

INCOME INEQUALITY IN SOUTH KOREA

CHIANG Min-Hua

EAI Background Brief No. 1059

Date of Publication: 9 September 2015

Executive Summary

1. The Asian financial crisis in 1997 saw a worsening of income inequality in South Korea. Korea's market income-based gini coefficient increased progressively from 0.264 in 1997 to 0.307 in 2013. The relative poverty rate based on market income also surged from 8.7% to 14.5% during the same period.
2. Korea's National Tax Service data shows a more serious income inequality problem in the country. In 2011, 95.4% of taxpayers contributed 56.4% of the nation's taxable income, while another 43.6% of taxable income was made by only 4.6% of taxpayers.
3. The large number of layoffs and "labour flexibility" policy set by the International Monetary Fund after the crisis caused an expansion in poorly paid non-regular workers by 1.1 million between 1998 and 2002. During the same period, the number of regular workers with higher wages decreased by 0.42 million.
4. The greater number of non-regular workers improved unemployment rate from 6.8% in 1998 to 3.3% in 2002. It maintained between 3.1% to 3.7% from 2002 to 2014. Despite the improvement, the unemployment rate since 2002 has been higher than before the crisis (between 2.0% and 2.8% from 1990 to 1996).
5. China's growing importance in Korea's manufacturing production contributed much to the country's post-crisis economic growth. In 2013, 48% of Korea's manufacturing investment went to China. In the same year, of the 26% of Korean exports to China, 43% were electrical machinery and machinery.
6. Such an economic growth supported by growing overseas production cannot translate into job growth at home. While there is a growing share of manufacturing sectors in its gross domestic product, from 27% in 2003 to 31% in 2014, the share of domestic employment in manufacturing declined from 24% to 17%.

7. Korean chaebols in manufacturing benefited from relocating factories to China but the profit earned was not shared by the majority of domestic workers. In 2013, 91% of Korean workers were hired by companies with less than 299 employees compared to only 9% working in large companies with more than 300 employees.
8. Several initiatives have been taken to address the income inequality issue. In 2014, non-regular workers were paid 79% of the regular workers' average monthly wage, an improvement from 41% in 2008. However, the average monthly wages for employees of large companies (with more than 300 employees) were still double that of employees in small firms (with five to nine employees) in 2014.
9. Income inequality has not resulted in the Korean people's dissatisfaction with the government so far. Tackling the inequality issue will need long term efforts from both the government and society. In the short run, given the pressure from the slowing down of the global economy, the country may put more emphasis on stimulating economic growth.