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Institutional Change and Economic Growth: A Comparative Study of South Korea and the Philippines

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Abstract

Economic development is fundamentally shaped by the institutions that govern a nation, yet the mechanisms by which countries transition from poverty to prosperity remain complex. This study employs a mixed-methods approach, combining qualitative process tracing with Difference-in-Differences (DiD) analysis, to compare institutional evolution in South Korea and the Philippines from the 1960s to the present. Applying Acemoglu and Robinson's framework, the analysis reveals that South Korea's post-1987 transition to inclusive institutions facilitated sustained growth and reduced inequality. In contrast, the Philippines' extractive persistence—marked by crony monopolies and dynastic politics—has fostered economic stagnation. Brief comparisons with Indonesia and Vietnam highlight regional variations. The findings suggest that while state-led development is significant, its success depends on being embedded within inclusive systems to avoid elite capture. Furthermore, education investment is identified as a critical driver that reinforces institutional effectiveness. Ultimately, this study concludes that long-term prosperity requires the active construction of inclusive institutions, offering critical policy implications for developing nations aiming to implement FDI liberalization and anti-monopoly reforms.

Keywords: Inclusive institutions, Extractive institutions, Economic development, South Korea, Philippines, Indonesia, Vietnam, Institutional reforms

1. Introduction

1.1 Historical Background and Comparative Context

The 2024 Nobel Prize in Economic Sciences awarded to Daron Acemoglu, Simon Johnson, and James A. Robinson emphasizes that national prosperity depends not on geography or culture but on institutions—whether inclusive, distributing opportunities broadly, or extractive, concentrating resources among elites (Acemoglu, Johnson, & Robinson, 2024). This study applies this framework comparatively to South Korea and the Philippines, two nations with similar post-colonial starting points but vastly divergent economic paths. In the 1960s, the Philippines led South Korea in GDP per capita ($2,410 vs. $1,606 in 1961), boasting abundant natural resources and strong U.S. economic ties (World Bank, 2025a). However, by 2024, South Korea's GDP per capita had reached approximately $36,239, while the Philippines' stagnated at around $3,985, accompanied by persistent high inequality (Philippine Statistics Authority, 2025; World Bank, 2025a).

Vol. 2026 (9) 737 – 742
ISSN 2688-3651 [online]

1.2 Research Gap and Justification of Cases

While existing literature extensively covers the East Asian economic miracle, few studies quantitatively and qualitatively isolate the exact impact of institutional regime shifts on economic divergence between two specific nations with shared Cold War geopolitical contexts. South Korea and the Philippines serve as an ideal comparative pair for a "Most Different Systems Design" over time; despite differences in cultural and political histories, their shared starting baseline in the 1960s allows us to observe how differing institutional choices—inclusive democratization in Korea versus extractive entrenchment in the Philippines—acted as the primary variable for divergent growth. To enhance generalizability and provide a broader regional context, Indonesia ($4,925 in 2024) and Vietnam ($4,717 in 2024) are included as secondary comparative cases to illustrate alternative hybrid institutional models in East and Southeast Asia (World Bank, 2025a).

1.3 Research Objectives and Significance

The primary objective of this study is to examine the causal impact of institutional transitions on long-term economic growth by contrasting South Korea's post-1987 inclusive reforms with the Philippines' extractive persistence. Furthermore, this research aims to synthesize Acemoglu and Robinson's institutional theory with critiques of state-led development to provide a more nuanced understanding of economic progression. By highlighting the reinforcing role of human capital (education), the findings offer significant policy implications for developing nations seeking to navigate middle-income traps through institutional reform.

2. Theoretical Background

According to Acemoglu and Robinson (2012), inclusive institutions are defined as those that broadly distribute economic and political power, enabling the majority of the population to participate in economic activities and benefit from them. Specifically, inclusive economic institutions secure property rights, enforce contracts impartially, and provide public services that create a level playing field for investment and innovation. Inclusive political institutions are pluralistic and centralized, preventing any single group from monopolizing power. Extractive institutions, conversely, enable elite rents via exclusion. Inclusive systems promote growth; extractive ones promote stagnation (Acemoglu & Robinson, 2012).

However, critiques of this framework, notably from Ha-Joon Chang, argue that it oversimplifies development by prioritizing institutions over other factors like state-led industrial policy (Chang, 2011). Chang contends that many developed nations, including South Korea, acquired "inclusive" institutions after economic growth, not before, and that active state intervention was crucial in East Asian miracles (Chang, 2002). This study incorporates Chang's critique to clarify a crucial synthesis: South Korea's initial rapid growth was indeed driven by extractive, state-led industrial policy (e.g., chaebol support). However, we argue that the reason South Korea sustained its prosperity—unlike the Philippines—was its successful transition to inclusive institutions post-1987. State-led policy jumpstarted the economy, but inclusive institutions were necessary to prevent long-term corruption, dismantle monopolies, and ensure equitable, sustainable growth. Without these inclusive frameworks, state interventions inevitably become extractive elite capture, as seen during the Marcos era in the Philippines.

