

Political Economic Determinants of Growth Acceleration: A Korea-Indonesia Comparative Study

*Penentu-penentu Ekonomi Politik pada Percepatan Pertumbuhan:
Sebuah Studi Perbandingan Korea-Indonesia*

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Abstrak

Artikel ini melakukan analisis empiris dan komparatif terhadap penentu-penentu ekonomi politik pada percepatan pertumbuhan di Korea dan Indonesia. Hal ini bertujuan untuk menjelaskan tentang keberhasilan pembangunan Korea dibandingkan dengan Indonesia. Penelitian ini menggunakan studi mendalam bersamaan dengan studi kasus dengan menggunakan variabel yang sebanding. Faktor penentu yang digunakan adalah kondisi awal, kualitas lembaga, inovasi kebijakan publik, keadaan sosial-politik, dan akses ke sumber daya eksternal. Bukti menunjukkan bahwa Korea memiliki kondisi yang lebih baik di semua penentu. Pelajaran dari pengalaman pembangunan mereka dapat digunakan untuk meningkatkan efektivitas bantuan pembangunan dari Korea.

Abstract

This paper conducts an empirical and comparative analysis in political economy of growth acceleration determinants in Korea and Indonesia. It aims to reveal plausible explanations on Korean development success compared to Indonesia. This research provides an in-depth study parallel to a case study by using comparable variables. It examines five determinants namely initial conditions, quality of institutions, public policy innovations, socio-political circumstances, and access to external resources. The evidence exhibits Korea has better conditions in all determinants. Lesson learned from its development experiences could improve the effectiveness of the Korea official development aid.

1. INTRODUCTION

This paper encounters a puzzle in Korea's development success story. What exactly is the real reason for Korea's success? Is it a miracle that only Korea and few countries can get the fortunes? Is it because of Korea special attributes that other countries do not have? Is it because Korea an invincible country by nature? These questions are relevant due to unique characteristics of Korea such as strategic location, close relationship with the US and Japan as the biggest world economies throughout the world, and any other specific attributes. If all answers to those questions were yes, and no other independent variables to explain Korea success, then developing countries would not have any chance to replicate Korea developmental path. However, by looking at data and historical facts, we realized that Korea started to develop with similar poor conditions with many other countries. Another puzzle arises from that is why Korea could obtain remarkable achievements while some other countries could not. In particular, why Indonesia that has many similarities with Korea yet she has less impressive development success? Is Indonesia bad while Korea is better in managing economic affairs? What are lessons learned from Korea could be utilized by Indonesia and other developing countries?

To answer those puzzles and questions, this paper attempts to examine Korea and Indonesia political economy experiences since the state formation until the recent date. The basic belief is that there are other variables aside from those favorable conditions that Korea possessed to explain her development success. In addition to the well-known industrial and trade policy, this paper would unveil many aspects in the political economy of Korea that either directly or indirectly has shaped the Korea development.

For a comparative study purpose, Indonesia is one of the best countries to be weighed with Korea due to some similarities they have as the following:

1. Geographic location. Both countries lie on Asia's continent. As exhibited in Map 1, specifically, Korea is located in East Asia; meanwhile, Indonesia is in South-East Asia region. However, it is common to categorize East Asia and South-East Asia into a single region of East Asia.
2. Colonial history. The Japanese occupied both countries. The Japanese colonized Korea for a longer period of time (32 years) than Indonesia (3.5 years). Both countries gained sovereignty and independence after Japan surrendered to the Allied Forces in 1945. However, before the Japanese rule, the Dutch had colonized parts of modern Indonesia since the 17th century and consolidated the whole Indonesia territory in early 1900.
3. Independence struggle and internal conflicts. Both countries struggled to gain their independences. After independence, both countries had to deal with internal conflicts. Korea had a civil war resulted in divisions of Korea into North Korea and South Korea. Indonesia dealt with local insurgency and separatist movements. Both Korea and Indonesia consolidated the central power and overcame internal conflicts in the 1960s.
4. Poor countries. Both countries have originated from a similar level of development just after gaining independence. Both countries were poor and start to develop from a crumble of the Second World War and the independence war.
5. Military regime and dictatorships. Both countries had democratic government from the beginning of the state formation. Then, the authoritarian regime backed by military power ruled for some decades.
6. Anti-communism policy. Since the separation of Korea into North Korea and South Korea, each state has undertaken uniformity in political affiliation. Communism is totally banned in South Korea. Similarly, since 1965, Indonesia has banned communism ideology.
7. Democratization. After decades of an authoritarian regime, Korea adopted Western-style democratization since 1987 while Indonesia embraced the system a decade later in 1998.
8. Policy interventions. There was strong evidence that Korea and Indonesia have undertaken directive economic policies and industrial policy. Definition of industrial policy here are any types of government policies or interventions to support specific industrial sectors. Specifically, both countries endorsed conglomerates.

9. Conglomerates. Both countries supported conglomeration (large business groups) in managing the economy. Korea produced Samsung Group as the largest conglomeration (chaebol) while Indonesia endorsed Salim Group.
10. Asian Financial Crisis. Both countries have been exposed to the 1997 Asian Financial crisis. Korea and Indonesia invited IMF (International Monetary Fund) to save their economies from bankruptcy.

