Executive Summary

Data
Three datasets on wealth and status distribution in South Korea were analyzed: 2015 World Bank quintile and decile estimates of income, and International Labor Organization (ILO) income by occupation data for years 2017 and 2012.

Results
South Korea is on average a moderately risk acceptant nation, as measured by World Bank data showing income by individual, and ILO data showing income by occupation. According to the most recent ILO data, South Korea has increasingly become more risk acceptant.

Significance for Risk Taking and Stability
Today, South Korea is a stable, democratic nation. However, it has a checkered past of authoritarian rule and has experienced several military coups d'état. As a risk acceptant nation, generational divides and disparities in wealth are the most likely cleavages that can lead to political instability.

Implications for US Interests
President of Korea Moon Jae-in has promised several economic reforms and diplomatic engagements with North Korea. Given the impeachment of President Moon’s predecessor, President Park Geun-hye, the success of the current administration and stable governance in South Korea is crucial to US-led negotiations with the DPRK. Latent societal inequality that can increase during a financial crisis/natural disaster/conflict etc. could threaten President Moon’s democratic mandate and ability to govern and is subsequently of significant concern to the US.

Implications for China’s Interests
Moderate regional tensions across the Korean Peninsula are favorable for China as it maintains the status quo balance of power and influence. Social cleavages in South Korea that can contribute to a degree of weakness in South Korea is correspondingly also favorable. Any monumental socio-political events in South Korea that can exacerbate inequality will also likely lead to severe instability dyadically with the DPRK however, would not be favorable for Beijing.

Implications for Russia’s Interests
Russia similarly has interest in South Korean instability insofar as it can reverse US influence and military presence. Social cleavages and inequality than can cultivate a dimension of instability that would lead to anti-Western sentiment is advantageous to Russian interests. However, high degrees of South Korean risk-acceptance have the potential to several destabilize the Korean peninsula to a point that would embroil Russian interests Barrng the potential for such a scenario, South Korean stability is more advantageous to Russian interests.
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Introduction

This is a summary report on inequality in South Korea compiled as part of the Aggrieved Populations project conducted in support of the 2019 Strategic Multilayer Assessment (SMA) Future of Great Power Competition and Conflict project conducted for the JS-J39.

This report provides background on why the country was chosen, relevant historical background, literature review concerning inequality in the country, synopses of empirical data sources and analyses, and a concluding section that summarizes the findings. It is not intended to provide a comprehensive analysis of inequality and grievance in the country, but to place the empirical analyses conducted on this country in their social and political context and to highlight interesting cases of inequality pertinent to risk acceptance and great power competition. The analyses focus on the measurement of population risk sensitivity as a function of measured inequality using the Arrow-Pratt measure of risk aversion, whose positive values indicate risk aversion and negative values indicate risk acceptance. Studies have shown that risk acceptance is associated with social unrest, terrorism, and other forms of social disruption (Kuznar 2007; 2019). The full explanation of the underlying method and theory is presented in the summary report, Inequality, Risk Sensitivity and Grievance in Context: Summary of Aggrieved Populations Country Reports, submitted as part of this SMA project. This report is intended to be supporting material to that report and presumes familiarity with it.

In order to create an inclusive and more representative set of countries, an effort was made to analyze countries from each major region of the world (Africa, Central Asia, East Asia, Europe, Latin America, the Middle East, North America, South Asia).

Why South Korea?

South Korea was chosen for three reasons: 1) It is a vital US ally in the Asia Pacific, 2) South Korea’s capitalist economy is a historical success in the region, 3) its economic and political stability is of strategic importance to US interests.

Great Power Interests in South Korea

South Korea’s history through WWII, the Korean War, the Cold War and now in the modern nuclear crisis with the DPRK position both Seoul and Pyongyang as crucial hotspots of geostrategic great power competition. As both the DPRK and South Korea are both technically at war with one another, there is significant risk of conventional and nuclear war that threatens to embroil the region and the great world powers into war. Despite the promise of de-escalation that arose during the 2018 Singapore summit, a year later a similar summit in Hanoi, Vietnam failed to produce progress of North Korea denuclearization (Manyin et al., 2019). Given Seoul’s dyadic role in this cold nuclear conflict, South Korea is of pivotal consequence to not only the Korean Peninsula, but in the extensive great power interests in multilateral peace talks and across the peninsula as a whole.