3. Methods

3.1 Qualitative Process Tracing and Coding Criteria

This qualitative-empirical study reviews official sources including Korea's Ministry of Economy and Finance and Bank of Korea (Bank of Korea, 2025; MOEF, 2013), and the Philippines' National Economic and Development Authority and Bangko Sentral ng Pilipinas (BSP, 2023; NEDA, 2023). Legislative reforms were systematically coded based on Acemoglu and Robinson's criteria: policies that dismantled monopolies, increased market competition, or secured broad property rights (e.g., Korea's Fair Trade Act) were coded as "Inclusive." Conversely, policies that

Vol. 2026 (9) 737 – 742
ISSN 2688-3651 [online]

restricted foreign investment, protected local oligopolies, or concentrated land ownership (e.g., the Philippines' 60/40 Constitutional rule) were coded as "Extractive." We mapped these policies against historical macroeconomic indicators (FDI inflows, GDP growth rates) to establish process-tracing links.

3.2 Quantitative DiD Analysis

To strengthen causal claims, a difference-in-differences (DiD) econometric approach is employed using panel data for both countries from 1961 to 2023 (World Bank, 2025b). The model estimates the impact of South Korea's post-1987 institutional reforms on GDP growth relative to the Philippines: $GDP\_growth = \beta 0 + \beta 1 Post1987 + \beta 2 Country + \beta 3 * (Post1987 \times Country) + \varepsilon$, where Post1987 is a dummy (1 if year > 1987), Country is 1 for South Korea and 0 for Philippines.

Additionally, to assess the role of education in inclusive institutions, correlation analysis was conducted using data from UNESCO and the World Bank (UNESCO, 2023), examining education expenditure, literacy rates, and tertiary enrollment against GDP per capita.

4. Results

4.1 Chronological Analysis of Institutions

South Korea

Inclusive Transition: Post-1960s, Korea's reforms built inclusivity: the 1980 Fair Trade Act reduced chaebol dominance; 1987 democratization enhanced participation.

Philippines

Extractive Persistence: Decrees under Marcos (1965-1986) granted cronies monopolies, and exports fell 70%. Post-1986, the 1987 Constitution's 60/40 rule limited FDI (Official Gazette, 1987).

As shown in Table 1, the chronological mapping of legislations demonstrates how Korea's anti-monopoly laws spurred innovation, whereas the Philippines' protectionist barriers hindered foreign capital, heavily impacting their respective growth trajectories.

The key pattern in Table 1 reveals that inclusive legislative shifts in Korea directly correlated with structural economic improvements, while extractive loopholes in the Philippines perpetuated poverty.

Table 1. Chronology of Key Legislations (Comparative).

Legislation	Year	Country	Category	Outcomes
Monopoly Regulation and Fair Trade Act	1980	Korea	Inclusive: Market Access	Reduced dominance; GDP growth 10%
1987 Constitution (Art. XII)	1987	Philippines	Extractive: Barriers	FDI halved; growth 4%
Labor Union Act Amendment	1989	Korea	Inclusive: Participation	Export surge; Gini decline
Comprehensive Agrarian Reform Law	1988	Philippines	Extractive: Loopholes	Incomplete; poverty 25%
Public Service Act Amendments	2022	Philippines	Inclusive: Liberalization	FDI increase 20%; partial reform

4.2 Industry-Specific Analysis

Agriculture/Land

Korea's reforms boosted capital; the Philippines' CARP failed (57% land elite-controlled) (Department of Agrarian Reform, 2022). In comparison, Indonesia's incomplete land reforms correlated with slower rural growth (FAO, 2006), while Vietnam's Doi Moi reforms in 1986 decollectivized land, boosting productivity (6-7% annual growth) (Quizon, 2018).

Vol. 2026 (9) 737 – 742
ISSN 2688-3651 [online]

Table 2. Policies by Stages (Comparative).

Period	Korea Policies	Outcomes	Philippines Policies	Outcomes
1960s-1970s	Export plans	10% growth	ISI/cronyism	3.5% growth
1980s-1990s	Democratization	FDI rise	60/40 rule	Inequality persist
2000s-Present	Digital reforms	4% avg.	Partial liberalization	Poverty 21%

As shown in Table 2, shifting policies by stages highlight that while both nations started with state interventions in the 1960s, Korea's later democratization allowed for FDI absorption, contrasting the Philippines' enduring inequality.

4.3 DiD and Macroeconomic Comparisons

Results yield an R-squared of 0.278. The interaction term β3 = -4.909 ($p < 0.001$) indicates that post-1987, South Korea's growth premium over the Philippines narrowed by approximately 4.9 percentage points. Robustness checks confirm the pattern, with an adjusted R-squared of 0.251 and an interaction of -4.312 (p=0.002).