TABLE-1: Profile comparison between Korea and Indonesia

Indicators	Year	Korea	Indonesia	Comparison
Surface area (square kilometers)		100,033.0	1,910,931.0	5%
Population (estimated, 000)	2011	48,391.0	242,326.0	20%
Population density (per square kilometer)	2011	483.8	126.8	382%
Economic indicators				
GDP: Gross domestic product (million current US\$)	2011	1,116,247.0	846,834.0	132%
GDP: Growth rate at constant 2005 prices (annual %)	2011	3.6	6.5	55%
GDP per capita (current US\$)	2011	23,067.0	3,495.0	660%
Exchange rates (national currency per US\$)	2011	1,151.8	9,068.0	13%
Balance of payments, current account (million US\$)	2011	26,505.0	2,070.0	1280%
CPI: Consumer price index (2000=100)	2011	121.0	239.0	51%
Industrial production index (2005=100)	2011	149.0	0.0	N/A
Agricultural production index (2004-2006=100)	2011	101.0	125.0	81%
Food production index (2004-2006=100)	2011	101.0	125.0	81%
Unemployment (% of labor force)	2011	3.4	6.7	51%
Telephone subscribers, total (per 100 inhabitants)	2011	169.4	113.7	149%
Internet users (per 100 inhabitants)	2011	83.8	18.0	466%
Exports (million US\$)	2011	555,208.9	203,496.6	273%
Imports (million US\$)	2011	524,405.2	177,435.6	296%
Balance (million US\$)	2011	30,803.7	26,061.0	118%
Social indicators				
Population growth rate (average annual %)	2010-2015	0.4	1.0	40%
Urban population growth rate (average annual %)	2010-2015	0.7	2.5	28%
Urban population (%)	2012	83.5	51.5	162%
Population aged 0-14 years (%)	2012	15.6	26.4	59%
Population aged 60+ years (females and males, % of total)	2012	18.9/14.6	9.3/7.7	N/A
Life expectancy at birth (females and males, years)	2010-2015	84.0/77.3	71.8/68.3	N/A
Infant mortality rate (per 1 000 live births)	2010-2015	3.7	24.9	15%
Education: Government expenditure (% of GDP)	2006-2012	5.1	3.0	170%
Education: Primary-secondary gross enrolment ratio (f/m per 100)	2006-2012	100.2/101.4	98.1/97.0	N/A
Education: Female third-level students (% of total)	2006-2012	39.4	46.7	84%
Seats held by women in national parliaments (%)	2012	15.7	18.2	86%

Source: author comparison from the United Nations country profiles accessed April 10, 2014.

Despite those similarities, however, Korea has obtained the following remarkable achievements while Indonesia is still lagging behind. The following are the leading success indicators of Korea:

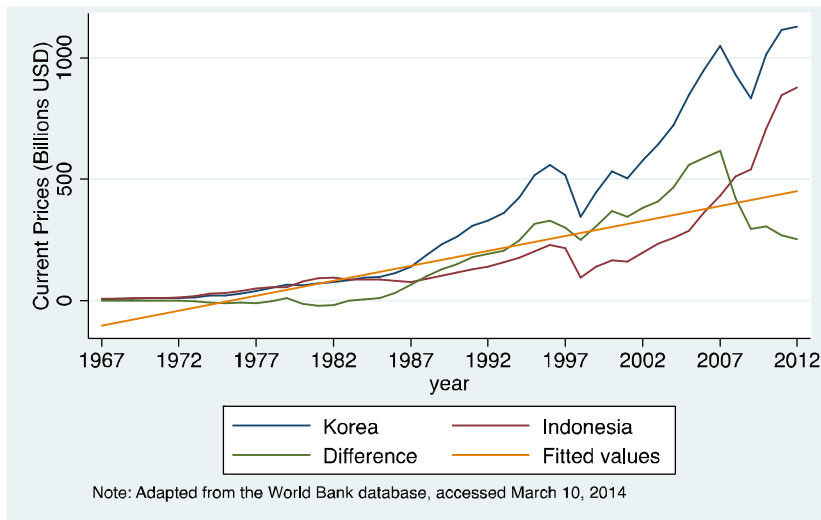
1. Maintaining a sustainable and rapid economic growth since the 1960s.
2. Increasing the level of Gross Domestic Product (GDP) per capita by more than 10 times in less than 50 years.
3. Graduating from a donor-recipient and joining the developed country club, i.e. the Organization for Economic Co-operation and Development (OECD) in 1996.
4. Immediate recovering from the 1997 Asian Financial Crisis and the 2008 economic shock.
5. Becoming a donor country among OECD countries since 2010.

6. Moreover, conglomerates of Korea have grown from national champions becoming global powers such as Samsung, Hyundai and other companies.

Table 1 exhibits profile of Korea, Indonesia, and their comparison percentage (Korea over Indonesia) in recent data and facts. Some leading indicators portray a really big contrast between both countries. As an illustration, GDP per capita of Korea in 2011 is almost 7 times of Indonesia (660%).

Furthermore, economic indicators for the period of the 1950s to 2012 reveal contrast between Korea and Indonesia, although they started from a quite similar position. A wide gap in GDP and GDP per capita between both countries has exhibited the inconvenient fact.

GRAPH-1: Korea and Indonesia Gross Domestic Product (1967-2012)



Graph 1 exhibits that Korea and Indonesia had quite similar value of GDP in US dollar current prices from the period of the 1960s to 1970. During the 1970s, the gap of GDP between both countries was widening. Afterwards, Korea GDP has soared and reached the highest peak of the gap (more than USD 500 billion) in 2007 before persistently declining until 2012 (toward USD 200 billion). The fitted values of difference show that Indonesia GDP is catching up the Korea GDP.

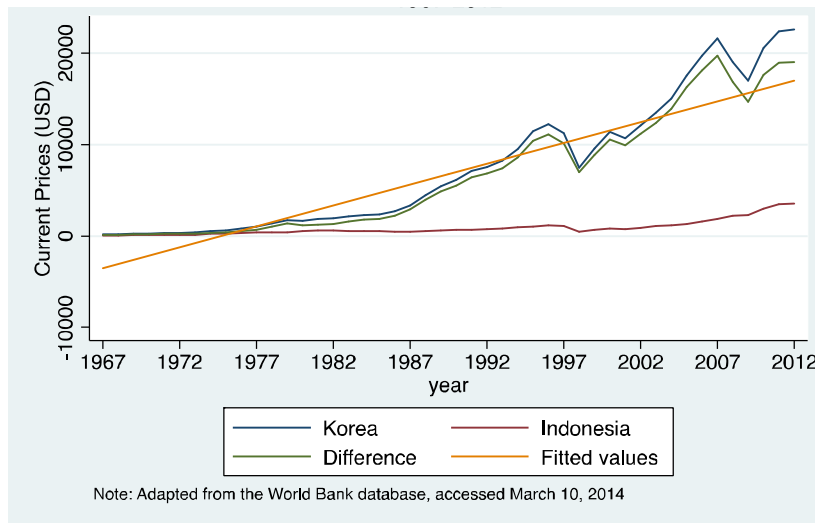
In addition, the data records two steep declines in Korea GDP for the observed period. On the other hand, Indonesia has only one point of steep decline. Sudden declines in 1997 as shown in the graph both countries' GDP have plunged during the Asian financial crisis. In 2008, Korea experiences another abrupt decline of GDP similar to that happened in 1997. However, Korea GDP level recovered at the level before those two crises in a steeper pace compared to Indonesia's recovery in 1997 crisis. Meanwhile, Indonesia remains resilient during the year and keeps improving her GDP level. Thus, Indonesia is catching up Korea and reducing the GDP gap during the end of the 2000s.

