

Università di Parma – 26-10-2017
*Emerged and emerging economies: the cases of South
Korea and Indonesia*

Vittorio Valli
Emeritus professor at Turin University

author of
The Economic Rise of Asia: Japan, South Korea and Indonesia (2017)
and of *The Economic Rise of China and India* (2015)
Accademia University Press, Turin

vittorio.valli@unito.it

South Korea and Indonesia: some similarities

- **A) Both countries suffered from *colonialism***
- **South Korea was under the domination of Japan up to 1945 and of the US from 1945 to 1948. It became independent on August 15 1948 under president Syngman Rhee.**
- **Indonesia was under the domination of colonial powers and finally of Netherlands since 1816, then of Japan in the 1942-45 years and again of Netherlands up to the independence gained in 1948-49 by Sukarno.**
- **B) Both countries had for several decades an *authoritarian and very repressive government*, passing since the late 1980s, or the late 1990s, to *democracy*.**
- **South Korea was under an authoritarian rule until 1987, then beginning its democratic period; while Indonesia has gained democracy since the end of the 1990s.**
- **However in the Rhee's and Park's periods there was in Korea a strong presence of the State and of the military in a capitalistic context, while in Indonesia in Sukarto's era there were some socialist elements and a neutral stance in international politics. However, In Suharto's years and in the democratic period there was a gradual expansion of the market economy with the continuation of a widespread presence of the State and the military in the economy.**

Main differences....

- Indonesia is a *much larger country* than South Korea both as regards population (about 255 versus 50 million people, i. e. more than 5 times) and territory (about 18.5 times that of South Korea).
- Naturally Indonesia has a larger GDP and internal market (about 1.5 times) (table 1)
- However, while till the beginning of the 1960s Indonesia had a higher per capita GDP than South Korea, in the 1960s South Korea surpassed Indonesia and in 2015 it had a per capita GDP about 3.3 times that of Indonesia (table 2).
- South Korea had thus a much higher rate of growth than Indonesia, but for the last 5-6 years.
- South Korea has had for most years a higher rise in education and in health; more industrialisation, innovation and research; less corruption; more easiness to do business; less inequalities than Indonesia. Indonesia had more natural resources and was a net exporter of energy sources and raw materials, while South Korea became a large net exporter of manufactured goods.
- South Korea was an emerging economy mainly in the 1960s and in the 1970s, and now is a fully emerged one; Indonesia is a large emerging economy.

Table 1. Selected indicators for world's major economies (2015)

Source: Conference Board (2016)

Ranking GDP	Country	Total GDP in PPP EKS (USA = 100)	Per capita GDP in PPP EKS (USA = 100)	Ranking per capita GDP	Population (millions)
1	China	108.7	25.6	11	1,369
2	USA	100.0	100.0	1	322
3	India	43.1	11.0	13	1,260
4	Japan	26.8	68.3	5	127
5	Germany	21.4	85.0	2	81
6	Russia	20.7	46.7	8	142
7	Brazil	17.7	27.6	10	207
8	<i>Indonesia</i>	<i>15.8</i>	<i>20.2</i>	<i>12</i>	<i>252</i>
9	U.K.	14.9	74.8	3	64
10	France	14.7	71.4	4	67
11	Mexico	12.4	32.7	9	122
12	Italy	12.1	62.9	7	62
13	<i>South Korea</i>	<i>10.3</i>	<i>67.5</i>	<i>6</i>	<i>49</i>

Table 2

Per capita GDP in PPP EKS. Source Conference Board (2016)

Years	South Korea		Indonesia
	Values in 2015 US \$	Ratio South Korea/Indonesia	Values in 2015 US \$
1953	1565	0.90	1742
1960	1791	0.92	1937
1970	3166	1.41	2262
1980	6009	1.68	3580
1990	12714	2.64	4814
2000	22135	3.58	6182
2010	32860	3.63	9055
2016 (p)	38534	3.29	11720

