The Social Perils of the Korean Financial Crisis

Andrew Eungi Kim

[Abstract: This article examines the social impact of the 1997 financial crisis in South Korea. Although the crisis was short-lived, it has created major ripples all across the country, profoundly affecting the Koreans' lifestyle and family life as well as their values and worldview. In spite of the magnitude of the financial crisis and its social impact, scant scholarly attention has been paid to the issue, although the causes and economic impact of the crisis have been amply discussed. In view of this, the article examines major social changes brought upon by the financial crisis. The article probes, for example, how employment patterns have been deeply affected, whereby a majority of workers are now irregular workers or are underemployed. The article also demonstrates how the people's perception of work has changed and how the income gap between the rich and the poor has widened. Also discussed are, among others, the continuing discrimination against women in the workplace, rising divorce rate, increase in immigration and value conflicts over the relevance of Confucianism in contemporary Korea. In addition, the article examines the agency of the Korean people in reacting to or coping with the changing circumstances.]

Financial crises are usually triggered by bank failures, although the causes of bank failures are different from country to country. The uniqueness of South Korea's bank failures and the ensuing financial crisis is that they were neither caused by a slump in any specific industry such as real estate nor by deterioration in the macroeconomic performance of the economy. In fact, macroeconomic indicators had been "normal" until the outbreak of the financial crisis: exports were on the rise, the current balance of payments was getting better, prices had been stable, and the GNP growth rate was projected to be around 6%. So, what caused the financial crisis in South Korea (henceforth Korea)? The fundamental reason for the financial crisis in Korea was a sudden reversal of capital flows following the panic created by the financial crisis in Thailand in July 1997. The actual timing of the financial crisis in Korea was November 1997, but the heavy reliance on short-term foreign loans coupled with a weak financial structure of the corporate sector made Korea highly vulnerable to a crisis for some years before 1997. What made possible the influx of massive amounts of foreign capital was the financial liberalization of the early 1990s. Since the early 1990s, indeed, the Korean economy had opened up commodity markets and, as a result, huge amounts of foreign capital flowed in. The enormous offshore borrowing—a vast majority of which were structured with very short-term maturities—and concomitant domestic lending led to
an investment boom that made Korea vulnerable to a withdrawal of short-term lines of
credit and a flight of portfolio capital. The weak financial structure of the corporate
sector, on the other hand, had to do with high debt-equity ratios. As of 1995, for example,
the average debt-equity ratio of the 30 largest conglomerates or chaebol was 348% and,
on the eve of the 1997 crisis, the ratio soared to 519%. Some conglomerates that
eventually became bankrupt or subject to insolvency procedures even had debt-equity
ratios of more than 1,500%. A series of corporate bankruptcies transpired as the profit
performance of Korean firms had steadily decreased since the late 1980s. This then
translated into non-performing loans (NPLs) and capital inadequacy in the financial
sector. These destabilizing elements in both the corporate and financial sectors seriously
weakened international confidence in the Korean economy, leading to massive and abrupt
outflows of foreign capital and ultimately to the financial crisis.

The magnitude of the financial crisis was such that thousands of businesses went
bankrupt overnight, the unemployment rate more than doubled to over 6% within the
first few months of the crisis, banks were burdened with at least $52 billion in bad debts
and the per capital GNP plummeted from over $10,000 to around $6,000 in 1998. Other
ensuing events, albeit short-lived, were unparalleled in impact in the last two to four
decades: the country experienced the worst minus growth (-5.3%) since 1970; stock
values fell 54.6% between May 1997 and July 1998; land and housing prices fell as
much as 20% between 1997 and 1998, the highest year-to-year drop in 40 years; and
inflation-adjusted consumption by urban workers dropped by 19.7 percent in the second
quarter of 1998 from a year earlier, the biggest quarterly fall in 35 years. As insinuated
above, several prominent conglomerates, including such prominent ones as Hanbo, Kia,
Jinro, Haetae, and Daewoo, once the second largest conglomerate in Korea, either filed
for bankruptcy or went bankrupt. In fact, more than half of the top 30 conglomerates in
the mid-1990s became insolvent soon after the outbreak of the financial crisis. These
bankruptcies stunned the public who long thought that the chaebol, the engine of the
country’s rapid industrialization and sustained economic growth, were invincible. The
belief that banks will never close also shattered, as 10 banks and 284 financial institutions
closed within a year of the beginning of the financial crisis. In the last five years, those
numbers jumped to 14 and 631, respectively, accounting for more than 30% of the
total. Even a university in Seoul, namely Dankook University, almost went bankrupt
before creditors granted an extension on repayment deadline. It marked the first such
case in the history of education in Korea, sending shock waves to the public who long
thought that running a university carried little financial risk given the proverbial education
frenzy among Koreans.