Matched to the previous comparison on GDP level, GDP per capita has exhibited a stronger contrast for both economies as shown in Graph 2. While Korea and Indonesia started from a similar level since 1967, GDP per capita of Korea has exploded since the mid of the 1970s. The value increases dramatically from hundred dollars to more than USD 10,000 in the 1990s and reached USD 20,000 in 2007. However, Indonesia GDP per capita remains low without significant level growth and reached below USD 4,000 level in 2012.

Those two graphs provide an impression that Korea has performed better than Indonesia in enlarging the size of the economy (GDP) and prosperity (GDP per capita). Obviously, Korea has accelerated and sustained rapid economic growth for decades. In particular, after 1987, Korea has a period of growth acceleration. Even after two crises, Korea has recovered quickly and in a few years reaches the pre-crisis level and increases her economic growth both aggregate and per capita level.

The next question, is there any theoretical background and empirical findings to explain the Korean growth acceleration phenomenon? The following section discusses a review of the literature focusing on the existing theory and findings on economic growth acceleration in general.

GRAPH-2: Korea and Indonesia Gross Domestic Product Per Capita (1967-2012)



2. LITERATURE REVIEW ON DETERMINANTS OF GROWTH ACCELERATIONS

It is widely acclaimed that economic growth acceleration is an exceptional and miraculous thing. However, Hausmann, Pritchett, & Rodrik (2005) advise, "growth accelerations are a fairly frequent occurrence." They discover 55% of 110 countries during the 35-year period of 1957 to 1992 had experiences at least one growth acceleration. They claim growth accelerations are not impossible in any country to achieve. If this finding is true, growth acceleration is not exclusive for a particular country. Indeed, developing countries will have optimism to achieve better economic performance. Scholars suggest some determinants to explain variance in development among countries. This section will elaborate determinants of development in general cases.

Lipset (1960) suggests initial conditions as the first determinant to explain economic performance. Many scholars have a strong belief that initial conditions could explain variances of economic growth across the country throughout the world. This variable means that some countries have more favorable conditions than others. The better is the initial conditions, the better economic performance a country is. Perhaps, this is the least favorite determinant of a sustained and accelerated rapid growth for developing countries. Here, initial conditions are ranging from state formation, colonial legacies, human capital, physical capital, society structure, geographical location, and other relevant variables. Most of this determinant is already given since most countries could not predetermine their conditions.

Regarding people working ethics, Weber (1930) proposes that some values in religions could contribute to encouraging better working ethics. Specifically, he claims that Puritan (Protestant) ethics and ideas have influenced the development of capitalism. He correlates the development of capitalism in the Northern Europe who was dominated by the Protestants (not the Catholics) population. He argues that values of Protestant have motivated people to work hard, to start their own enterprises, engaging various business affairs such as trading, and to accumulate wealth and investments.

In addition, Acemoglu, Johnson, & Robinson (2001) argue that colonial legacies have a direct impact on institutions. They suggest that the impact is persistent until the present day. Two extreme of colonial legacies are those in United States, Australia, and New Zealand versus those in Congo and the Gold Coast. In the former case, institutions had characteristics of property rights protections and law enforcement. Meanwhile, in the latter case, institutions were set up for resources' extraction and

indigenous people extortion. Those colonial legacies have influenced the initial conditions within those countries in significant ways. The former country group has better development than the latter group.

Furthermore, Acemoglu, Johnson, & Robinson (2005) advocate that access to the Atlantic Ocean and non-absolutist institutions are two subsequent and dominant variables to explain the rise of some European countries (Britain, France, The Netherlands, Portugal, and Spain) between the 16th and 18th century. They argue that the combination of those two factors brought rapid economic growth to Britain and Netherlands. In countries like Spain and Portugal that had access to the Atlantic Ocean but had an absolutist institution, they had limited growth. Meanwhile, countries that had non-absolutist but no access to the Atlantic Ocean, such as Venice and Genoa, did not experience any benefit from Atlantic trade.

In addition, Hausmann, Pritchett, & Rodrik (2005) theorize that external shocks tend to accelerate economic growth. Here, we can add access to external resources such as trade as another determinant of growth acceleration.

Rodrik, Subramanian, & Trebbi (2004) recommend that quality of institutions is the most important factor to development than geographical location and access to external resources. They argue that public policy innovations do matter to change economic performance. As an illustration, Meiji restoration pushed Japan toward modernization as well as Korea in the 1960s.

In addition, Glaeser et al. (2004) suggest that institutions based on "actual laws, rules, and compliance procedures" rather than a broad system comparison such as democratic versus autocratic institutions. They argue that regardless the form of institutions; they must preserve the security of property and development in the first place. Meanwhile, democratization and constraints on government may not present in the very beginning of the development. If this is true, it explains the variances of the impact both democratic and authoritarian regimes on development such as good dictator in China (Deng) and bad dictator (Mao). Their argument does not undermine the needs for democratization. Nevertheless, they are skeptical about the viability of democracy in countries with a low level of human capital.

Smith (1776) advises that constraining the government would bring economic growth. In addition, recent study such as by Hall & Jones (1999) and Dollar & Kraay (2003) also support Smith's explanation by arguing that better institutions cause economic growth. Here institutions are defined as sets of government rules such as securing property rights, and enforcing a law impartially. We can include quality of institutions as another determinant that does matter to economic success.

Schumpeter (1942) argues that some degree of monopoly is preferable to perfect competition. He suggests that perfect competition is impossible since, under perfect competition, all firms within an industry produce the same good, sell it for the same price, and have access to the same technology. Here, the government could exercise her public policy in forms of industrial policy, trade policy, and other policy innovations. We add these types of policy as another determinant namely public policy innovation.

Another determinant is political circumstances that presence in several ways. One obvious illustration for political circumstances is political stability. Another explanation is the role of special interest group within a country. Olson (1965) suggests that the special interest group could hurt an economy since they solely care their members' benefits at the cost of public interest.

From the existing literature, this paper emphasizes the following notions:

1. A sustained and accelerated rapid growth could not be illustrated by a mono-causal explanation. Instead, a multifaceted explanation is needed to illuminate the development puzzle. Therefore, an interdisciplinary approach that combines political economy understanding would be valuable to unveil a developmental success story.
2. Utilizing the interdisciplinary understanding, this paper would examine five determinants of development to analyze a country's development path namely: initial conditions, quality of

institutions, public policy innovations, socio-political circumstances, and access to external resources.

