

Global Economics Monthly

VOLUME I | ISSUE 10 | DECEMBER 2012

Gangnam's Pile

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In Washington you can generally tell it is time to pay attention to an issue when it makes the cover of the *Economist*. The magazine's October 13 edition ran a special feature on income inequality, focusing on the damage it can do not only to social stability but to economic growth. Indeed, inequality has become a potent political issue in the many Asia-Pacific countries undergoing leadership transitions in late 2012, including the United States, China, and—most pointedly—South Korea, which held its presidential election on December 19.

Both major candidates in the Korean election made “economic democratization” a centerpiece of their campaign. While a precise definition of the term has been elusive, it boils down to ensuring that economic prosperity is shared across all strata of society. During the campaign, President-elect Park Geun-hye focused her sights on Korea's *chaebol* conglomerates as the principal culprits behind the widening gap between the rich and the rest. As a way of distancing herself from the unpopular policies of outgoing President Lee Myung-bak, Park's attack on the *chaebol* made sense; but as an effective solution to inequality, it is at best incomplete.

South Korea is a poster child for Asia's miraculous growth over the past several decades. It has grown from a poor, war-torn economy half a century ago to the newest member of the “20-50” club—i.e., countries that have GDP per capita above \$20,000 and a population in excess of 50 million. The country's quick rebound from the global financial crisis—it posted the second-fastest rate of growth among OECD countries in 2010—is a testament to its resilience.

But less discussed is the fact that Korea's “Gini coefficient” has also crept up to OECD (Organization for Economic Cooperation and Development) averages. This common measure of income inequality, in which a reading of zero represents perfect equality and 1 perfect inequality, has risen steadily in Korea over the past two decades and is now more than 0.3. For a country with an excellent record of balancing equality and growth during its initial development stage, the widening income gap has become a source of concern for Korean politicians and citizens alike.

Coincident with the rise in income inequality has been the growing economic power of *chaebol* such as Samsung, Hyundai, and SK, whose diverse business interests range from steelmaking to retailing. Following a decade in which their revenues grew faster than the Korean economy, the top ten *chaebol* accounted for nearly 80 percent of the country's GDP by 2011. Negative sentiment toward the massive family-owned conglomerates has been growing among marginalized small and medium-sized enterprises (SMEs), whose employees receive much less attractive compensation packages than their *chaebol* counterparts. The latter represent only 6 percent of Korea's labor force but receive a disproportionate share of employment income.

This is not the first time that the *chaebol* have been at the center of controversy in Korea. In the late 1990s, they were widely viewed as responsible for dragging the country into the Asian financial crisis. Ten years prior to the crisis, the *chaebol* fueled their diverse businesses with an explosion of short-term debt, encouraged by easy access to government loans and protection from foreign competition. This financing model was sustainable until market demand slowed in the mid-1990s, and the big firms had to delay some of their loan repayments. When the financial crisis hit in 1997, the *chaebol* were forced by circum-



Upcoming Events

- December 20: Results and Impact of the 2012 Korean Presidential Elections (CSIS)
- December 21: Mayan Liberation Day
- January 21: U.S. Inauguration Day
- January 29: CSIS Asia Conference (CSIS)
- February 25: Korean Inauguration Day

Gangnam's Pile *(continued)*

stance and government fiat to take more drastic steps: exiting non-core businesses, increasing transparency of their underperforming subsidiaries, and limiting cross-shareholding in related businesses.

Reforms helped improve *chaebol* efficiency and ushered in a new phase of growth but were incomplete, and the gains from growth have been increasingly concentrated. In response, President-elect Park called during the campaign for new reforms—including restricting industrial groups' ability to own financial institutions—but once again these are more likely to enhance efficiency than inclusivity. To be sure, reining in *chaebol* privileges and creating more competitive markets and a level playing field will allow space for SMEs to expand and should foster more inclusive growth. However, if the new administration in Seoul is serious about reversing the upward trend in the Gini coefficient, other sources of inequality will also need to be addressed.

One area ripe for reform is the education system. Expensive after-school tutoring programs—seen as necessary to survive Korea's "exam hell"—and high university fees restrict the access of disadvantaged children to quality higher education. This translates directly into uneven employment opportunities and income levels as well as large debt burdens on families. Widening access to early child care, after-school programs, and student loans would help address these problems.

But issues for students go beyond the classroom: youth unemployment stands at upwards of 20 percent. Of those who are employed, a large proportion are not able to secure stable full-time jobs, making them part of the growing proportion

of "non-regular" workers in Korea's labor force. The cost and difficulty of laying off regular workers have led corporations to rely increasingly on non-regulars—those employed part-time or on short-term contracts. These workers now make up a third of the labor force but receive on average 57 percent of regular workers' hourly wages and rarely enjoy corporate benefits. Youths are not the only demographic disproportionately represented; the elderly, women, and the undereducated are also less likely to find regular employment. Expanding employment security for these workers while allowing more flexibility in the handling of their "regular" counterparts would help improve employment and income opportunities for less-advantaged workers and be another step toward a more equal society.

President-elect Park will face high expectations from the electorate to follow through on her promises to bring the *chaebol* down to size. However, success in this regard is a necessary but not sufficient condition for satisfying the broader desire for more inclusive growth in Korea. To reverse the country's widening income gap, the new administration in Seoul will also need to do more to enhance social mobility through meaningful education and labor market reform. ■

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Simon Says...

Most of the millions of YouTube viewers of Korean pop singer PSY's explosive hit "Gangnam Style" are probably unaware that the song is a parody of Korea's rising income inequality. It pokes fun at the lavish lifestyles in Seoul's wealthiest district, Gangnam, a 15-square-mile area in the south of the city that accounts for a whopping 7 percent of Korea's GDP. Land value in this district is roughly three times the national average, making it notionally equivalent in value to the whole of Busan, Korea's second-largest city.

In one scene in the music video, the singer seems to be tanning on a beach, but when the camera zooms out, it shows that he is

actually in a parking lot. While this is meant to ridicule people of more modest incomes who aspire to the Gangnam lifestyle, the fact is that most residents of the ritzy district can easily afford a real beach vacation. Gangnam is a preferred address for the elite executives that run Samsung, Hyundai, and other *chaebol* conglomerates and their well-educated offspring. With only 1 percent of the country's population, the district represents 6 percent of the students at elite Seoul National University.

Right after her inauguration in February, President Park might do well to saddle up and gallop into Gangnam to kick off her "economic democratization" efforts there....