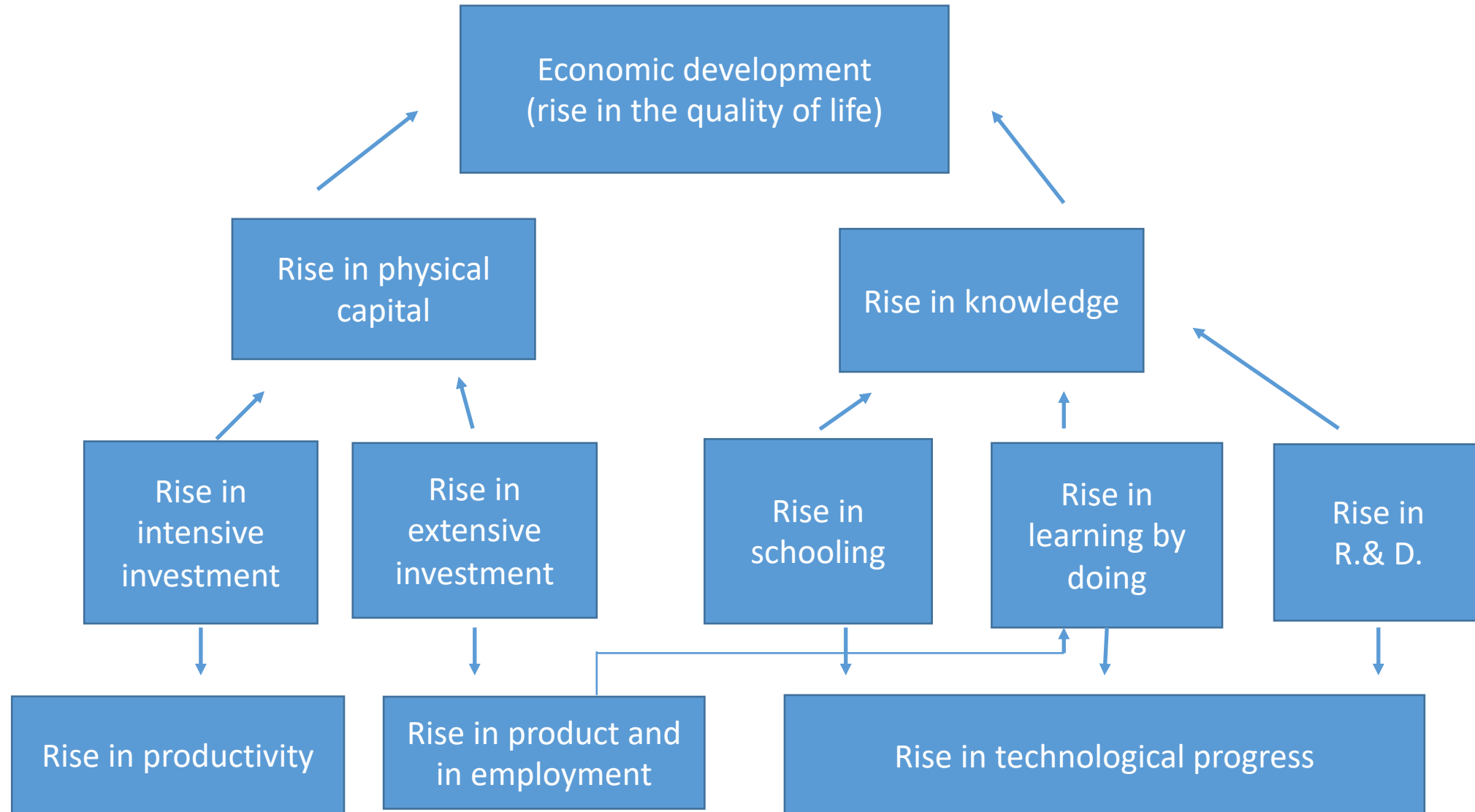
(p) Preliminary estimates

Table 3. South Korea and Indonesia: main phases of economic development

Annual average % rates of change. Sources: Conference Board (2016).

