

**INCOME INEQUALITY AND DEVELOPMENT IN EAST ASIA:
A CASE STUDY OF SOUTH KOREA AND TAIWAN**

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Abstract

This research explores the influence of globalization on income inequality in East Asia, with a specific focus on South Korea and Taiwan. Despite their similar development trajectories, these two countries have diverged in their levels of income inequality from 1980 to 2022. The research question seeks to understand why this disparity exists. Through the examination of the qualitative case studies of South Korea and Taiwan, this study aims to identify the contributing factors to income inequality in these countries. Preliminary analysis suggests that responses to global issues, industrial structures, and government interventions may play crucial roles in shaping inequality levels. By examining the top income shares of the top 1% earners in South Korea and Taiwan, this study aims to provide a deeper understanding of the economic disparities in these countries. The results highlight that the economic focus and priorities of these countries have the largest influence on income inequality, and this is largely motivated by national security considerations. The findings have important implications for policymakers and economists in promoting sustainable and equitable economic growth in countries that have similar development trajectories as South Korea and Taiwan.

I. Introduction

Throughout the era of globalization and global development, East Asian countries have proven themselves to be economic powerhouses, as they experienced rapid levels of growth and economic expansion in a remarkably short amount of time. These countries have capitalized on economic strategies in order to lead to significant increases in GDP, employment, and economic growth. However, despite these impressive advancements, income inequality still remains a persistent issue in this region. As East Asian countries continue to evolve and become more

integrated with the international economic community, it becomes increasingly important to investigate facets of their economy and address disparities that affect their economy.

South Korea and Taiwan present two interesting cases of inequality. Both share similar development trajectories including democratization and globalization, yet their levels of inequality diverged around the 1990s and continued to grow, with Taiwan's income inequality growing more rapidly compared to Korea's. This presents a new puzzle regarding the growth of inequality in Taiwan compared to other countries with similar development trajectories.

This research aims to investigate the influence of globalization and the factors that contribute to income inequality in East Asia. This study will utilize a combination of qualitative case studies from South Korea and Taiwan to explore how globalization interacts with these countries to impact income inequality levels. Therefore, the research question is as follows: Why does inequality vary across countries with similar development trajectories? South Korea and Taiwan have experienced similar development patterns, yet the levels of income inequality significantly separate. This research aims to answer the puzzle as to why this divergence occurs.

Based on preliminary analysis there are several possible explanations for the divergence in income inequality between South Korea and Taiwan. This can include different responses to global issues, variations in industrial structures, and disparities in social welfare policies and forms of government intervention when distributing income and wealth. Both Taiwan and South Korea have faced similar challenges during the time period of 1980-2022, such as overcoming colonialism, diversifying economies, and democratization. South Korea and Taiwan also experienced national security threats from North Korea and China respectively, yet their economies reacted differently. The hypothesis is that the institutional changes in response to the national security threats had the greatest impact on the levels of inequality. This hypothesis is

supported by the significance that these national security threats have imposed on these countries and their implications on economic policies and priorities. To validate this hypothesis, further empirical analysis will be employed.

This research focuses on two different forms of economic inequality: income and wealth. Income inequality refers to the unequal distribution of income and wages within an economy while wealth inequality refers to the unequal distribution of assets and net worth.¹ Both metrics are essential for assessing the state of an economy, but they offer distinct perspectives. Income inequality is useful for evaluating the current condition of the labor market dynamics because it addresses the direct disparities in wages, salaries, and other sources of income. On the other hand, wealth inequality measures accumulated assets, including property, investments, savings, etc. that may have been accumulated over a period of time. By addressing both forms of inequality, this research aims to provide a more indepth and thorough analysis of inequality in these two countries.

The Gini index is one of the most commonly used metrics to quantify and measure inequality. However, this research will focus on top income shares, specifically the top 1% income earners in the respective countries. While the Gini index is an efficient measure of income distribution within a country, research shows it is rather insensitive to rich group's income increases.² Focusing on the income share of the top 1% allows for a more nuanced and detailed examination of the concentration of income within the wealthiest individuals in an economy. This is a significant insight because it highlights the economic gains that are

¹ Schaeffer, Katherine. "What's the difference between income and wealth?" and other common questions about economic concepts, July 23, 2021. <https://www.pewresearch.org/decoded/2021/07/23/whats-the-difference-between-income-and-wealth-and-other-common-questions-about-economic-concepts/>.

² Chu, C.Y. Cyrus, and Yi-Ting Wang. "Gini Coefficient versus Top Income Shares – Pattern Change Differences." *Economics Letters* 201 (April 2021): 109769. <https://doi.org/10.1016/j.econlet.2021.109769>.

concentrated in a small group of the population and allows for a direct comparison of the wealthiest groups of people across different economies.