As an enduring ally through the Korean and Cold War, South Korea is home to approximately 28,500 US troops that are also under the US “nuclear umbrella,” where there is a mutual agreement of extended deterrence between the US and South Korea; furthermore, Seoul is one of Washington’s “most important strategic and economic partners in Asia” (Manyin et al., 2014). South Korean President Moon, as a progressive candidate, favors engaging Pyongyang diplomatically; this was evidenced by public
declarations on his intention to “inherit the engagement-based, inducements-oriented Sunshine Policy approach of Korea’s” prior progressive Presidents (Straub, 2017). Moon’s approach has sometimes conflicted with the policy under the Trump administration that has often returned threats of nuclear provocation to the Kim regime, and consequently, both the Trump and Moon administrations have not been perfectly in-sync on DPRK related policy (Botto & Min Lee, 2018). Seoul also has a free trade agreement with Washington and is the US’s seventh-largest trading partner; conversely, the US is the second-largest trading partner to South Korea (following China). Despite whatever policy friction exists over North Korea, both South Korea and the US are close allies, and the US has significant strategic and economic leverage over Seoul. It may also be advantageous for the US to support the continuing democratic and economic success that South Korea has enjoyed over the past few decades, and to continue a relationship that offers the US a strong ideological, geo-political, economic, and strategic foothold within the region.

China’s interests in South Korea have historically been to support the status quo and maintain North Korea as buffer to the western/capitalist influence. Competition between the US and China and conflict with the DPRK has consistently pushed Seoul further to the US camp despite Seoul’s efforts to pursue good relations with both nations. Kim (2017) illustrates this dynamic by noting how the deployment of the US THAAD missile defense system to South Korea resulted in deteriorating relations between South Korea and China. US military encroachment in the Korean peninsula is a preeminent concern for Beijing; correspondingly, so is an unmitigated collapse of the Kim regime that would create a power vacuum in an important buffer state. Despite this, President Xi Jinping has taken a softer approach to South Korean relations, preferring multilateral, peaceful diplomatic engagement vis-à-vis the Korean nuclear dilemma even if this entails putting pressure on his North Korean ally. Economically, South Korea is an important trading partner, and Beijing has tremendous economic leverage over many sectors of the South Korean economy (Ferrier, 2017a). China has previously exercised informal sanctions (via tourism) over the deployment of the THAAD missile defense system, and this is of particular concern to President Moon who campaigned on numerous economic reforms.

Russia seeks to play a diplomatically active role in the Korean Peninsula, while simultaneously advancing its own interests of mitigating US and Chinese influence. President Vladimir Putin has publicly supported denuclearization in the peninsula, and has supported the Kim regime’s plan of a “phased process involving confidence-building measures with the United States” (Snyder, 2019). Conversely, Moscow has failed to enforce sanctions, while also seeking to expand LNG infrastructure through North Korea and into South Korea via Moscow’s state-owned enterprise (SOE), Gazprom. The Moon administration is also interested in pursuing economic cooperation with Russia through other infrastructure projects, including the possibility of expanding the trans-Siberian railroad into the Korean peninsula, construction of fisheries in Eastern Russian ports and other maritime infrastructure and shipbuilding deals (Voloshchak, 2019).

**Literature Review on Inequality in South Korea**

Internally, South Korea struggled to form a stable democracy for almost 30 years following the 1953 Korean armistice; however, beginning in the 1990’s Seoul has enjoyed “regular rotations of power and robust political pluralism” (Freedom House, 2017). Through this transition and in the 1990’s Asian financial crisis, “labor emerged as a major political force” (Seth, 2017), and the current President Moon has focused

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1 Where at a keynote speech in 2017, Vladivostok Russia, President Moon detailed his “Nine Bridges” initiative that expands the official Moon administration’s “New Northern Policy” (Voloshchak, 2019).
much of his economic policies to combat inequality and has enacted several reforms such as increasing the minimum wage, and decreased the amount of legal working hours (C. Kim & Yang, 2018). South Korea has a very large economy with a per capita GDP on par with Western countries, which developed rapidly over the last two decades. Inequality has had significant effects on socio-political dynamics and contributed to the aforementioned labor movement in the 1990’s; furthermore, income inequality in South Korea is “among the worst in OECD countries,” and remains a significant obstacle for the Moon administration (Hyun-woong & Jun-ho, 2018).

