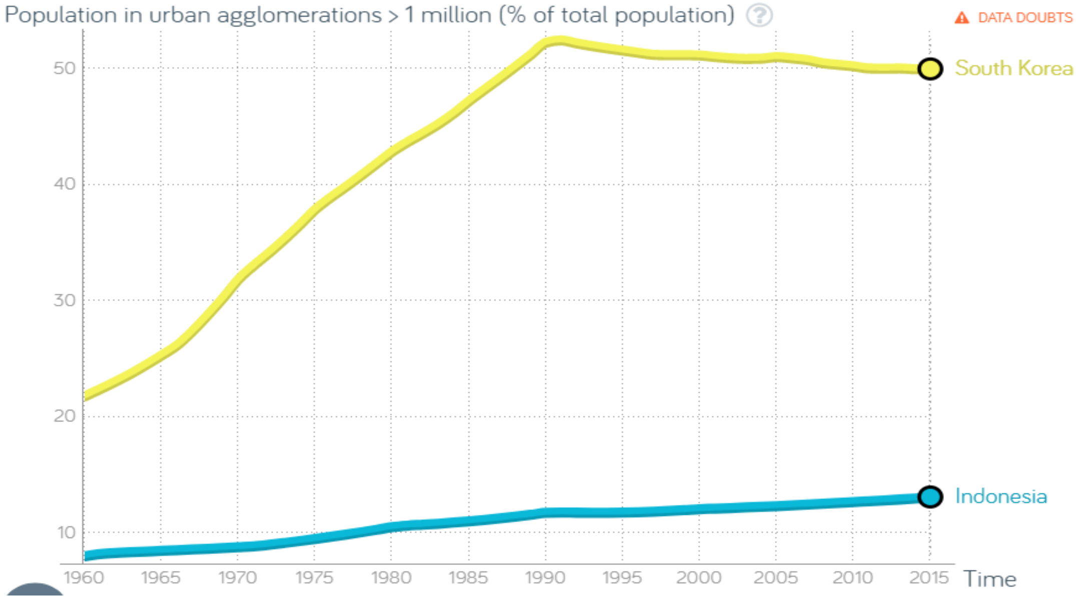

Figure 2. Indonesia and South Korea's Population in Urban Agglomeration in 1960-2015
Source: www.gapminder.org

While in Indonesia, from the above table, the early wave of urbanization has not really felt since the Indonesian government did not initiate industrialization until the late 1970s (Goeltom, 2007). The rise of President Soeharto, a technocrat who had strong relations with many militaries and retired officers during his reign greatly influenced the economic path. He depended heavily on oil exports and paid attention to the agricultural sectors where a large number of Indonesians lived in rural areas. Militarized control is applied to governments at every level to improve the performance of agricultural activities and productivity. Thus, the growth of urbanization and economic development is very slow compare to South Korea.

2.2. Education

Education is one of the main priorities of the governments of Indonesia and South Korea. Education is seen as a way of promoting industrial growth in both countries as a long-term investment (McNicoll, 2006). In addition, education is often viewed as a means of social and economic mobility for individuals. As shown in the table below, the level of people pursuing formal education in South Korea is higher than in Indonesia, even at the beginning of the development of both countries.