3. Those determinants are obviously able to capture the dynamics of a country economic development by allowing endowment (initial conditions), dynamic changes from internal (quality of institutions, public policy innovations, and socio-political circumstances) and positive shocks from outside the system (access to external resources) to explain differences and variances of economic outcomes among countries around the world.

3. METHODOLOGY

This research utilizes seminal work of Przeworski & Teune (1970) on comparative social inquiry. They suggest two ways of comparative inquiry namely the "most similar systems" design and the "most different system" design. The former design focuses on "intersystemic similarities and intersystemic differences"; meanwhile the latter focuses on the "intrasystemic" level. Here, the paper utilizes the "most similar systems" design. This paper attempts to examine a correlation between determinants of growth acceleration and the aggregate economic growth in Korea and Indonesia. This research will examine five research hypotheses to explain the causal effect relationship. In all of the hypotheses, the dependent variable would be the aggregate economic growth rate.

1. Korea has advantages in initial conditions, especially in state formation, colonial legacies, demographic and geographic, people traits and attitudes, human capital and physical capital, compared to Indonesia. Here, people traits and attitudes are working ethics, insecurity, nationalism, homogenous, and social trust. Therefore, development in Korea is more successful than in Indonesia.
2. Korea has a better quality of institutions, in particular, military-civilian relations, good governance, the rule of law, and law enforcement compared to Indonesia. As a result, development in Korea is more successful than in Indonesia.
3. Korea has better public policies' innovations, especially economic reforms, macroeconomic policy, industrial policy, and trade policy compared to Indonesia. Consequently, development in Korea is more successful than in Indonesia.
4. Korea has more favorable socio-political circumstances, in terms of political stability, labor and industrialists' relations, foreign power influence, and special-interest groups, compared to Indonesia. Accordingly, development in Korea is more successful than in Indonesia.
5. Korea has more favorable access to external resources, in particular, economic shocks, and prosperous trading partners, compared to Indonesia. Thus, development in Korea is more successful than in Indonesia.

In addition, this paper adopts Lijphart (1971) guidance to minimize problems with small-N as the following:

1. Reducing the analysis "property space" by simplifying comparative variables into five broad variables namely initial conditions, quality of institutions, public policy innovations, socio-political circumstances, and access to external resources. Under each of these five determinants, we will elaborate any variable that has closer relationships.
2. Focusing the comparative analysis on comparable cases by utilizing literature focusing on Korea Indonesia comparisons as the primary source. In the second stage, this research uses any existing literature in single country case either Korea or Indonesia with specific comparable variables. In a lesser extent, this paper also considers any study that has either country in the observation sample as a valuable data source.

4. RESULTS AND DISCUSSION

Comparative studies that include Korea and Indonesia are limited. Literature that exclusively comparing Korea and Indonesia that have peer-reviewed journal quality is extremely limited (Only study by Vu of 2007 and Kim et al. of 2006). Table 2 exhibits the existing literature with different issues yet have relationships with developmental issues in this study.

4.1. Initial Conditions

Being ready to start industrialization, Vu (2007) argues that Korea has better initial conditions compared to Indonesia. There are two things that make Korea is better than Indonesia. Firstly, he describes the dynamic of state formation after independence that Korea possessed “elite polarization” and “mass repression” characteristics; meanwhile, Indonesia’s characteristics were “elite compromise” and “mass incorporation”. Elite polarization in Korea formed two or a few opposing extremes while eliminating any moderate political option. Dealing with local power and mass, Korea’s emerging state chose to suppress them. This phenomenon is known as mass repression. On the other hand, elite compromise in Indonesia eliminated extremes and forming a central political bloc. Because of lack of state apparatus or other reasons, Indonesia elite incorporated local power and mass.

TABLE-2: Lists of Korea and Indonesia Comparative Studies

No	Title and Year	Author(s)	Notes
1	State formation and the origins of developmental states in South Korea and Indonesia. 2007	Tuong Vu	Exclusively Korea and Indonesia comparison. Peer-reviewed journal.
2	Political leadership and civilian supremacy in third wave democracies: comparing South Korea and Indonesia. 2006	Yong Cheol Kim, R. William Liddle, and Salim Said	Exclusively Korea and Indonesia comparison. Peer-reviewed journal.
3	Economic crises and political change: Indonesia, South Korea, and Malaysia. 2005	Amy L. Freedman	Korea and Indonesia are among other countries in comparison. Peer-reviewed journal.
4	Manufacturing performance in Indonesia, South Korea and Taiwan before and after the crisis: an international perspective, 1980-2000. 2003	Edwin Stuivenwold and Marcel P. Timmer	Korea and Indonesia are among other countries in comparison. Book.
5	Contingent democrats: Industrialists, labor, and democratization in late-developing countries. 2000	Eva Bellin	Korea and Indonesia are among other countries in comparison. Peer-reviewed journal.
6	Business patronage, class struggle, and the manufacturing sector in South Korea, Indonesia, and Thailand. 1989	Alexander Irwan	Korea and Indonesia are among other countries in comparison. Peer-reviewed journal.

Source: Author’s compilation

Further, Vu suggests that the consequences of these characteristics have brought the modern Korea. Elite polarization has divided Korea into two nations (North and South). However, mass repression has promoted a relatively consolidated developmental structure that is favorable for industrialization. A massive civil war between two blocs of society has further pushed consolidated developmental structure within each divided nation. Meanwhile, Indonesia faced fragile situations as a union state and had been working hard to consolidate the central power and to build development structure. Separatist movements and local disobediences occurred in decades after independence. Therefore, Vu argues that Indonesia was in unfavorable initial conditions compared to Korea due to the insufficient developmental structure. Secondly, Vu suggests colonial legacies as another reason why Korea has better initial conditions than Indonesia. He argues that within 35 years, the Japanese transformed the traditional Korean monarchy and degenerated into agrarian bureaucracy became a coercive, centralized and modern state. State introduced intervention policies to promote rapid economic growth and strong industrialization. The Japanese were decisive in maximizing their roles as colonial ruler in Korea by forging an alliance with industrialists while coercing the working class of labor and peasants. These conditions were favorable for Korea to start industrialization after gaining independence from the Japanese. Further, Vu explains that in contrary, the Dutch left an unfavorable institutional legacy to Indonesia. The first legacy was preserving local cultures and traditional aristocrats. The second legacy was less industrialization in Indonesia since the Dutch promoted exports of agriculture products and raw materials. Despite the unification and centralized state, those legacies made Indonesia less favorable for industrialization after independence. Although the Japanese