The financial crisis humbled South Korea into borrowing $57 billion from the
International Monetary Fund (IMF) to save the nation from going bankrupt. In addition,
the so-called “IMF Crisis” not only halted the nation’s phenomenal decades-long
economic growth but also brought about fundamental changes in lifestyle, employment
pattern, corporate culture and worldview. Indeed, the most striking aspect of the impact
of the financial crisis is that it has not been limited to the economic sphere, as virtually
every sector of Korean society has undergone and, to a large extent, is still undergoing
significant changes.

The question is: How has the financial crisis impacted Korean lifestyle and family life? How have the employment or unemployment patterns changed? How have their identity and worldview changed? And how have Koreans reacted to the changing circumstances? These questions and other pertinent issues will be examined in this article. This article begins by examining the changes in employment patterns and workplace culture, followed by a discussion of their impact on workers and society. The article then assesses the widening income gap between the rich and the poor as well as the rising poverty rate. The rise in divorce rate and immigration as well as Koreans’ renewed reflection upon their achievement and cherished values are also probed. The article concludes by discussing the shaping of a new Korea borne by the financial crisis and considering its implications. In addition, the agency of the Korean people in reaction to all of these social changes is examined throughout the article.

**Unemployment and Underemployment**

In September 2001, Korea paid the last $140 million instalment to the International Monetary Fund, completing the repayment of IMF loans three years ahead of schedule. The loan may have been paid in full, but the costs of the financial crisis are being felt in the form of worsened employment conditions. Although the unemployment rate has stabilized around three percent in the last two years, it reached record highs immediately following the outbreak of the crisis: the nation’s jobless rate soared from 2.2% to a 30-year high of 7.6% in July 1998 and a record-high of 8.6% in February 1999 (Table 1).6 The unemployment rate has since dropped noticeably to the late 1997 level, but, as the next section shows, it happened at the expense of employment stability.

The unemployment rate of 3.6% as of March 2003 may look impressive, but it has been achieved through a conspicuous proliferation of temporary and daily jobs. Furthermore, the rate is misleading for several reasons. First, it does not include hundreds of thousands of unemployed people who have given up on finding jobs. One estimate in 2001 showed that as many as 490,000 individuals had given up on finding jobs.7 If that number were included, the unemployment rate in Korea would rise by at least 2%. Second, the official unemployment rate leaves out millions of day laborers who work on jobs which require their service for less than a month (see Table 2).8 As of the end of 1999, for example, there were 2.5 million day laborers. If the number of temporary workers (those employed from one month to less than a year), which stands at almost 5 million, is added to the number of day laborers, then Korea has a seriously unbalanced and unstable labor situation.9 The fact that a large number of university graduates work as either day laborer or temporary worker attests to the seriousness of the employment situation in Korea today. Indeed, a survey showed that more than 30% of university graduates who were hired in the latter half of 20000 were temporary workers.10 A 2002 study of 1,200 randomly selected firms also showed that more than 40% of the employees with university degrees were hired as temporary workers.11 There is also the retirement age factor: the retirement age for most positions in government and company is 56 to 60 years old, meaning that the unemployment rate in Korea would be much higher if these
Aging workers were not forced to retire five to seven years earlier than their counterparts in most other parts of the world.