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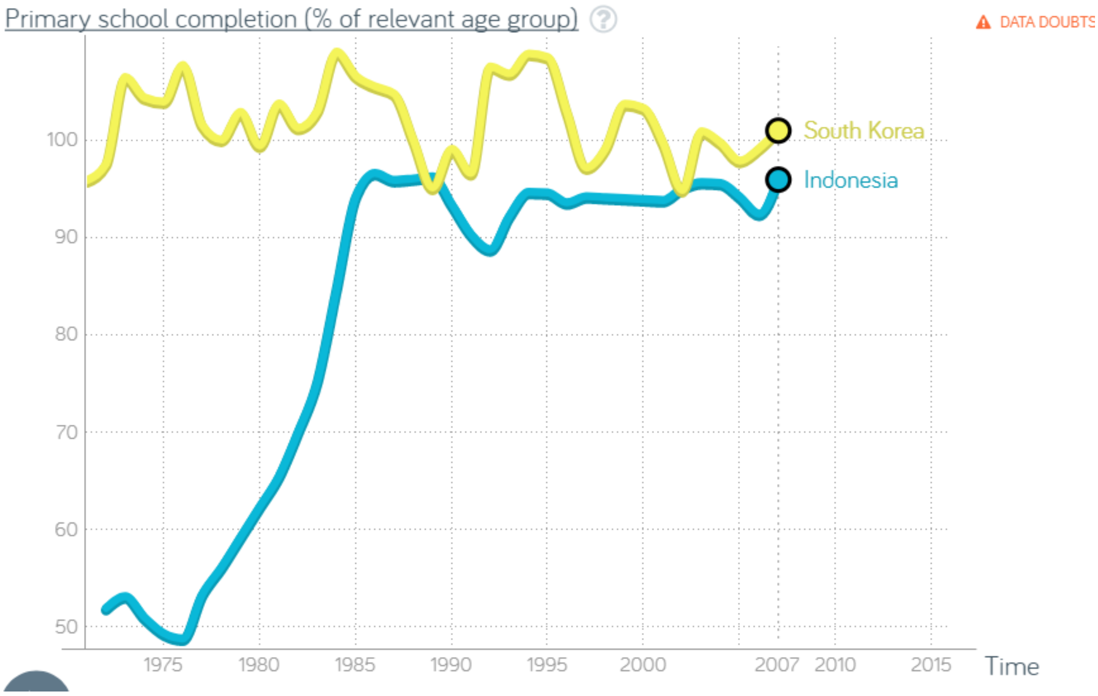

Figure 3. Indonesia and South Korea's Primary School Completion in 1960-2007
Source: www.gapminder.org

In South Korea, the high demand and investment for higher education are expressed in the rising expenditure public-school education and improving RnD budget (Park, 2018). It is in line with South Korea's manufacturing goal to boost its export, starting with light manufacturing (bikes and textiles). In 1970-1980, the South Korean government had the ambition to turn to more advanced commodities by introducing value-added to their products. For this reason, the creation of a skilled workforce makes quality education very necessary. Government's spending on education has multiplied by 29 times during the period 1963-2005 while the total government budget doubled just 20 times in the same period (www.asiasociety.org). There is a stereotype produced in South Korean family, which creates pressure and motivation for young people to enter higher education. Higher education is considered to provide individuals with status and honour.

This was not the case in Indonesia, however, during the authoritarian period (1965-1990s). Despite government and private efforts to provide appropriate education, public knowledge and culture tend to be a significant factor in Indonesian society's much lower level of education than South Korea's. One contributing factor is early marriage. Data shows that in Malaysia and Indonesia, the proportion of married couples between the ages of 15-19 years was reasonably high in the 1960s although the pattern has declined until the 1980s, from 37% to 9% in Malaysia and from 40% to 19% in Indonesia (Lette & Alam, 1993).

2.3. Health

In the early 1960s, the South Korean government invested heavily in the health sector, including basic sanitation and preventive health initiatives such as vaccination, disease prevention, and public hygiene (McNicoll, 2006). South Korean leaders have also supported family planning programs to control the population and facilitate public health services. These are included in the five-year plan of government in 1962. The health programmes, with detailed objectives and close control of their implementation, were introduced as a top priority for economic growth. The following table shows the South Korean health sector progress in reducing the rate of child mortality from the early 1960s.