The significance of this research lies in its potential to offer meaningful insights into the complex relationship between globalization, economic development, and income inequality in East Asia, particularly in South Korea and Taiwan. The findings of this study can be used to inform policy makers and economists of potential contributions to inequality. This can be particularly useful for promoting sustainable and equitable growth in different countries.

II. Literature Review

Background

Income inequality has become a pervasive issue that has gained global attention and become a growing concern within recent decades. As the world becomes more connected through globalization, the topic of income inequality and wealth disparities have also become a growing focus within research and literature. Previous research and studies suggest that income inequality has grown in nearly every developed country, as the wealthy are expected to earn more and experience higher gains, while the poor are not able to see the same levels of growth. This trend is expected to continue with increasing globalization.³ Statistical analysis has been used to identify globalization as a main contributor to recent growths in inequality and poverty, as it has been found to account for roughly 7-11 percent of variation in income inequality.⁴ Additionally, it is believed that political integration and social integration are key aspects of globalization that are important to address when discussing inequality.⁵ Inequality can be driven by a plethora of different factors including economic, social, political, and cultural determinants.

³ Piketty, Thomas. 2014. "Part Three." In *Capital in the Twenty-First Century*. N.p.: Harvard University Press.

⁴ Heshmati, Almas. 2004. "The Relationship between Income Inequality, Poverty and Globalisation." *Institute of Labor Economics*, September, 2004.

⁵ Dreher, Axel, and Noel Gaston. 2008. "Has Globalization Increased Inequality?" *Review of International Economics* 16, no. 3 (August): 516-536. <https://doi.org/10.1111/j.1467-9396.2008.00743.x>.

East Asia specifically offers a unique perspective to this conversation due to its rapid development. Through an examination of these determinants, this literature review seeks to contribute to a deeper understanding of income inequality in East Asia, specifically in South Korea and Taiwan.

Democracy and Political Institutions

The role that democracies play in the discourse of globalization and inequality reveals a multifaceted and complex relationship. Several studies suggest that there is a meaningful tradeoff between democracy and development, and this raises questions as to whether democratic organizations hinder economic growth rather than fostering it.⁶ This can be explained by several different factors. For instance, some existing research suggests that market openness is generally more advantageous for income distribution in less democratic countries, and that market expansion in democratic countries may actually pose a threat to inequalities.⁷

It is also crucial to consider the different economic factors that contribute to inequality. Research spanning 69 different countries revealed that while democracy and trade may decrease income inequality, foreign investments have the opposite effect, and financial capital does not affect economic inequality.⁸ This reveals how the intersection of different economic factors may affect inequality in different ways. While democracies were previously thought to reduce wealth inequality, research has found that this is not actually always the case. In fact, wealth inequality and democracy coexist, and this can be explained by several different reasons. First, creating

⁶ “The Effects of Democracy on Economic Growth and Inequality: A Review.” 2017. In *On Measuring Democracy: Its Consequences and Concomitants: Conference Papers*, edited by Alex Inkeles and Larry Sirowy, 125-153. N.p.: Taylor & Francis Group. <https://www.taylorfrancis.com/chapters/edit/10.4324/9781315125619-9/effects-democracy-economic-growth-inequality-review-larry-sirowy-alex-inkeles>.

⁷ Kim, Dong-Hyeon, Joyce Hsieh, and Shu-Chin Lin. 2019. “Financial Liberalization, Political Institutions, and Income Inequality.” *Empirical Economics* 60 (December): 1245–1281. <https://doi.org/10.1007/s00181-019-01808-z>.

⁸ Reuveny, Rafael, and Quan Li. 2003. “Economic Openness, Democracy, and Income Inequality: An Empirical Analysis.” *Comparative Political Studies* 36, no. 5 (June): 575-601. <https://doi.org/10.1177/0010414003036005004>.

policies that promote wealth equality are more difficult in societies where social divisions are not solely wealth-based. Second, voter consensus for wealth redistribution policies is not easily achieved. And finally, the role of elites within the democratic process is significant and largely contributes to the lack of wealth-equalizing policies.⁹

Many researchers also suggest that the consequences of inequality and the democratic process are cyclical, as the growing gap between the rich and poor in America has resulted in greater political inequality, which further affects the lower class.¹⁰ In the discussion of political institutions and income inequality, decentralization, or the reallocation of political power, has also been thought to have a significant effect on income inequality. However, studies have proven that it is actually the internal structure of countries that have a greater effect on inequality than decentralization.¹¹

Different political institutions are also theorized to have different effects on inequality. For example, studies have proven that proportional representation political systems in Northern Europe were found to produce more egalitarian countries with less inequality. On the other hand, majoritarian political systems in Northern Europe were found to have higher levels of inequality and weaker welfare states.¹²

East Asia

As mentioned before, East Asia has experienced significant rapid growth, and research has found a positive effect on low levels of inequality and economic growth in this region.¹³

⁹ Scheve, Kenneth, and David Stasavage. 2017. "Wealth Inequality and Democracy." *Annual Review of Political Science* 20 (February): 451-468. <https://doi.org/10.1146/annurev-polisci-061014-101840>.