Phases: South Korea	Years	Real GDP	Real per capita GDP	Population
Authoritarian regimes	1953-87	7.8	5.7	2.1
More democratic regimes: the fordist years	1987-97	7.9	6.9	1.0
East Asian Financial and real crisis	1997-98	-5.4	-6.2	0.8
Recovery and expansion in a global context	1998-2007	6.0	5.5	0.5
Global financial and real crisis	2007-2009	1.8	1.5	0.3
Recovery and expansion	2009-2015	3.5	3.3	0.2
Phases: Indonesia	Years	Real GDP	Real per capita GDP	Population
Sukarno's era	1950-65	3.2	1.4	1.8
Suharto: fast economic growth	1965-97	6.3	4.2	2.1
Financial and real crisis	1997-99	-6.2	-7.8	1.6
Post-Suharto era: democratic regimes	1999-2015	5.5	4.2	1.3

A stylized development process



Different development paths

- **South Korea had a much faster growth rate than Indonesia from the 1960s up to 2010, surpassing at the beginning of the 1960s Indonesian level of per capita GDP and then widely increasing the gap.**
- **South Korea had lower income and wealth inequality thanks also to a wide agrarian reform sponsored by the US. Korea's families, also because of the mix of Confucian and Christian values in Korean' society, had a high propensity to massively invest in the education of their children and the State wisely supported their effort. In Indonesia education and health improved much more slowly and higher education was mainly accessed by the sons of middle-class and rich people engaged in the formal economy.**
- **The gap in knowledge increased very much since the 1960s also because of the extraordinary increase in R.&D and in the quality and quantity of learning by doing in South Korea, compared with the very low effort made in Indonesia (see Table 4).**
- **South Korea's industry grew much more rapidly exploiting to a higher degree Gerschenkron's advantages and a partial version of the Fordist- toyotist model of growth.**
- **Indonesia, being very rich in natural resources, made large investments in them and less in manufacturing activities and in services, where the modern sectors were dominated by the branches of foreign multinational.**

Table 4. Selected economic and social indicators

		South Korea	Indonesia
Annual % average rates of growth of real GDP	1980-2015	6.2	4.9
Annual % average rates of growth of per capita real GDP	1980-2015	5.4	3.3
Annual % average rates of growth of population	1980-2015	0.8	1.4
Gini Index on income distribution (2013)		0.30	0.41
Unemployment rate (%), 2015		3.6	6.2
Youth unemployment rate (%), 2015		9.2	17.8
Employment/ total population rate (%), 2015		52.8	45.5
Life expectancy at birth- 2015 (in years)		80.0	72.5
Basic HDI (Human Development Index): position in world ranking, 2014		17	110
Mean years of schooling, 2015.		11.8	7.6
PISA 2012 for quality in education. Rankings: math, reading, science.		3, 3, 5	64, 63, 64
R.&D. expenditure in % of GDP (2015 South Korea, 2013 Indonesia)		4.2	0.08

Conclusions

- **Presently South Korea is a much richer and technologically advanced country than Indonesia, but in recent years Indonesia has grown more rapidly, starting to reduce the gap.**
- **Indonesia, though gradually reducing the rate of growth of its population is benefiting from the “demographic bonus” and has a much younger population than South Korea and a much lower share of elder people. South Korea begins to experience the disadvantages of the rapid *ageing* of its population.**
- **Indonesia, having a larger internal market and a more rapid rate of growth in the demand for durable goods and modern services, can potentially exploit more the advantages of the fordist-toyotist model of growth and the catching up in productivity and technology.**
- **However the fact that most modern manufacturing sectors are dominated by foreign multinationals, that the investment in knowledge is so scarce, that the economy is heavily dependent on the export of raw materials and it is greatly increasing pollution, that income and wealth differentials are soaring, that the State is less efficient and more corrupt, all this may lead to growing economic and political difficulties.**