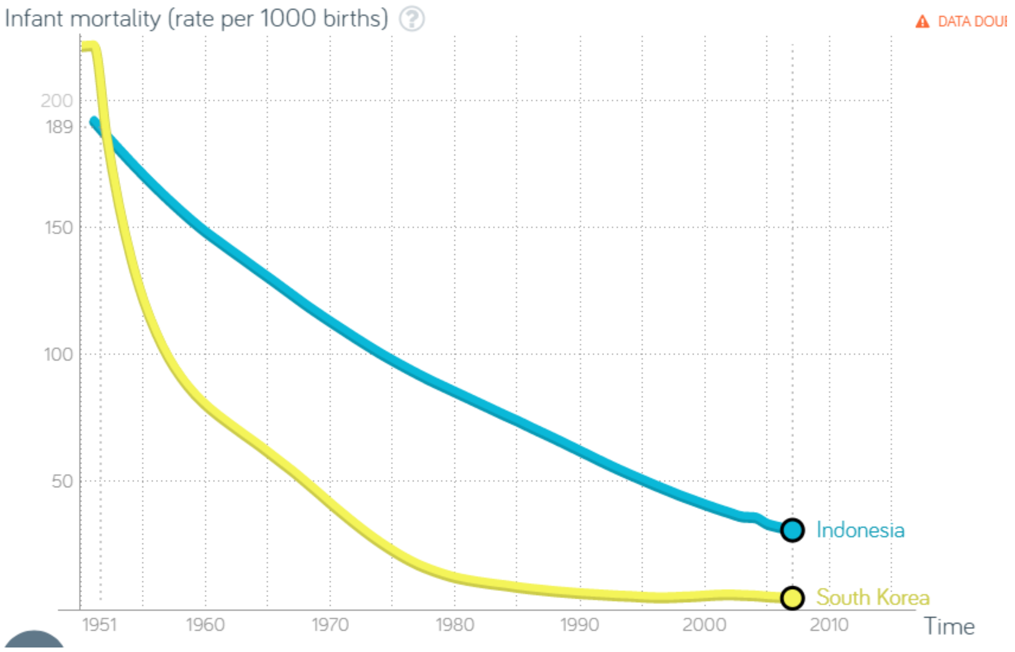

Figure 4. Indonesia and South Korea's Infant Mortality Rate in 1960-2008
Source: www.gapminder.org

Unfortunately, Indonesia's public health sector was considered one of the worst among Asian countries at the time. Public health operations are considered to be less effective, although the health funds received by local governments are quite large (Achmad, 1999). Health facilities have spread to many places, although the quality is undoubtedly far worse than South Korea.

3. Industrialization policy

South Korea implemented a five-year developmental plan from the period 1962-1997. From 1962 to 1992, the main engine of South Korea's economic growth was the manufacturing and trade industries (Lim, 2012). The proportion of the manufacturing sector is seen to have risen from 14.3 per cent of GDP to 30 per cent in 1987 while the manufacture goods' trade volumes increased from US$ 480 million in 1962 to US$ 127.9 billion in 1990 (Park, 2018). The South Korean government has had awareness since the early 1960s to develop further the capacity and efficiency of the South Korean manufacturing industry. The priority of growth was labor-intensive and export-oriented industries which later become heavy-industries. The step taken is to provide tax incentives and strict controls on imports. This is supported by the ownership scheme supported by the government through a conglomeration owned by several families or known as *chaebols*. Barriers to entry and exit strongly assist *chaebols* in developing the domestic manufacturing industry (Chang and Jung, 2002). The South Korean government decided to move from the legacies of Park's authoritarian growth policy to the five-year plan 1993-1997 by establishing a free-market economy, deregulation and service industries (Park, 2000).