¹⁰ Beramendi, Pablo, and Christopher J. Anderson, eds. 2008. *Democracy, Inequality, and Representation in Comparative Perspective*. N.p.: Russell Sage Foundation.

¹¹ "Political Institutions and Income Inequality: The Case of Decentralization." 2003. *WZB Discussion Paper, No. SP II 2*, (September). <http://dx.doi.org/10.2139/ssrn.473701>.

¹² Iverson, Torben, and David Soskice. 2011. "Inequality and Redistribution: A Unified Approach to the Role of Economic and Political Institutions." *Revue économique* 62, no. 4 (July): 629-649. <https://www.jstor.org/stable/27975897>.

¹³ Birdsall, Nancy, David Ross, and Richard Sabot. 1995. "Inequality and Growth Reconsidered: Lessons from East Asia." *The World Bank Economic Review* 9, no. 3 (September): 477-508. <https://doi.org/10.1093/wber/9.3.477>.

However, economic disparities have persisted, likely due to several factors including the 1997 financial crisis and liberalization of capital markets.¹⁴ It is also critical to analyze the existing trends, policies, and structures in East Asia that contribute to these developments. Research from data from the World Bank has found that Hong Kong, Singapore, Indonesia, Malaysia, Taiwan, and Thailand showed greater levels of inequality while Korea and Japan had more consistent levels of lower inequality.¹⁵

Another significant consideration is the political systems within East Asian countries, and the recent transitions to democracy and institutional innovations.¹⁶ In 1987, Korea and Taiwan transitioned from autocratic governments towards democracy. Indonesia, Korea, and the Philippines are three clear presidential democracies while Taiwan has adopted a “semi-presidential” system where executive power is split between an elected president and a prime minister. Other East Asian democracies, including Japan, Singapore, Malaysia, and Thailand, are parliamentary systems.¹⁷ Each country has experienced changes in electoral systems and party systems, and these changes have resulted in important long-term impacts on political and economic development.

There are several interesting case studies within East Asia that reveal different factors of income inequality. For example, Singapore, which is considered to have experienced considerable steady growth, has high levels of inequality compared to many other economies in

¹⁴ Shari, Ishak. 2001. “Globalization and Economic Disparities in East and Southeast Asia.” In *Capturing Globalization*, edited by James H. Mittelman and Norani Othman. N.p.: Taylor & Francis.

¹⁵ Rao, V. V. Bhanaji. 1999. “East Asian Economies: Trends in Poverty and Income Inequality.” *Economic and Political Weekly* 34, no. 18 (May): 1029-1039. <https://www.jstor.org/stable/4407905>.

¹⁶ Reilly, Benjamin. 2007. “Electoral Systems and Party Systems in East Asia.” *Journal of East Asian Studies* 7, no. 2 (May-August): 185-202. <https://www.jstor.org/stable/23418665>.

¹⁷ Reilly, Benjamin. 2007. “Electoral Systems and Party Systems in East Asia.” *Journal of East Asian Studies* 7, no. 2 (May-August): 185-202. <https://www.jstor.org/stable/23418665>.

the region. This can largely be attributed to the higher levels of racial discrimination, ethnic minorities, and educational inequality, which have all been linked to increasing inequality.¹⁸

In Taiwan, a country of interest for this research, studies have found that the country continues to become increasingly unequal due to structural changes in the economy which is reallocating income in certain sectors. Taiwan has experienced significant changes in political leadership and policy reform since 2000, and these are also likely to have been a factor in growing income inequality.¹⁹ Although Taiwan may have lower levels of inequality compared to many other countries, it is still an important country to evaluate as it reveals how the changing political structure impacts inequality.

In terms of redistributive attitudes among East Asian countries, China and South Korea have been found to have the most positive attitudes towards redistribution.²⁰ This is interesting because they have different political systems, and this reveals that each country has a different approach in achieving equality. Additionally, each country has had different levels of growth and economic development. For example, studies have shown that Japan, South Korea, and Taiwan were able to successfully foster economic growth through economic strategies. This included a system of turning high profit shares into high savings and investment rates, allowing for a more even distribution of wealth.²¹ Among China, Japan, South Korea, and the United States, each country experienced different levels of trade openness, fiscal redistribution, and income inequality. Trade openness has had a positive effect on inequality and growth in the United States

¹⁸ Lee, William Keng Mun. 2010. "The Economic Marginality of Ethnic Minorities: An Analysis of Ethnic Income Inequality in Singapore." *Asian Ethnicity* 5, no. 1 (October): 27-41. <https://doi.org/10.1080/1463136032000168880>.