occupied Indonesia, it did not contribute to significant industrialization capacity due to a very brief colonial period (1942-1945). Kim, Liddle, & Said (2006) suggest another argument on better initial conditions in Korea compared to Indonesia. Korea has a compact territory, homogeneous population and less-politicized religious separations. Additionally, Korea was under an empire for a very long period of time before colonized by the Japanese. On the other hand, Indonesia has thousands scarce islands, heterogeneous population and more politicized religious divisions. Furthermore, Indonesia as a state was invented in the 20th century by incorporating many kingdoms and islands. Specifically, in East Asia case, Booth (1999) examines a correlation between initial conditions and miraculous growth. She suggests that the East Asia countries (Japan, South Korea, and Taiwan) have favorable initial conditions compared to the South-East Asia countries (Malaysia, Indonesia, and Thailand). She describes some factors that contribute to better initial conditions of East Asia countries namely the education level, the distribution of income and capital and the level of physical investment. Since the former has achieved superiority relative to the latter, therefore, she argues that the differences of economic development performance could be explained by the initial conditions' differences. One result from good quality of education is working ethics. Korean is well known for their hard work attitude. Arguably, this is also implicated by various reasons such as insecurity from North Korea (technically still at war) and major foreign powers (China, Russia, Japan, and the USA); long and harsh experiences under the Japanese occupation, combined with a lack of natural resources. The working ethics of Indonesians are quite the opposite. Low level of education, feeling secure because, after independence, there were no invasions from foreigners, feeling rich because of abundant natural resources, are some of the reasons why the general working ethics of Indonesians are worse.

4.2. Quality of Institutions

Kim, Liddle, & Said (2006) argue that Korea has successfully constrained military power in state affairs. Korean leaders have committed under the rule of civilian supremacy over military power. The state has diminished the roles of military institutions, in particular, military intelligence in public affairs. There are three examples that exhibit military power constraints in Korea.

Firstly, Kim, Liddle, & Said underline that politicized military personnel have been subdued. Since 1992, all presidential candidates in Korea are all civilians. The last president who has a military background was Roh Tae Woo. He won the first election in the history of Korea's democracy in 1987. Since it was the first election, there are no military coups. Secondly, the state has diminished the roles of military intelligence units and activities. Bureau on civil surveillance was abolished permanently under President Kim Yung Sam who was the first civilian president after the Korea democratization. In addition, he downgraded and downsized the military intelligence unit and activities. Thirdly, Kim, Liddle, & Said describe that a military coup was punishable by a civilian Supreme Court. During the presidency of Kim Young Sam, two presidents who were military personnel (Chun Doo Hwan and Roh Tae Woo) were sentenced to life and 17 years in prison, respectively in 1996. Chun was found guilty for "military revolt" and Roh was guilty due to "an insurrection and murder for insurrection". In Indonesia, by contrast, until now, military power is still eminent in many forms, in particular, the territorial command system. Kim, Liddle, & Said explain that when General Suharto resigned from his presidential position after 32 years on the job, three civilian presidents have ruled Indonesia. Since the reform order in 1998, President Habibie is the most reformist president to ensure civilian supremacy over military forces, unfortunately, he ruled in a very brief period. His predecessors were not seriously continuing military reform. Despite his policy of placing the first civilian to be a minister of defense, unfortunately, President Wahid called military officers to dissolve the Indonesia Parliament because they wanted to impeach him. Furthermore, presidents after Wahid did not make significant progress on reforming military forces in Indonesia. Based on these conditions, obviously, Korea has better civilian supremacy over military power. In terms of states and private sector relationships, Bellin (2000) argues that Korea adopts developmental state style; whereas Indonesia adopts patrimonial state style. The former style identifies national prosperity on successful private sectors. Therefore, the state explicitly supports them to achieve high economic growth. In Korea, state and private sector relationship is positive and collaborative. The latter style emphasizes that it is not only the high

economic growth as state's governing objectives but also personal gain for state elites. In Indonesia, state and private sector have a shady relationship since the private profitability is in state elites' hands. Bellin suggests that Korea initially adopted patrimonial state since the beginning of Korea's state establishment under President Syngman Rhee. The genesis and success of private companies lay on cronyism, in particular, state elites' discretionary measures and political access. President Park Chung Hee pushed more developmental state ethos while state remaining at one's discretion power over some important control such as foreign currency and credit. Furthermore, Bellin describes Indonesia patrimonial state practices since gained independence in 1945. State elites provided government supports such as licenses, contracts, and credits to private companies in barter with political clientele and personal gain.

4.3. Public Policy Innovations

Korea established a five-year developmental plan. For the period of 1962 to 1992, the Korean government developed seven plans declaring specific targets, action plans and resources (OECD, 2012). Korean industrial policy could be categorized into three development phases based on political leadership and major political economy considerations. The first phase, within the period of 1962 to 1979, was started by the political leadership changed that took place in 1961 policies by General Park Chung-hee marked a significant transformation in Korean economic policy (Holcombe 2013; Noland & Pack 2002; Westphal 1990). The Korean government developed a five-year plan as developmental guidance. At the first five years, the Korean government's goal was to achieve a self-reliant economy. This strategy led to strengthening import substitution industry by controlling import and directing industrial development (Park 2000; Balassa 1971). Eventually, the Korean government shifted from import-substitution industrialization to export-oriented industrialization and put export performance as the success barometer for Korean companies (Holcombe 2013; Noland & Pack 2000; Westphal 1990). This decision could be explained by two occasions namely the diplomatic relationship's normalization of Korea and Japan in 1965; Korea's involvement in the Vietnam War in 1965 to 1973 as the United States' ally (Park, 2000). The first situation brought Korea in a better condition in terms of economic benefits such as obtaining capital from Japan and gaining access to Japanese companies' technologies. The Japanese companies that shifted to higher added value and more capital intensives were willing to transfer technology of lower value added and labor-intensive industries to Korean companies. The latter situation pushed Korea's light industry to increase the volume of exports, specifically cement, fertilizers, petroleum products and consumer products. During this phase, the Korean government intervened in the financial sector. Since the government owned all of existing banks, the business sector was completely dominated by the state (Park 2000). The Korean banks provided low-interest loans to stimulate the industrial growth. In addition, the Korea government provided tax incentives and trade protection to the priority industries (Noland & Pack 2002). Korea experienced the second stage of industrialization when the Heavy Chemical Industrialization (HCI) program was launched in 1972-1976 (Weiss 2005; Park 2000). The HCI main idea was to build heavy and capital-intensive industries such as steel, shipbuilding, machinery, electronics and petrochemicals. This ambitious plan was financed by foreign loans. Instead of opening Korea for foreign direct investment (FDI), the Korean government prefers to borrow money from foreign countries. The main reason behind this policy choice was to keep domestic ownership on the industries (Park 2000). By the end of this period, Korea economy had several characteristics (Park 2000):