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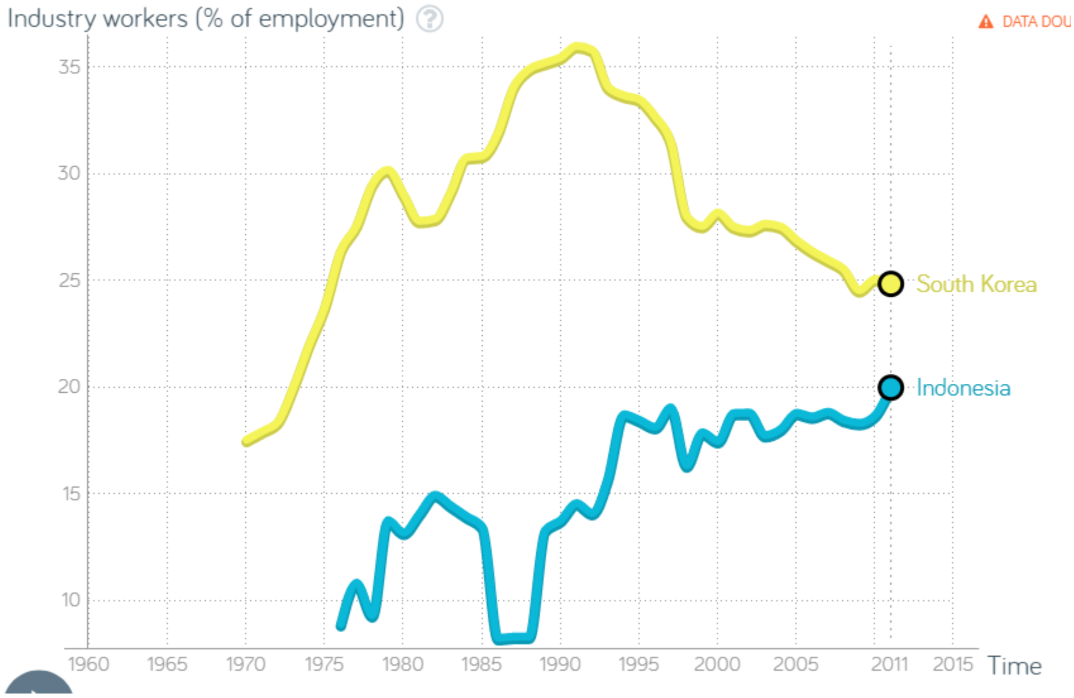

Figure 5. Indonesia and South Korea's Employment in Industry Sector in 1960-2017
Source: www.gapminder.org

From the above table, it can be inferred that the number of workers in the industrial sector in South Korea increased steadily every year during the years from 1960 and hit a peak in the early 1990s. This is contrary to the Indonesian in terms of the number of industry workers. In the early growth in the 1960s, the Indonesian government relied heavily on the agricultural sector and oil production (Wie, 2003). The First Five-Year Development Plan (Repelita I) was introduced by the Indonesian government in 1969. Repelita I prioritized the agricultural sector and adopted an import-substitution policy. Then, Repelita II in 1974 gives priority to natural resource-processing industries and raw materials. The following Repelita III in 1979 emphasized on labor-intensive industries that able to process the industrial raw materials into manufactured goods. Despite being an independent state since 1945, Indonesia has only begun to focus on the manufacturing industries as a primary sector in the late 1970s to improve economic growth and fiscal stability (Goeltom, 2007:6). In the wake of falling oil and commodity prices as a leading sector for financing developments, the government has begun to grow the manufacturing sector. Indonesia's government implemented the import-substitution policy until Repelita III. Then, Repelita IV in 1984 supported machinery-related industries that are gradually having a similar objective with South Korea's industrialisation. Since the early 1980s until now, Indonesia implemented export promotion policy. However, the export policy emphasises on commodities and agricultural products in addition to crude oil and gas-dominated exports.