¹⁹ Lee, Yu-Feng L. 2008. "Economic Growth and Income Inequality: the modern Taiwan experience." *Journal of Contemporary China* 17, no. 55 (April): 361-374. <https://doi.org/10.1080/10670560701809577>.

²⁰ "Perceptions of Inequality and Attitudes Towards Redistribution in Four East Asian Welfare States." 2018. *International Journal of Social Welfare* 27, no. 1 (January): 28-39. <https://doi.org/10.1111/ijsw.12266>.

²¹ You, Jong-Il. 2020. "Income Distribution and Growth in East Asia." In *East Asian Development: New Perspectives*, edited by Yılmaz Akyüz, 37-62. N.p.: Taylor & Francis Group. <https://www.taylorfrancis.com/chapters/edit/10.4324/9781315038155-2/income-distribution-growth-east-asia-jong-il>.

and Japan, while it has had negative effects in China, and almost no effect in South Korea.²² This opens up further discussion about why different economies are impacted differently by globalization and certain fiscal policies.

Gaps in Literature

Although the existing literature offers profound insights into globalization, income inequality, and economic development in East Asian countries, there are still several gaps in the literature that call for further exploration. While studies acknowledge the overall economic success and rapid growth experienced by East Asian countries such as South Korea, Japan, Taiwan, and Singapore, there is little research to explain the specific causes of persistent income inequality. The research gap is particularly evident in the limited focus on differing levels of inequality in countries with very similar successful development trajectories such as South Korea and Taiwan. The proposed research aims to cover this gap by analyzing the intersection between globalization, different economic and political systems, and income inequality in South Korea and Taiwan. This new understanding will produce new literature regarding different political and economic systems and institutional changes and their impact in income inequality and wealth distribution.

Summary

Existing literature and studies highlight several important aspects to the research by providing overviews of income inequality, globalization, and development in East Asia. East Asia is a particularly critical region to study when it comes to economic development, as these countries are well known for their rapid and stable economic growth. However, it is still crucial to analyze the persistent challenge of income inequality. South Korea and Taiwan's divergence in

²² Yang, Yiwen, and Theresa M. Greaney. 2017. "Economic Growth and Income Inequality in the Asia-Pacific Region: A Comparative Study of China, Japan, South Korea, and the United States." *Journal of Asian Economics* 48 (February): 6-22. <https://doi.org/10.1016/j.asieco.2016.10.008>.

income inequality also presents an intriguing puzzle regarding the factors of income inequality. Reviewing existing literature and identifying the gaps reveals the importance of identifying the intersection of globalization and political and economic institutions in East Asia. Democracies and political institutions are significant themes in the topic of globalization and income inequality. This research, along with the unique case studies of South Korea and Taiwan, allows for a more comprehensive investigation into specific factors that contribute to inequality. As the region continues to evolve and integrate into the global economy, it becomes increasingly important to understand the intricacies of these economies to foster equitable and sustainable growth.

III. Research Design

The research will employ a qualitative case study methodology to investigate the contributing factors to income inequality in East Asia, with a specific focus on South Korea and Taiwan. A historical analysis approach is used to answer the research question because it allows for a comprehensive analysis of the social and economic conditions of South Korea and Taiwan and the policy decisions or socioeconomic factors that led to the levels of inequality.

South Korea and Taiwan were selected as comparative case studies due to their similar development paths. Both countries have endured periods of colonization, democratization, and globalization. They also experienced rapid economic growth, leading them to share some trends such as urbanization and technological advancements. However, their diverging levels of inequality offer a unique opportunity for research into the factors that may contribute to this growing inequality, particularly for countries that are experiencing accelerated levels of growth.

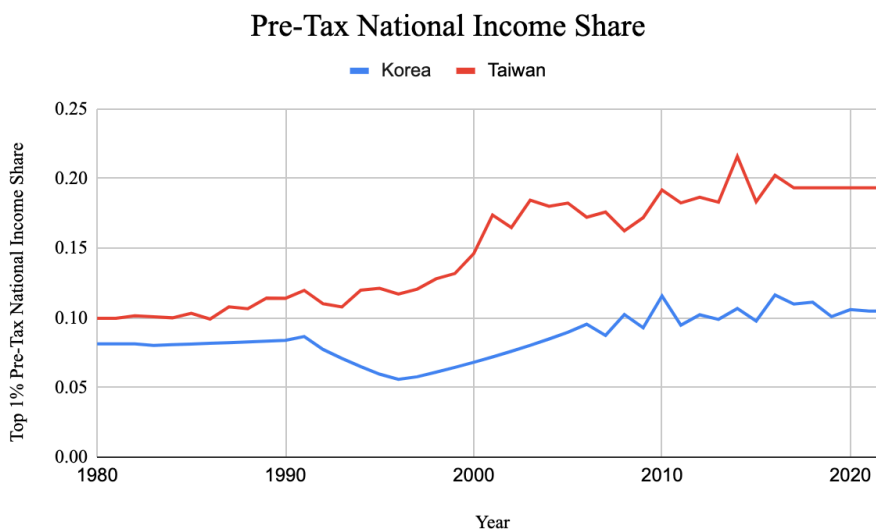
The research will incorporate a historical analysis to answer the research question. This approach includes an analysis on the historical and socioeconomic situations in the countries