1. Korea achieved the average 9 percent of growth rate over the 18-year period.
2. The low interest rate policy was followed by high inflation and depleted domestic savings rate.
3. Korea government utilized foreign loans extensively while putting a strict limitation on foreign direct investments; as the consequence, Korea was among the largest foreign borrowers throughout the world.
4. The industrial policy supported the forming of giant conglomerates (chaebol) that created new problems of too big to fail and growing influences to government officials.

5. Korea achieved success in steel production, shipbuilding, automobiles, chemicals, and electronics that transformed its economy became an industrial economy (Holcombe, 2013).

The second phase of Korean industrial policy was during the period of 1981 to 1991 under Chun and Roh administration. The previous industrial policy was not changed by both administrations. Nevertheless, they made some economic adjustments to stabilize the Korean economy that has been under inflationary pressure. Chun's government goals were price stabilization and market liberalization. The first goal was to be achieved by several policy measures such as reducing the fiscal deficit and controlling monetary growth, meanwhile; the latter goal was pursued by initiating anti-conglomeration and privatizing the national commercial banks (Park 2000). Price stability was successfully achieved by maintaining the inflation rate below 10% during this phase. Conversely, the market liberalization was partially successful. Privatization of commercial banks was lowering government involvement in the financial sector. However, the influence of giant conglomerates has increased due to their ownerships in the privatized banking sector. Therefore, policy measure to limiting the power of chaebol failed. Moreover, the conglomerates were controlling financial sector both in banking and non-banking financial sector (Park, 2000). The economic policies produced a large trade and current account surplus and achieved more than 10% of economic growth in 1986 to 1988. Roh administration pursued the same policies of his predecessor to maintain price stability by tightening foreign borrowing. This policy pushed the companies to find sources of financing from a capital market. In addition, due to the economic boom during the period, the Korean companies have started to expand their production by investing abroad to lowering labor cost and hindering appreciation of local currency.

By the end of the phase, Korea economy had several characteristics (Park 2000):

1. The combination of price stability and moderate growth was successfully managed.
2. State influences on financial sector had been reduced meanwhile conglomerates shares increased due to higher ownership after government privatized the state banks.
3. Relationships between business people and state officials had induced bad behaviors such as bribery, kickbacks, corruptions, and other harmful behaviors that resulted in concessional loans, and other types of special treatment from state officials to business.
4. Korean economy had bigger exposure to the global situation due to its high engagement with the capital markets.

The third phase of Korea industrial policy was during Kim's administration. During this phase, the Korean government was trying to shift from Park's legacies of authoritarian development strategy by devising a free-market system and deregulation (Park, 2000). The Five Year (1993-1997) Plan of New Economy was launched to strengthen free market mechanisms. On the other hand, Indonesia launched the first industrial policy in 1949 (Wie, 1987; Siahaan, 1996). Since that time, there were several industrial policies introduced by the government. However, the industrial policy was never undertaken seriously during the period of time 1949 to 1955 (Wie, 2002). Wie describes that in 1969, Indonesia launched the First Five-Year Development Plan (*Repelita*). *Repelita* I gave priority to the establishment of manufacturing industries to support the agricultural sector and pursuing import substitution policy. *Repelita* II in 1974 until provides priority to resource-processing industries or producers of industrial raw materials. Subsequently, *Repelita* III focus on industries that have the ability to process the industrial raw materials into manufactured goods. Moreover, *Repelita* IV endorsed industries related to machinery that more and less has a similar goal with the heavy chemical industrialization in Korea. During *Repelita*, the government of Indonesia endorsed the import-substitution policy. Wie (2002) suggests that since 1982 Indonesia implemented export promotion policy. However, raw materials and agricultural products in addition to crude oil and gas dominated exports. Industrial policy in Korea and Indonesia has a similarity in supporting business conglomerates. The leading conglomerate (chaebol) in Korea is Samsung (Lim, 2012), while in Indonesia was Salim group (Sato 1993). The minority ethnic of Chinese owns Salim group and other business conglomerates in Indonesia. The Chinese business domination has been a serious issue in Indonesia. In Korea, owners of business conglomerates are Koreans; therefore, Korea can engage

industrial policy in a better way since there is no negative sentiment from the whole society. In addition, Korea's government has guided conglomerates in Korea, in particular, terms of productions in better ways. The government controls conglomerates by using some policy instruments, i.e. taxation, subsidies, credits, and others. Korean government exercised her authority to guide industrial development to a certain goal. Meanwhile, the Indonesian government had less control to the Indonesian conglomerates. We can say, Indonesia's government had low levels of future vision and had more pragmatic thinking. As an illustration, conglomerates in Indonesia obtained high profits from cigarettes industry versus Korean chaebol profitable business in heavy chemical industrialization. The business products do not have high value. Instead, one example is cigarettes industry. Although it absorbed many labors, the industry is sunset and overall reducing human capacity due to health problems. Furthermore, political elites have captured a significant proportion of the business profits for personal gain in exchange for security and political protection. Weak law enforcement has proliferated in cronyism between public officials and conglomerates.

Indonesia has developed many state-owned enterprises (SOE). However, many of the SOEs are low in profitability. Various reasons for not making profits such as they were not managed professionally because executives and employees have political affiliations with political parties. Another reason is because the business strategy does not rely on Indonesia comparative advantage. A special case for this is the aviation industry. The aviation company was saved from bankruptcy by the government and now is recovering slowly. Despite huge efforts for decades, the performance of the industry is not as expected. People may argue it would be a different story if resources on Indonesia have been focused in potential resources such as agricultural and fishery industry.