The comparative development trajectories of South Korea and Indonesia offer compelling empirical support to the scholarly consensus that institutional quality, rather than merely initial conditions, determines long-term economic success. While initial conditions such as colonial legacies and state formation played a role in shaping early prospects (Lipset, 1960; Acemoglu, Johnson, & Robinson, 2001), the divergence between South Korea's inclusive and developmental policy framework and Indonesia's extractive and patrimonial governance underscores the salience of institutional choices. South Korea's coordinated industrial policy and governance structure—characterized by effective public-private collaboration and robust law enforcement—reflect what Rodrik, Subramanian, and Trebbi (2004) describe as the primacy of institutions over geography or external resources. By contrast, Indonesia's weak

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enforcement mechanisms, patronage-driven policies, and rent-seeking behavior exemplify institutional fragility, hindering economic transformation despite abundant resources. This contrast aligns with Glaeser et al. (2004), who emphasize that development hinges not on regime type but on the efficacy of institutional enforcement and protection of property rights. The success of South Korea in fostering industrialization, urbanization, and human capital development illustrates the practical relevance of scholars' argument that economic prosperity depends on institutions that constrain arbitrary state power and uphold legal predictability (Hall & Jones, 1999; Dollar & Kray, 2003). Thus, while initial endowments matter, it is the evolution and strength of institutions that ultimately shape a nation's developmental path.

While much of the earlier development in both South Korea and Indonesia occurred under authoritarian regimes, the role of democratization in shaping the continuity and quality of development trajectories is crucial. South Korea's transition to democracy in 1987 marked the maturation of its developmental state (Cho, 2024). Civil society movements, labor activism, and middle-class pressures pushed for political reforms without dismantling the institutional framework that had underpinned economic success. Importantly, the bureaucratic discipline and performance-based industrial policy mechanisms remained largely intact during and after democratization. Successive democratic governments built upon the gains of the authoritarian period, expanding social welfare, investing further in education and R&D, and pushing *chaebols* toward better corporate governance and global competitiveness (Piao & Park, 2025). The relative autonomy of the state, institutional coherence, and continuity of developmental norms allowed South Korea to sustain high levels of human development and technological upgrading even in a more pluralistic political environment. In contrast, Indonesia's democratic transition in 1998 was triggered by systemic economic collapse exacerbated by the Asian financial crisis. The fall of Suharto and the Reformasi era brought in greater political openness, decentralization, and civil liberties. However, Indonesia faced more significant institutional fragmentation during its democratic transition (Aspinall, 2013). While democratic reforms enabled freer political expression and electoral competition, they also unleashed a proliferation of rent-seeking at local levels (Fukuoka, 2013). The absence of a strong, disciplined bureaucratic legacy made institutional rebuilding more difficult in Indonesia than in South Korea. Nonetheless, Indonesia has made meaningful strides in poverty reduction, macroeconomic stability, and electoral governance under democracy, even though challenges remain in regulatory consistency, industrial upgrading, and infrastructure provision. In sum, democratization in South Korea reinforced development by institutionalizing accountability while preserving a coherent policy framework. Indonesia's democratization brought valuable political freedoms, but its impact on developmental continuity has been mixed, due to the lingering institutional weaknesses inherited from the authoritarian era. This comparison suggests that democratization can support sustained development when it is built upon a solid institutional foundation, capable of enforcing policy consistency and resisting clientelistic pressures. Therefore, while democracy is not a sufficient condition for development, it can enhance its legitimacy and inclusiveness—especially when supported by effective institutions and a politically aware citizenry.

The following comparative table summarizes these key differences across several development dimensions of South Korean and Indonesia's development. South Korea's inclusive and strategic state-building efforts resulted in sustainable growth, while Indonesia's extractive and politically driven approaches constrained its developmental progress.