along with possible policies and social, political, and economic structures that may explain their levels of inequality. The dependent variable is the levels of inequality in South Korea and Taiwan from 1980 to 2022. This timeframe was chosen because it encompasses pivotal periods of growth in both South Korea and Taiwan, including democratization and globalization. This allows for the examination of long-term growth and trends. The independent variables are the factors that may contribute to these inequality levels. This research focuses on democratization, social welfare, national security threats, and economic focus. By analyzing how these variables intersect, the research aims to provide a comprehensive understanding of the dynamics of income inequality in East Asia.

IV. Data

Top 1% Share of Income and Wealth From 1980-2022

Figure 1



Note. Data from World Inequality Database <https://wid.world/data/>

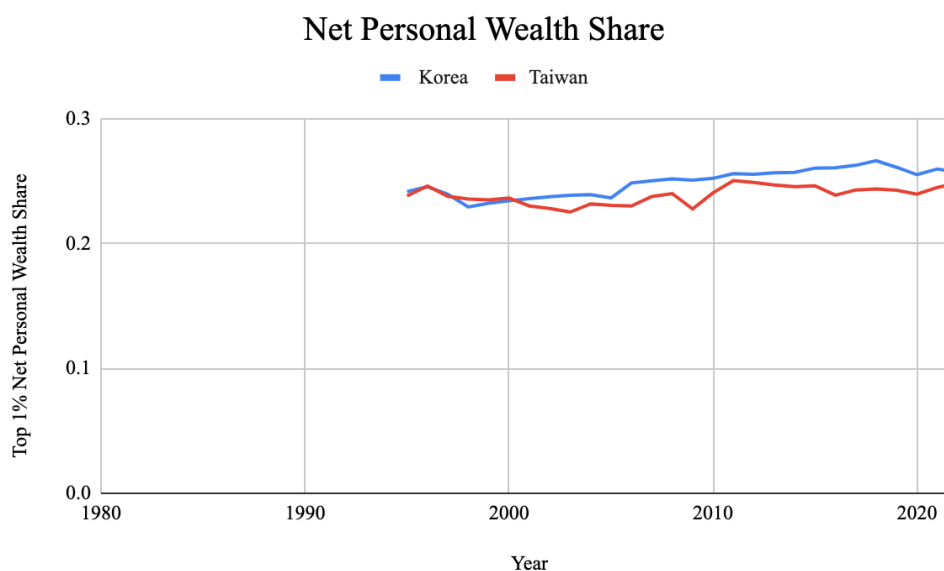
Figure 1 depicts the percentage of national income garnered by the top 1% of the population in South Korea and Taiwan from 1980 to 2022. This figure reveals that Taiwan experienced greater levels of income inequality, with the top 1% consistently earning a greater share of the national income compared to South Korea. When analyzing the trends, South Korea and Taiwan both had fairly consistent levels of income inequality throughout the 1980's, but this changed around 1992, when Taiwan's top 1% began earning a greater share of the national income while South Korea's top 1% share began decreasing. This divergence continues through the 1990s up until 2022.

Both countries experienced fluctuations in the top 1% income share from 1980 to 2022. However, South Korea's remains more consistent, with the lowest share of the top 1% being

0.0558 in 1996 to the highest being 0.1157 in 2010. In Taiwan, the lowest share of the top 1% was 0.0991 in 1986, and the highest was 0.1917 in 2010.

Additionally, the gap between the top 1% income shares in South Korea and Taiwan shifts from being fairly consistent to having a wider, growing gap starting in the 20th century. This gap continues throughout this time period, revealing the differing levels of income inequality. Taiwan continues to experience higher levels of income inequality while South Korea remains consistently lower.

Figure 2



Note. Data from World Inequality Database <https://wid.world/data/>

Figure 2 illustrates the proportion of total wealth held by the top 1% of the population in South Korea and Taiwan. The data from the World Inequality Database reveals that the levels of wealth inequality between South Korea and Taiwan were relatively consistent. Throughout this time period, South Korea is revealed to experience slightly greater levels of wealth inequality, as the top 1% of South Korea's population holds a greater share of the wealth. The gap in levels of

wealth inequality between South Korea and Taiwan, however, does not change significantly, as the top 1% personal wealth share for both countries remains consistently between 0.2276 (Taiwan, 2009) and 0.2662 (South Korea, 2018).