South Korea has undergone numerous, far-reaching structural reforms throughout its post-war history that were often accompanied by highly contentious politics, and even military coups d’état in 1979-1980. Inequality was especially prominent in South Korean politics during the regime of General Park Chung Hee, who was in power from 1961-1979, and pursued a policy of “growth-first, distribution and stability later” (Jeon, 1995). This has echoed into contemporary South Korean politics when Park’s daughter, Park Geun-hye, became president in 2012 only to resign after mass protests occurred after corruption scandals (Kanchoochat, 2019). Despite the various episodes of political instability, the South Korean economy has continued to succeed and prosper and the Gini coefficient of South Korea has significantly decreased from its 1970’s-1990’s values of 40-45% (Solt, 2009) to being consistently between 30-35% over the past two decades.

South Korean inequality (albeit with data gathered from 2000-2007), is consistent with developed countries even when considering wealth concentration vs income concentration; where “wealth concentration in South Korea was lower than Anglo-Saxon countries but somewhat higher than European continental countries such as France, falling in the middle of these two groups” (N. N. Kim, 2018). A recently published IMF report (2018) lists several explanations for South Korean inequality, namely:

- Survey data found “in 2014 around 17.6% of overall inequality among salaried employed could be explained by inequality between regular and temporary workers.” This can be linked to the informal economy of South Korea.
- Labor polarization has occurred in the period from 2009-2016, as employment shares moved from medium to low-wage occupations.
- The IMF defines labor market duality, where “regular tier workers enjoy high wages and social benefits—such as unemployment insurance and pensions—and have a high degree of job security” and the “the non-regular tier workers tend to receive lower wages, are less likely to be covered by social benefits and have lower levels of job security.” Women, the youth and the elderly disproportionately account for these “non-regular” tier positions:
  - 40% of regular workers were women, they held 55% of temporary and more than 70% of part-time contracts. Youth and the elderly only held about 23% of regular jobs, but 43% of non-permanent and 56% of part-time employment.”

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2 This is on contrast to the other comparable Tiger economies of Taiwan and Singapore, where Kanchoochat writes that “Taiwan has pursued a gradual process of political opening in which competing groups of elite reached an agreement. A distinctive trajectory of continuous consolidation is found in Singapore, whereby interests and ideologies among the ruling party, key government agencies and the middle class have been readjusted periodically to maintain their symbiotic relationship” (2019).
Country-Level Measures of Inequality in South Korea

South Korea was initially assessed with a collection of country-level metrics. These metrics provide measures of the country’s inequality compared to other nations, inequality within the country, social conditions that may be consequences of that inequality, and the prognosis for stability in the future. Reference source not found.

South Korea is a wealthy, developed nation. Its national per capita GDP is $29,938, placing it in the highest quintile of countries, with a comparably favorable Human Development Index score (IHDI). South Korea’s inequality is moderately average among OECD nations and on par with developed economies. South Korea ranks poorer than expected in terms of the size of its informal economy, reflecting the inability of the poorer classes of society and such groups as the youth, elderly and women of South Korea to obtain steady and secure employment. Despite the turbulent political history of South Korea, it is operating under a viable and fair democracy, and is ranked as a stable country.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Value</th>
<th>Rank</th>
<th>Source</th>
</tr>
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<tr>
<td>Inequality Compared to Other Nations</td>
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<td></td>
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<tr>
<td>Per Capita GDP 2018</td>
<td>$29,938</td>
<td>28 of 187</td>
<td>WB</td>
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<tr>
<td>Country Measures of Inequality</td>
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<td></td>
<td></td>
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<td>Inequality-adjusted Human Development Index (IHDI) 2018</td>
<td>0.773</td>
<td>29 of 151</td>
<td>UN</td>
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<td>Gini Coefficient</td>
<td>35.7%</td>
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<td>WB</td>
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<tr>
<td>Informal Employment as % of Total Employment</td>
<td>31.5%</td>
<td>77 of 112</td>
<td>ILO</td>
</tr>
<tr>
<td>Measures of State Instability</td>
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<td></td>
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<td>Fragile States Index</td>
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<td>Terrorism Index</td>
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<td>112 of 160</td>
<td>IEP</td>
</tr>
<tr>
<td>Probability of Mass Killing</td>
<td>0.003</td>
<td>111 of 161</td>
<td>EWP</td>
</tr>
<tr>
<td>Risk Sensitivity</td>
<td>-4.22</td>
<td>65 of 158</td>
<td>This Study</td>
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</tbody>
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- The Inequality-adjusted Human Development Index (IHDI) is a UN measure of well-being and is a scale based on per capita GDP, life expectancy and education levels of the population.
- The Fragile States Index is based on twelve conflict risk that include security apparatus, factionalized elites, group grievance, economy, economic inequality, human flight and brain drain, public services, state legitimacy, human rights and rule of law, demographic pressure, refugees and IDPs, and external interventions. The potential range of the index is zero (no fragility to 120 total fragility).
- The Terrorism Index scores each country on a scale from 0 to 10; where 0 represents no impact from terrorism and 10 represents the highest measurable impact of terrorism.