Table 2. Comparative Development Aspects of South Korea and Indonesia in 1960-1990

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Category	South Korea	Indonesia
GDP per capita	from US$ 944.29 in 1960 to US$ 13,481 in 1997 before affected by the Asian Financial Crisis in 1998, and surpassed US$ 26,761 in 2018	from US$ 690.37 in 1960 to merely US$ 4,284 in 2018
Institutional Quality	Strong governance, legal enforcement, and public-private synergy enabled sustainable development.	Weak institutions, patrimonial networks, and bureaucratic inefficiencies hampered transformation.
Economic Policy	Inclusive policies; state–*chaebol* collaboration; competitive but protected industries; guided capitalism.	Extractive policies; favoritism; misuse of SOEs; political elites' enrichment; high corruption; weak institutions.
Urbanization Policy	Rapid urbanization (1970–1985), driven by industrialization under Park Chung-hee; Capital Region grew from 28.3% to 39.1%.	Delayed urbanization; focus on agriculture until late 1970s; slower economic migration from rural to urban.
Education Policy	Prioritized from early stages; strong state investment; education spending increases 29 times (1963–2005); significant R&D support.	Lower levels of formal education; hindered by early marriage and cultural norms; weaker public investment in human capital.
Health Policy	Strong investment in sanitation, preventive care, and family planning from 1960s; embedded in 5-year plans.	Poor quality despite large health budgets; lower effectiveness and reach; weak governance in service delivery.
Industrial Policy	Early and strategic industrialization (1962–1997); export-led, manufacturing-focused; chaebols empowered; tech upgrading.	Late industrialization focus (post-1970s); import-substitution; reliance on oil/agriculture; shift to export only in 1980s.
Labor Industry	Steady growth in industrial employment; strong state-industry alignment; long-term planning.	Fewer industrial jobs; agriculture remained dominant until late 1980s; industrial policy lacked depth and continuity.

Sources: gapminder.org, World Bank Data, Journal articles (processed by author)

CONCLUSION

The comparison between Indonesia and South Korea demonstrates that long-term development is shaped less by initial conditions and more by institutional design and strategic policy choices. While Indonesia's growth from the 1960s to the 1980s was supported by oil and commodity exports, this model failed to establish structural resilience. In contrast, South Korea, despite its limited natural resources, implemented state-led reforms that prioritized industrial competitiveness, education, and public health.

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Indonesia can draw lessons from South Korea's development strategy. A key recommendation is the establishment of strong and technocratic institutions and the enhancement of bureaucratic professionalism, that coordinate industrial policy, education, infrastructure, and fiscal investment. These institutions should have the authority to implement long-term economic strategies insulated from short-term political pressures. SOE reform is another urgent priority. Unlike Korea's *chaebols*, which were given conditional state support tied to export performance and technological upgrading, Indonesian SOEs have too often functioned as instruments of political patronage. Indonesia must professionalize SOE governance, introduce merit-based leadership selection, and enforce accountability mechanisms to ensure that public enterprises contribute to national productivity, not rent-seeking. Human capital development must also become central to Indonesia's strategy. Korea's industrial success was closely tied to investments in high-quality education and technical training. Indonesia should increase its focus on vocational education which align with industrial needs, and expand funding for research and development. This would foster innovation while building a workforce capable of supporting industrial growth.

Ultimately, Indonesia's future is not solely depends on improving institutions but on transforming its approach to governance. South Korea's experience shows that even under authoritarian rule, coherent and disciplined policy implementation can lay the groundwork for future prosperity. For Indonesia, the challenge is to combine the strengths of democracy with strategic state capacity. State's reform must prioritize integrity, expertise, and national interest for Indonesia to escape the trap of uneven growth and realize its potential as a stable, equitable, and forward-looking economy. This comparison emphasizes the idea that the quality of institutions plays a more crucial role in long-term development than initial conditions alone. Although both nations faced similar challenges in the 1960s, South Korea's effective state-led policies, strategic urban planning, and continuous investment in human capital allowed it to overcome early limitations. Indonesia, on the other hand, struggled due to extractive policies, governance based on patronage, and delayed industrial reforms. These contrasting paths confirm the importance of institutions that promote rule of law, discourage rent-seeking, and support inclusive and strategic policymaking. Hence, the ability of a country to implement adaptive, consistent, and inclusive policies is essential for sustainable economic development.

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