South Korea

Democratization

The process of democratization in South Korea began in 1980, but the first successful democratic presidential election was not held until 1987.²³ Democratization in South Korea was largely characterized by social movements and the population's growing pressure on authoritarian leaders. However, it also had significant implications for the economy.²⁴ During the transitional period from an authoritarian government to democratic, South Korea experienced significant economic growth which largely contributed to the democratization process.²⁵ This is because the rapid growth of the middle class led to increased political participation and desire for political and economic freedom and reform. While democratization led to positive economic growth in the long term for South Korea, the transition to democracy did not directly affect income inequality. Globalization, on the other hand, is proven to have had a direct impact on levels of income inequality in South Korea. This is reflected in the fact that South Korea's trade openness and introduction to the global market still existed during its authoritarian rule²⁶, and there were not significant changes in income inequality during the period of democratization.

²³ Yun, Seongyi. "DEMOCRATIZATION IN SOUTH KOREA: SOCIAL MOVEMENTS AND THEIR POLITICAL OPPORTUNITY STRUCTURES." *Asian Perspective* 21, no. 3 (1997): 145–71. <http://www.ijstor.org/stable/42704149>.

²⁴ Moon, Chung-in and Kim, Song-min. "6 Democracy and Economic Performance in South Korea". *Consolidating Democracy in South Korea*, edited by Larry Diamond and Byung-Kook Kim, Boulder, USA: Lynne Rienner Publishers, 2000, pp. 139-172. <https://doi.org/10.1515/9781626373150-007>

²⁵ Johnson, C. (1989). South Korean democratization: The role of economic development. *The Pacific Review*, 2(1), 1–10. <https://doi.org/10.1080/09512748908718795>

²⁶ Park, Sung Wook. 2019. "Democracy, Domestic Institutions, and Inequality : Evidence from Emerging Countries and South Korea." Electronic Theses and Dissertations (ETDs) 2008+. T, University of British Columbia. doi:<http://dx.doi.org/10.14288/1.0387346>.

Social Welfare

In response to rising income inequality, South Korea implemented several social welfare programs and policies in an attempt to lower the levels. This government intervention began in the 1990s.²⁷ Democratization largely contributed to South Korea's desire for social reform and increased social welfare. This occurred in the form of public healthcare, unemployment benefits, and welfare assistance for low-income individuals.²⁸ However, as levels of income inequality did not fluctuate significantly, it can be established that the social welfare programs did not have a significant direct effect on inequality levels, although they may have contributed positively to the overall economy in the long run.

National Security

Following the end of the Korean War in 1953, North Korea has continued to pose a significant threat to the national security of South Korea. The border between the two countries remains one of the world's most heavily militarized regions, and tensions between the two countries have grown, especially with North Korea's increasing nuclear proliferation.²⁹ However, North Korea's threat on South Korean national security has declined over the years. This is due to a combination of several factors. First, North Korea signed the International Nuclear Non-Proliferation Treaty in 1985, lowering the risk of an invasion and establishing commitment to the safety of the international community.³⁰ Since then, North Korea has engaged in several other diplomatic conversations with the international community regarding its nuclear weaponry. Secondly, North Korea experienced significant setbacks in its economic development. Beginning

²⁷ Cheon, Byung You, and others, 'Korea: The Great U-Turn in Inequality and the Need for Social Security Provisions', in Brian Nolan, and others (eds), *Changing Inequalities and Societal Impacts in Rich Countries: Thirty Countries' Experiences* <https://doi.org/10.1093/acprof:oso/9780199687428.003.001>

²⁸ Social Welfare in East Asia and the Pacific. United Kingdom: Columbia University Press, 2013.

https://www.google.com/books/edition/Social_Welfare_in_East_Asia_and_the_Paci/xl-sAgAAOBAJ?hl=en&gbpv=0

²⁹ "Revisiting History: North Korea and Nuclear Weapons." Wilson Center, November 3, 2010.

<https://www.wilsoncenter.org/event/revisiting-history-north-korea-and-nuclear-weapons>.

³⁰ "North Korea Profile - Timeline." BBC News, April 26, 2019. <https://www.bbc.com/news/world-asia-pacific-15278612>.

in the early 1970s, the country began facing economic failure and stagnant growth.³¹ This was also followed by extreme levels of poverty, alienation, and corruption.³² Additionally, South Korea's strong alliance with the United States contributed to deterring potential conflict in the Korean peninsula. Although tensions between North Korea and South Korea still remain high and a serious national security threat persists, the lack of economic growth and social development in North Korea along with South Korea's growing defense mechanisms have lessened the threat of conflict.