As illustrated in Figure 1, the divergence in GDP per capita becomes starkly apparent. South Korea and the Philippines shared similar flat trajectories until the late 1970s. However, moving into the late 1980s, South Korea experiences an exponential upward curve concurrent with its democratic and institutional reforms, completely detaching from the stagnant trend lines of the Philippines, Indonesia, and Vietnam.

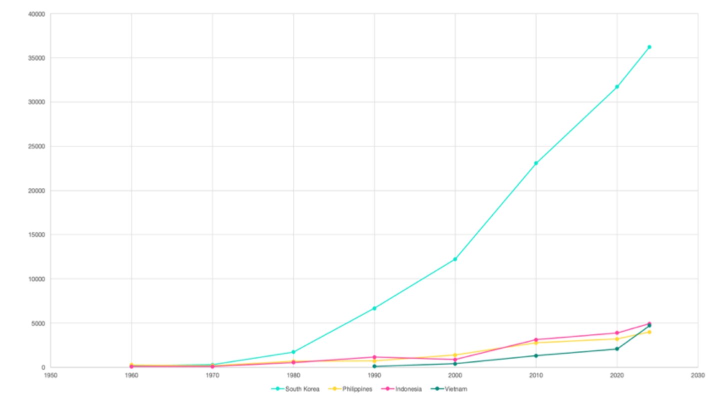

Figure 1. GDP per capita trends in South Korea, the Philippines, Indonesia, and Vietnam, 1961–2024 (World Bank, 2025b).

4.4 Human Capital Investment

As shown in Table 3, human capital metrics strongly favor South Korea, showcasing how institutional capacity allows for near-universal tertiary enrollment.

Table 3. Human Capital Investment and Outcomes.

Country	Edu. Expenditure (% GDP)	Literacy Rate (%)	Tertiary Enrollment (%)	GDP per Capita (2024 USD)
South Korea	4.9 (2021)	98.8	103.28	36,239
Philippines	3.6 (2023)	96.3	39.59	3,985
Indonesia	1.3 (2023)	96.0	42.63	4,925
Vietnam	2.9 (2022)	95.8	42.22	4,717

The data in Table 3 suggests that higher education expenditure is associated with stronger economic outcomes, a feature consistent with inclusive systems. Correlation analysis shows a strong association between tertiary enrollment and GDP per capita ($r = 0.999$); however, as this coefficient is derived from only four country-level observations, it should be interpreted as illustrative rather than statistically robust.

5. Discussion

The DiD interaction term (β3 = -4.909) reveals a narrowing of South Korea's growth premium post-1987. Rather than indicating failure, this reflects a natural maturation process: as Korea transitioned from an extractive, high-volatility developmental state to a mature, inclusive democracy, its explosive double-digit growth rates stabilized into sustainable, advanced-economy growth levels. Conversely, the Philippines occasionally posts higher recent quarterly GDP growth rates (e.g., 5.55% in 2023) due to a "catch-up effect" and post-pandemic bouncing, but its low baseline

Vol. 2026 (9) 737 – 742
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and persistent extractive barriers prevent this from translating into widespread wealth.

Integrating Chang's critique with Acemoglu and Robinson's theory provides the clearest picture: state intervention in Korea (e.g., chaebol support) was key to initial capital accumulation, but the establishment of inclusive institutions post-1987 provided the necessary safeguards to translate this into equitable growth. The Philippines lacked this transition, allowing early state interventions under Marcos to cement elite monopolies. Furthermore, the inclusion of Indonesia and Vietnam proves that institutional flexibility is critical regionally; Vietnam's hybrid model (extractive politics with inclusive economic land reforms) has yielded better poverty reduction than the Philippines' stalled democratic frameworks. Ultimately, education acts as the amplifier: inclusive institutions create the labor market structures necessary for a highly educated workforce to drive innovation.

6. Conclusion

South Korea's inclusive evolution drove prosperity; the Philippines' extractive persistence led to stagnation. Reforms like constitutional amendments and recent FDI liberalizations (e.g., 2022 Public Service Act) are needed. Specific recommendations for the Philippines include implementing anti-dynasty legislation to curb elite capture and adopting Korea-style FDI models for renewables. Nobel insights affirm institutional centrality, and this study concludes that while government-led initiatives can initiate growth, they must be rigorously pursued within inclusive institutional environments to foster innovation, reduce inequality, and ensure sustainable prosperity. Continued investments in education are vital to complement these inclusive policies and fully realize their economic benefits.

7. Research Limitations

While this study attempts a quantitative evaluation, it relies on a simplified DiD macro-model and secondary public data, which may carry inherent reporting biases. Single-region focus limits broader generalizability. Additionally, the correlation analysis presented in Section 4.4 ($r = 0.999$) is based on only four country-level data points; with such a small sample, extremely high correlation coefficients are common by chance and do not by themselves establish a robust or generalizable relationship. This result should be treated as a preliminary, descriptive observation rather than confirmatory evidence. Future studies should employ more robust micro-level regressions and broader global comparisons.

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Vol. 2026 (9) 737 – 742
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