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<th>Table 1: Unemployment Rate</th>
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<td>Number of Unemployed (in thousands)</td>
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<td>March 2003</td>
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As Table 2 shows, the proportion of non-standard or irregular workers exceeded that of regular workers in early 1999, happening for the first time since labor statistics have been compiled. This trend has continued, except for early 2003. A study by Yusun Kim, however, argues that the proportion of non-standard workers in Korea is considerably higher than the official rate. Kim notes that the official total of regular workers actually includes hundreds of thousands of contract, part-time and other contingent workers and that if they are properly classified, the proportion of non-standard workers should be 58.4%. Such argument notwithstanding, the proportion of non-standard workers in the total labor force is the highest among the member countries of the Organization for Economic Cooperation and Development (OECD). For comparison, the figure for Spain in 2000 was 32%, followed by 27% for Australia, 18% for England, 13% for France, and 12% for Japan. Another difference between Korea and other OECD countries is that non-standard workers in the former receive less pay than regular workers for doing the same job. As of the end of 2002, for example, non-standard workers received only 52.9% of what regular workers earned for doing the same task. In addition to less pay, a vast majority of irregular workers in Korea are denied of
severance pay and various insurance coverage, such as health and unemployment, which stands in stark contrast to the situation in other OECD countries where legal and social schemes exist to protect the rights and welfare of non-standard workers. What is also noteworthy is that while the number of non-standard workers in other OECD countries has gradually increased, Korea witnessed a rapid expansion in the last few years. The labor situation in Korea today is thus characterized by an artificially low unemployment rate combined with high underemployment, all of which have been largely prompted by the financial crisis and concomitant restructuring. Needless to say, the structure and quality of employment in Korea has seriously deteriorated.

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<th>Table 2: Changes in Employment Structure (%)</th>
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<td>Day Laborers</td>
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<td>Full-time Workers</td>
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One noteworthy fact amidst this unstable employment situation is that many factories that do offer secure, full-time jobs are constantly short of workers. This was acute especially in the first several months of the financial crisis, as a large number of foreign workers left because of the falling value of the Korean won. Even today, factory jobs in such areas as metal planning, dyeing, tanning and textiles are up for grabs, but these positions are being largely ignored by unemployed Koreans. That is why Korea relies on hundreds of thousands of foreign workers, most of whom are from China, Vietnam, the Philippines, Nepal, Bangladesh and Pakistan. There are currently more than 350,000 foreign factory workers in Korea, a vast majority of whom are working illegally. Authorities turn a blind eye to these illegal workers—who are simply outstaying what their work visas permit—because practically every small- to middle-sized factory that relies on their labor will have the most difficult time in finding replacements if they were to be deported. The Koreans' aversion to so-called 3D jobs—dirty, dangerous and/or difficult—even at times of unfavourable employment situation shows that Confucianism-induced denigration of physical labor is still intact in the vastly modernized and industrialized Korea.

Besides avoiding factory jobs, Koreans have reacted to or coped with the uncertain and less than ideal employment prospect by adopting creative means to make the best out of the situation. First, many university students are postponing graduation as long as they can, often resorting to taking leave of absence to work part-time, travel or enrol in overseas language training. The latest figure shows that almost one in every three university students is on leave of absence from school. The students' temporary withdrawal rate has steadily increased since the financial crisis, rising from 24.5% in 1997 to 27.8% in 1998, 30.5% in 1999 and 2000, 31% in 2001, and 32.7% in the latter...
half of 2002. Second, an increasing number of university graduates are enrolling in graduate schools. Faced with diminished chance of finding employment, they have turned to graduate studies to not only avoid being labelled “unemployed” but also to improve their chances for employment by adding an extra degree to their credit. Third, it is also evident that many workers who are insecure about their employment quit their jobs to enrol in degree programs that lead to more “stable” occupations, including those of the teacher, doctor, pharmacist, dentist, and veterinarian. Fourth, people and groups of diverse backgrounds are engaging in concerted efforts to eradicate discrimination against contingent workers in terms of pay and benefits. Indeed, college students, intellectuals, civic groups, progressive political parties (the Socialist Party and the Democratic Labor Party) and laborers, including the two umbrella unions, the Korean Federation of Trade Unions and the Federation of Korean Trade Unions, have been calling for fairer wages and benefits for the ever-rising number of irregular workers. Fifth, more and more job seekers are seeking employment overseas. Indeed, many professional workers, especially those in computing and financial industries who lost their jobs amid the on-going corporate restructuring, have been flocking to executive search firms in pursuit of overseas employment. The notable increase in the number of work-related immigration attests to this. For example, the number of outbound immigrants with skills in such areas as computing and electronics more than doubled from 3,287 in 1997 to 8,369 in 2000, marking the first time the number of work-related immigrants comprised more than a half of the total of outbound immigrants in any given year in Korea. This trend continued in the next two years as 6,079 out of 11,534 immigrants in 2001 and 6,317 out of 11,178 immigrants in 2002 migrated abroad as occupational immigrants. A similar pattern of brain-draining is found in the research and development community, where an estimated 5,000 researchers have left Korea between the end of 1997 and early 1999. Gone are the days when mainly seamen and construction workers went abroad to find employment.