Economic Focus

From 1980 to 2022, South Korea was able to diversify its economy and expand its economic strategy, which was rooted largely in export-led growth and industrialization. This involved intense government intervention to support key industries which included manufacturing, technology, and finance.³³ The government's economic focus also consisted of promoting exports, developing infrastructure, and obtaining foreign investment. South Korea also aimed to enhance education and training for skilled workers, increasing the levels of social and economic mobility. This led to rapid modernization and diversification of the economy, meaning that several different industries were invested in and supported for growth. This ultimately contributed to the sustained economic growth that South Korea experienced.

³¹ Eberstadt, Nicholas. "The Economics of State Failure in North Korea." American Enterprise Institute, May 23, 2012. <https://www.aei.org/articles/the-economics-of-state-failure-in-north-korea/>.

³² Roy, Denny. "North Korea as an Alienated State." *Survival* 38, no. 4 (1996): 22–36. <https://doi.org/10.1080/00396339608442879>

³³ Kuznets, Paul W. "Government and Economic Strategy in Contemporary South Korea." *Pacific Affairs* 58, no. 1 (1985): 44–67. <https://doi.org/10.2307/2758009>.

Taiwan

Democratization

Taiwan's process of democratization began in the late 1980s when the country began experiencing pro-democracy movements and increased levels of social activism. In 1987, the Martial Law was lifted, signifying the end of the Chinese Nationalist Party in Taiwan. This legalized opposing parties and increased social and political movements.³⁴ Throughout the process of democratization, Taiwan still experienced high levels of economic growth, and this was a largely peaceful process. Democratization in Taiwan resulted in significant institutional changes that promoted more social movements, specifically in the 1980s. The transition to democracy was largely influenced by economic challenges and the overwhelming desire for growth. Democratization in Taiwan led to the embracement of the free market which ultimately contributed to its continuous economic growth.³⁵

Social Welfare

Taiwan underwent significant socioeconomic transitions from the 1980s, including reforms in the social welfare system. Before this time period, Taiwan had an undeveloped social welfare system with little coverage and security for its citizens.³⁶ However, the transition to democracy and high levels of economic growth highlighted the importance for social protection programs to address social issues such as income inequality. This resulted in programs such as public health coverage, pensions programs, and various forms of social and economic assistance

³⁴ TIEN, HUNG-MAO, and CHYUAN-JENG SHIAU. "Taiwan's Democratization: A Summary." *World Affairs* 155, no. 2 (1992): 58–61. <http://www.jstor.org/stable/20672340>.

³⁵ Kim, Anthony. "Taiwan's Free and Vibrant Economy Is a 'Democratic Success Story.'" The Heritage Foundation, February 17, 2022.

<https://www.heritage.org/international-economies/commentary/taiwans-free-and-vibrant-economy-democratic-success-story>.

³⁶ Aspatler, Christian. "Welfare State System Development in Taiwan: The Causal Determinants of the Past and the Future." *Taiwan Insight*, August 20, 2020.

for low income and vulnerable groups.³⁷ However, the growing levels of income inequality have proven that these programs were not effective enough in the short run to decrease the levels of inequality.

National Security

China has consistently posed a significant threat to Taiwanese national security, and tensions have only escalated over time. Since the 1980's China's stance on Taiwan has remained firm, as it continues to consider it a province of its country and makes efforts to force reunification.³⁸ This tension has led to a hostile relationship that has been characterized by military threats and diplomatic disagreements. Moreover, China has experienced rapid economic growth since the 1980s, enabling the ability to modernize and expand its military capabilities.³⁹ This increased its capability of asserting its territorial claims over Taiwan. China has also continued to invest in military modernization, increasing its threat to Taiwan's national security. Although Taiwan also has strong alliances such as the United States, China has not backed down in its threats against Taiwan.⁴⁰ Instead, China's growing economic and political presence in the international community has underscored the significant nature of the threat that Taiwan faces.

Economic Focus

Since the 1980s, Taiwan has been strategic in its economic plan. Rather than diversifying the economy, Taiwan focused on developing specific industries, namely technology. One of the key areas has been the semiconductor industry, where Taiwan has quickly proven itself as a

³⁷ Aspatler, Christian. "Welfare State System Development in Taiwan: The Causal Determinants of the Past and the Future." Taiwan Insight, August 20, 2020. <https://taiwaninsight.org/2020/08/20/welfare-state-system-development-in-taiwan-the-causal-determinants-of-the-past-and-the-future/>.

³⁸ "What's behind China-Taiwan Tensions?" BBC News, January 8, 2024. <https://www.bbc.com/news/world-asia-34729538>.

³⁹ Heath, Timothy R. "Why Is China Strengthening Its Military? It's Not All about War | Rand." RAND, March 24, 2023. <https://www.rand.org/pubs/commentary/2023/03/why-is-china-strengthening-its-military-its-not-all.html>.