4.4. Socio-Political Circumstances

Korea and Indonesia have a contrasting portrait on ethnicity. While Korea has a homogenous ethnic (Korean), Indonesia is a very heterogeneous country. Although Koreans have internal division problem based on provincial differences, but they have a fewer serious problem compared to Indonesians. According to the country official census (2000), the composition of the Indonesian population is Javanese 40.6%, Sundanese 15%, Madurese 3.3%, Minangkabau 2.7%, Betawi 2.4%, Bugis 2.4%, Banten 2%, Banjar 1.7%, other or unspecified 29.9%. They speak hundreds of local languages, although Bahasa Indonesia is well understood by almost everyone. This demographic fact brings potential disadvantages to Indonesia's development. In addition, there is unevenness of development in Indonesia. Java and Bali Islands are the most advanced geographical area in terms of physical infrastructure compared to the Outer Islands in the west (Sumatera) and the East (Sulawesi and Papua). Furthermore, Indonesia is still dealing with separatism movement in Papua. A decade ago, Indonesia has successfully ended prolonged separatism conflict in Aceh. Furthermore, there are frequently localized conflicts in many regional areas, especially due to local leaderships' dominance. Overall, internal divisions since independence in 1945 have weakened capacity and focus of Indonesians to develop their economy. Additionally, Indonesian conglomerates are mostly the ethnic minority of Chinese. Arguably, with less than 1% of total population, they controlled more than 90% market economy. Inequality gap and dissatisfaction are widening and becoming the next challenge to be addressed.

4.5. Access to External Resources

Korea has better access to external resources in terms of trading partners. Because her proximity with major economic powers throughout the world such as China, Japan, and the US, Korea can grow faster. Before developing her export and industrial capacity, the US had supported Korea by providing development aid. In addition, Korea has an outward-looking strategy in developing their industrial capacity. By focusing on electronic appliances, automobiles, and other mass products, Korea can use the world as the market. On the other hand, Indonesia is more inward looking and less exposure in export activities. The business strategies were mostly targeting domestic market and focusing on import substitution policy.

5. CONCLUSIONS

Overall, Korea has better conditions in all five determinants of growth acceleration compared to Indonesia. Lesson learned from Korea's development experiences are utilized to provide recommendations for developing countries, specifically Indonesia. Recommendations to Korea are motivated to improve the effectiveness of the Korea Official Development Aid (ODA).

The first recommendation to developing countries is to improve their initial conditions. Initial conditions within a country are given and fixed in a short term. However, in a longer term, a country could improve some of the initial conditions. As an illustration, a country can improve their citizens' working ethics through education. Undoubtedly, changing people's behavior from low motivated to be high motivated toward working attitude is not easy yet it is not impossible. Empirically, one effective way to improve working ethics in society is through education. People with better quality of education would most likely to have more responsible behavior, including better working ethics.

Here, developing countries can learn from Korean working ethics development through an education system. Developing countries need to dedicate more resources and efforts to improve the quality of education. In the aggregate level, education spending is one of the most straightforward indicators for a country's commitment. Indonesia is on the right track by securing 20% of the government budget for education as mandated by the Constitution. Dedicated works to improve the quality of teachers, schools, universities, research institutions and better connections with business entities and other users of education institutions must follow this peculiar commitment.

In addition to addressing the working ethics problem through education, developing countries may improve other initial conditions such as disadvantages of demography and geographical location; population heterogeneity in race, ethnicity and religions; low level of human capital and physical capital; and other unfavorable conditions through many innovative ways that usually overlooked by a conventional thinking framework. Learn from the Korean working ethics, hopefully, developing countries could find best ways to obtain better development achievements despite their initial conditions disadvantages. Here, Korea could utilize her official development aid (ODA) to assist developing countries to overcome their unfavorable initial conditions. Analyzing carefully specific disadvantages in a developing country, Korea then can help the country by offering the most appropriate capacity-building program. Specifically, in improving working ethics through education, Korea can utilize Korean companies in developing countries to initiate a number of collaboration programs with vocational schools and universities. Fellowships and internships in Korean companies are a golden opportunity for developing countries' workforce to encounter world-class corporate cultures and to gain experiences best practices in their industry. Secondly, developing countries must ameliorate the quality of institutions, socio-political circumstances and access to external resources. As an illustration in the quality of institutions, they need to dismantle depraved colonial legacies that persistently attached to the existing institutions. Afterwards, they must install better qualifications, in particular, civilian supremacy over military power, strong rule of law, and impartial law enforcement. However, those better institutions' attributes are not attractive options to choose especially if you are elites who have uncountable privileges and untouchable by the law. Indonesia has undertaken some major reforms to better their institutions such as military reform, bureaucracy reform, corruption eradication campaigns, and law reforms. Conversely, those reforms still need supports to push the implementation of the reform agendas as planned. Korea's ODA could support a better quality of institutions by doing many strategic programs. Korea would help developing countries by providing capacity-building programs to improve the quality of public officials and policymakers. Korea can design a program to involve not only the central government (federal) officials but also the local government officials. The officials are not only those who are dealing with economic affairs but also in the law enforcement field such as polices, prosecutors, judges, and other law enforcement related officials. In addition, Korea's ODA could invite members of the Parliament (MP) in the capacity-building program. In democratic-developing countries like Indonesia, the legislative branch has an undisputed power yet the capacity of the MP remains low. The core contents

and objectives of the capacity-building programs are to push reforms to improve the quality of institutions in developing countries and to achieve rapid-sustainable growth at the same time. Thirdly, developing countries must improve public policy innovations to win an international competition. Policy makers should have an outward-looking vision and willing to seek global opportunities. The public policy instruments shall reflect a country's readiness to support progress and innovation, especially in easing business barriers. There are challenges in designing public policy due to some regulations and agreements in the World Trade Organization (WTO). However, there are many opportunities to allowing policy instruments existence. Here Korea again may help developing countries by improving the capacity of public officials to develop better policy.

Fourthly, developing countries must overcome any socio-political problem within her country. A country could not focus on development efforts if she is busy with big problems at home. The last recommendation is that developing country should improve access to external resources. With limited capacity, a country could be a part of global value chain production activities. It is better for Indonesian businesses to join global value chains before having an ambitious project to develop a national product such as the airplane industry. Korea can assist developing countries by connecting them to Korean companies' global value chain.