Prognosis for Change to 2029

In light of the numerous political and economic crises that South Korea has faced in the past few decades, and largely overcome, the outlook for Seoul to 2029 is positive, but with a high degree of uncertainty. The normal concerns of governing a developed economy are severely compounded with the threat of escalating conflict with the DPRK, and managing such uncertainty is a chief concern for every South Korean political leader. Furthermore, President Moon inherited a precarious office whose predecessor
was impeached and dismissed over corruption scandals. Moon campaigned on an open policy of engagement with North Korea that was tested numerous times with the Trump administration. As Moon saw very high approval ratings for his first year in office following the Singapore summit at 83%, his economic policies a year after the Singapore summit have largely disappointed South Korea and left him with a recent March 2019 approval rating of only 43% (Lee, 2019).

Moon’s economic policies have been centered on three pillars that serve to address economic inequality and the large number of irregular workers: 1) “job creation led by the public sector, 2) expansion of the social safety net with a particular focus on unemployed youth and retirees, and 3) the reform of large multinational Korean corporations known as chaebol” (Ferrier, 2017b). These reforms have failed to produce enough of the promised results while simultaneously cultivating disappointment in the electorate, and businesses are struggling to cope with the minimum wage increase and other taxes. Despite this, Moon has remained steadfast in his economic positions (Lee, 2019), while at the same time denuclearization talks with North Korea have faltered and the Moon administration has lost significant backing. While South Korean presidents are elected for a five-year term—without possibility of re-election—the lack of faith in the current administration incurs political uncertainty with respect to international relations and credibility in global economic relations, both of which South Korea would like to avoid.
Empirical Data on Inequality in South Korea

Dataset 1: 2012 South Korea World Bank Quintile Data

The World Bank provides data on lowest and highest decile, and quintiles of percentage of income or consumption.\(^3\) These data are used to calculate their Gini coefficients. While not exactly measuring the actual income, the percentage of overall income provides an approximation. This South Korean data was gathered in 2012. Error! Reference source not found. presents the original data and the fitted distribution curve from which the Arrow-Pratt risk sensitivity measures will be derived, as well as the Arrow-Pratt measures of risk sensitivity.

![Graph showing distribution of income in South Korea with associated risk sensitivity](image)

Figure 1: Distribution of Income, World Bank Quintiles South Korea 2015 and associated Risk Sensitivity.

**Summary Dataset 1: 2017 South Korea World Bank Quintile Data**

This mean Arrow-Pratt score of -4.22 suggests a risk loving population overall. The lower classes of society are risk acceptant and the upper classes are highly risk acceptant, and the middle sectors of society are risk adverse. The very risk-acceptant, high classes of society reflect the “Tiger” economy of South Korea and their “dynamic private sector, bolstered by a well-educated, hard-working labor force” (Freedom House, 2017).