⁴⁰ Bodeen, Christopher. "China Reaffirms Its Military Threats against Taiwan Weeks before the Island's Presidential Election." AP News, December 28, 2023. <https://apnews.com/article/china-taiwan-elections-military-threats-ea68fa11a0b172c31162c0ff128cabf7>.

global leader. The Taiwanese government actively supported the development of the semiconductor sector through targeted policies and investments.⁴¹ This proactive approach created the world's leading semiconductor companies including TSMC and MediaTek. These companies are instrumental in not only Taiwan's economy, but also the global economy, as Taiwan remains one of the world's top exporters of semiconductors.⁴² This strategic focus on high-tech sectors has remained Taiwan's economic strategy and has largely contributed to Taiwan's development and competitiveness.

V. Analysis

Analysis of the research reveals intriguing insights into the relationship between democratization, social welfare programs, national security threats, and income inequality in South Korea and Taiwan. Democratization and the implementation of social welfare programs and government intervention to reduce inequality have shown limited effectiveness in decreasing income inequality within these two countries. This observation is revealed by the fact that economic growth began before the process of democratization in South Korea and Taiwan, both at rapid levels. Additionally, social welfare programs have proven to be unsuccessful, as levels of income inequality have either stayed the same or increased. These findings suggest that while democratization and social welfare initiatives may have positively impacted other aspects of the economy or be successful in the long run, they do not present themselves to be factors of income inequality, at least within this time period.

Instead, national security threats emerge as a significant potential factor influencing income inequality. In the case of South Korea, North Korea's threat diminished over time due to

⁴¹ Bajpai, Prableen. "An Overview of Taiwan's Economy." Nasdaq, October 18, 2022. <https://www.nasdaq.com/articles/an-overview-of-taiwans-economy#:~:text=The%20incentives%20for%20investment%2C%20exports,best%20known%20in%20the%20world>.

⁴² Pai, Yun-feng. "TAIWAN'S ECONOMIC SUCCESS." *Journal of Third World Studies* 3, no. 1 (1986): 31–35. <http://www.jstor.org/stable/45197199>.

the economic stagnation and lack of development it faced. This allowed South Korea to experience more freedom to experiment with economic diversification. This likely supported socioeconomic mobility as the government invested in and developed several different industries, providing many opportunities for advancement. On the other hand, Taiwan faced escalating security concerns as China's rapid growth led to growing threats to national security. This likely explains Taiwan's concentrated economic strategy in the semiconductor industry. This strategic focus accomplishes several things. It acts as a form of deterrence from aggression from China due to the economic impact an armed confrontation would have on the global economy. As one of the world's largest exporters of semiconductors, if this industry were to collapse as a result of a Chinese invasion, the entire global economy, including China, would suffer significant consequences. However, this also contributes to higher levels of income inequality because there are limited opportunities across industries. Thus, this research reveals that the divergence in income inequality between South Korea and Taiwan from 1980-2022 is largely influenced by national security considerations and economic strategies.

The findings of this research underscore the importance of considering broader geopolitical dynamics such as national security threats when examining income inequality trends. While social welfare programs and democratization may be meaningful and significant components of a comprehensive approach to addressing inequality, strategic economic policies that take into account the unique challenges and threats faced by each country must also be considered, especially in the short run. By understanding the intersection between these factors, policymakers can develop more effective strategies to promote sustainable and equitable growth.

VI. Conclusion

This research paper has provided valuable insights into the complex relationship between several development factors and income inequality in South Korea and Taiwan. These include democratization, social welfare programs, national security threats, and economic focus. Despite the implementation of democratization and social welfare programs promoting economic growth, income inequality in both countries has continued to rise, highlighting the limited effectiveness of these factors. Instead, the analysis suggests that national security threats have played a significant role in shaping economic strategies, and consequently, the levels of income inequality.

In South Korea, the threat posed by North Korea has decreased over time as North Korea's development decreased. This has allowed for economic diversification, increasing socio-economic mobility. This has contributed to a more equitable distribution of income over time. Conversely, Taiwan has faced a growing threat from China, leading to a narrow and strategic focus on the semiconductor industry to deter potential attacks. However, this focused priority has exacerbated income inequality by limiting opportunities for mobility and growth within other sectors.

Overall, the findings of this research highlight the multifaceted nature of income inequality in East Asia, particularly in South Korea and Taiwan. This research emphasizes the importance of economic strategies, which are motivated by outside factors such as security threats. These findings hold significant implications for policymakers and economists by emphasizing the importance of considering geopolitical conditions and national security threats when making policies targeted for economic growth and/or income inequality. As South Korea, Taiwan, and other nations continue to develop their economic and political strategy, this research

will be significant to understand the complex nature of income inequality and foster sustainable development and promote economic equality.

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