5.1. Limitations

This research has the following two limitations:

1. The quantitative research approach is not utilized in this paper due to data and resources limitations.
2. This research could not reveal a causal effect relationship among variables namely determinants of growth acceleration and sustained-rapid growth in Korea.

Therefore, readers shall carefully consider conclusions and recommendations offered in this paper as preliminary and need further examination.

5.2. Future research

There are a number of future research themes and methodology as a follow-up from this paper that I am personally interested in. Based on the type of determinants that we are going to measure, there are two groups of research: research using original five determinants; research that is trying to find other important determinants. Utilizing the same determinants, researchers can conduct two types of future research: more thorough comparative study and a quantitative study approach. On the other hand, researchers that want to discover other determinants could use an elite interview, and public opinions survey methodology. The suggested future research details are as the following:

1. Field research in undertaking a more thorough comparative study. Since both Korea and Indonesia do not use English as an official language in education and research, literature in English is limited. Researchers need to elaborate bigger numbers of research papers on either Korean language or Bahasa Indonesia. In addition, many government policy papers and policy guidance are not translated into English as well. Furthermore, not all papers have been published on the Internet. Therefore, field research in Korea and Indonesia would be valuable to researchers. The following are types of data and documents needed to conduct a more thorough comparative study:
 - a. Written academic and policy papers either published or unpublished that covered the issue of public policy within the research period of time. It could be originated from wide ranges of sources such as universities, research centers, and government agencies. This is important to examine experts' analysis on development-related policy.
 - b. Written documents of official public policies related to economic development from government institutions in forms of laws, regulations, decrees, and other forms of regulations. This is important to examine the "de jure" or the written and official development-related policy.

- c. Written documents of policy instruments related to industrial policy including taxation, tariffs, banking, subsidies, grants, and other policy instruments. This is important to examine the “de jure” development-related policy.
 - d. Written documents in forms of reportage in leading national newspapers and magazines related to the implementation of public policy. This is important to examine the “de facto” or the actual development related policy that has been implemented.
 - e. Written documents in forms of official reports and reportage on legal matters such as disputes or court cases regarding the implementation of public policy. This is important to examine the “de facto” development policy.
 - f. Secondary data of socioeconomic in particular macroeconomic, microeconomic, businesses, and other related data in forms of censuses and surveys. This would be quantitative data that can be utilized in the research analysis. The data could be gathered from statistics bureau, government agencies and research centers. For some reasons, some official data are kept and not published online. However, usually, we can get access by following some procedures including visiting the physical offices.
2. Quantitative study approach. Obtaining more resources, a quantitative research is feasible. One appropriate technique is the interrupted time-series analysis (ITSA). This technique could measure the correlation between some policy interventions and the effects on some economic indicators. We can conduct ITSA on either a single group or multiple groups. By using the additional group as a control group, we improve the research design from non-experimental to be a quasi-experimental research design. The quantitative study approach will compliment this paper. The following independent variables:
- a. Initial conditions. Here, the independent variables are secondary school enrollment rate, savings rate, labor input, behavior, social culture, public attitudes and other relevant independent variables.
 - b. The quality of institutions. Here, the independent variables are policy measures, good governance, corruption, military roles in state affairs, and other relevant independent variables. There are some indexes that being published by several research centers and international organizations such Polity IV, Corruption Perception Index, and others.
 - a. Public policy innovations. Here, the independent variables are inflation rate, unemployment rate, foreign exchange rate, the balance of payment, export promotion, taxation policy and other relevant independent variables.
 - b. Socio-political circumstances. Here, the independent variables are the occurrence of political violence, freedom of the press, regime changes, the existence of powerful interest groups, and other relevant independent variables. There are some indexes that being published by several research centers and international organizations such Polity IV, Freedom Index, and others.
 - c. Access to external resources. Here, the independent variables are external shocks that influence political and economic conditions such as spills over of war, economic sudden changes to trading partners, and other relevant independent variables. Here I will examine any event that is believed to bring significant influence to the observed economy. In addition, Korea farsighted vision and outward looking behavior would be examined. There are global time series data contains major events that can be utilized to identify the presence of external conditions. We can connect the global data to events in Korea and Indonesia and then measure any possible impacts.
3. Discovering another important determinant of growth acceleration by using elite interviews. Hausman, Pritchett, and Rodrik (2005) suggest it is idiosyncratic or small-scale changes that influence growth accelerations. We suggest a future research hypothesis that Korea has more fortunate in idiosyncratic or small-scale changes; in particular, there are special events or changes that are believed to accelerate economic growth, compared to Indonesia. The absence of the idiosyncratic changes makes development in Korea more successful than in Indonesia. Here, the independent variables are specific policy measures, events and unexpected policy consequences that are believed by the elites have influenced economic performance in the respective country.

The independent variables could be obtained careful examinations in political and economic events in both countries. To examine this determinant, I suggest elite interview research methodology. Specifically, we need to conduct the following activities:

- a. In-depth interviews, in particular, a one-on-one interview to influential figures and key persons in the national development policies in the past. Here, the criteria would be including (but not limited to) former Presidents, Vice Presidents, Prime Ministers, Ministers in economic affairs, finance, industry, trade, and state-owned companies, Chairmen of leading parties, a powerful member of parliaments, advisers to the Presidents and Prime Ministers.
 - b. In-depth interviews, including individual (one-on-one) and group interviews (focus group discussion) to the current policymakers, prominent economists, academicians, members of business chambers and business people.
4. Public opinion survey. Researchers also can utilize public opinion survey methodology to obtain any undiscovered important determinants of growth determinants. Obtaining more resources especially funding availability, we are going to ask people opinions on what are determinants of growth acceleration in Korea. Considering a high penetration of Internet usage in Korea (more than 80% of the population), an online survey is the best alternative. However, we need a face-to-face interview in Indonesia since the Internet use is still very low. Technically, we can utilize some questionnaires and modify some other questionnaires that have been used for Korea's respondents for public opinion survey in Indonesia.
 5. New research methodology to reveal causal effect relationship and to support evidence-based policy formulation. Korea development experiences would be more valuable for developing countries by utilizing policy that scientifically has worked as planned. To measure whether a policy is working as a cause of a development effect, we need more sophisticated research methodology to unveil causal effect relationship. This approach would lead to the implementation of an evidence-based policy that can avoid massive policy failures.

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