\(^3\) Data drawn from: http://wdi.worldbank.org/table/1.3
Summary Dataset 2: ILO South Korea 2017 Income by Occupation

The overall mean Arrow-Pratt score based on ILO occupational income data is low, -5.22, indicating a high level of risk acceptance overall when data are aggregated by occupation. Lower income occupations such as services and agriculture are risk averse, and most risk acceptant are highly paid technicians and professionals, followed by the highest income occupations such as managers. This represented a massive shift from 2011, when the population was nearly risk neutral; such change can be linked to economic policies favoring economic growth and the South Korean economy recovering from the earlier global recession in 2008-2009.
Dataset 3: ILO South Korea 2011 Income by Occupation

![Graphs showing ILO South Korea 2012 Income by Occupation and associated Risk Sensitivity](image)

**Figure 3. ILO South Korea 2011 Income by Occupation and associated Risk Sensitivity**

*Summary Dataset 3: ILO South Korea 2011 Income by Occupation*

With a mean Arrow-Pratt score of 0.06, this dataset indicates that South Korea is on average risk neutral, presenting a balance of craftsmen and machine operators as the highly risk adverse, and managers and professionals being almost equally risk acceptant. There is also a very linear increase in income by occupation that is similar to the UK and that indicates relative low inequality by this data.
Findings on Inequality in South Korea

Relevance to Instability and Social Cleavages
The most prominent social cleavages exist in economic terms, and politically by generational divides; beyond this, the society is mostly homogenous and not prone to instability, making South Korea a stable country. Beyond the possibility of economic crisis, a unified Korea is the only likely scenario that would severely disrupt Korean society. Notwithstanding this, social divides that exist in wealth and employment divisions are present in South Korea and present potential societal cleavages. If the Korean economy and social mobility continues to not improve under the Moon administration, these cleavages could intensify, particularly if a catalyst such as corruption scandals (as occurred during the previous Park Geun-hye administration) or increased hostilities with the DPRK occurs. Evidence of such a shift toward a more unequal and risk acceptant population is the shift from risk neutrality to risk acceptance from 2011 to 2017 using the ILO income by occupation data.

Opportunities and Pitfalls for the US and Adversaries
The US has a strong interest in the stability of South Korea, particularly given the tense strategic environment of the Korean peninsula following the post-Singapore Summit Korean peninsula and the slow and uncertain progress in denuclearization talks. The public’s confidence in the Moon administration is thus understandably crucial to US interests in South Korea and across the region. Political turmoil brought on any number of factors (e.g., corruption scandals, economic discontent, frustration with DPRK peace talks etc.) has the potential to compound and/or catalyze both societal cleavages, and the risk acceptant nature of South Korean society. Such a scenario will at the very least create tremendous amounts of instability and will result in the US losing a pivotal and stable ally to chaos at a very consequential moment in time.

China
The US, China, and Russia have a strong interest in stability in South Korea, with Washington having the strongest interest, Moscow being more ambivalent and Beijing being the least friendly to the political stability of Seoul. The primary mover for all three countries is the potential for nuclear conflict across the Korean peninsula, and no great power seeks a scenario for an unstable Seoul. China however, is perhaps the only actor positioned to benefit from social cleavages intensifying in South Korea, however previous NSI, Inc. work on strategic outcomes in the Korean peninsula noted that China’s “interests are better served by moderate regional tension (as in the pre-summit status quo) than by a US, or South Korean-brokered denuclearization plan” (Astorino-Courtois, 2018). A precipitous increase in South Korean political instability may present the opportunity for China to increase influence in Seoul, however the broader implications with respect to the DPRK nuclear crisis, and the potential for a severe US response to encroachment, make this scenario undesirable for Beijing. China’s interests in the increasingly risk acceptant nature of South Korea are thereby ambivalent, and Beijing has reason to favor moderate insecurity in South Korea and be weary of run-away instability. China can however, appeal to the younger generation that has had to contend with fierce economic competition and unemployment by pushing pro-Chinese Communist Party propaganda that diminishes the reputation of the US.

4 Sun-Young (2011) explains that the “386 generation” that are in positions of power currently (being born in the 1960’s and attended university in the 1980’s) toppled the military dictatorships of the 1980’s, “spent most of their youth fighting for democracy under authoritarian rule and a shared generational experience and culture from the Korean War generation.” The younger generation in contrast, has enjoyed much more political stability but struggle significantly with unemployment and “fierce competition,” signifying that both generations differ on what is important to them politically.
Russia
Russia is seeking increased economic cooperation across the Korean Peninsula, and is also seeking to contribute to a cessation of hostilities between North and South Korea. Russia is also least among the great powers in terms amount of economic and political leverage over Seoul, and is thus (relative to China or the US) unable to take advantage of the risk acceptant shift in South Korean society. Russia can however seek to take advantage of social cleavages and risk acceptance to push anti-US narratives to South Korean society.
References