One change not directly engendered by the financial crisis but deserving mention is the planned five-day workweek, which could generate new jobs in the form of “job-sharing.” Less work also means more time for and spending on leisure, meaning the creation of more jobs in leisure and service industries. The new shortened workweek has been in effect for financial services companies, including banks, since July 2002 and is slated to begin for state-run enterprises and large companies in late 2003. However, business organizations such as the Korean Employers Federation and the Federation of Korean Industries as well as labor unions, including the Korean Confederation of Labor Union, have yet to approve the proposed workweek. They maintain that there are many unresolved issues, including the adjustment of the number of monthly and annual holidays, the timing of the implementation and compensation systems for overtime.

**Changes in Corporate Culture and Changing Perceptions of Work**

Lifetime employment, age-graded seniority system and familial structure have been the hallmarks of Korean corporate culture. While the familial structure and attendant practices of Korean firms are still dominant, the financial crisis brought about significant
changes in the corporate culture, all of which were implemented ultimately to improve efficiency and competitiveness. For example, a more relaxed dress code, including casual cloth Saturdays, has been adopted by a majority of companies. To alleviate rigid hierarchy within the company, ranks have been simplified from up to ten grades to about five, and the walls of managers’ rooms at many firms have been removed to facilitate better communication. Departments have been broken up into smaller teams with specific tasks, and frequency of executive meetings has been reduced from two to three times a week to once a week or even less. Another noteworthy change is that an increasing number of companies are adopting an achievement-based annual contract system. A Korea Employers Federation survey shows that roughly a half of mid-sized to large firms have adopted a merit-based salary system and that bigger firms are more likely to have done so than smaller firms: for firms employing more than 1,000 workers, 60.9% was found to have such salary system, followed by 48.4% of firms with 500-999 workers, 41.3% of firms with 300-499 workers, and 35.1% of firms with 100-299 workers. All of this, as many argue, would have taken much longer to be implemented if it were not for the financial crisis.

New corporate practices that have more direct impact on employees are also evident. For example, as insinuated above, lifetime employment is no longer the rule; companies can now lay off workers practically at will. Until 1998, Korea’s labor law, albeit notorious for its pro-business tendency, prohibited lay-offs, but the financial crisis necessitated a more flexible labor law. Accordingly, the tripartite commission comprising representatives from labor, management and government hammered out an agreement in early 1998 to open the way for layoffs. A recent study shows what kind of impact this change in law had on the labor market: a study by Byung-yu Cheon reveals that involuntary unemployment rate soared from 3% in the October 1995–September 1996 period to 31.1% in the October 2000–September 2001 period, a ten-fold increase. Another noteworthy tally has to do with the reduction in the combined total of employees of the 30 top conglomerates, financial institutions and public enterprises between October 1996 and October 2001: the total plunged from 1,559,000 to 1,222,000, a 21% drop. In addition to outright layoffs, companies have used early retirement and honorary retirement schemes to scale down their pay rolls.

For the workers long used to lifetime employment and family-like workplace atmosphere, the layoffs, job insecurity and increased competition within the workplace seem to be causing great emotional strain. Soon after the financial crisis began, for example, a study of those who survived layoffs in large conglomerates showed that they developed the so-called ADDS or After Downsizing Desertification Syndrome, meaning that they felt mentally desolate after seeing their colleagues dismissed from work and were prone to feeling guilty. A majority of these workers reportedly felt that they survived lay-offs not because of their merits, but because of good luck. They also felt that reasons for their colleagues’ layoffs were, in the order of importance, non-professional nature of their work, bad luck, and bad interpersonal relationship. Job-keepers also reportedly endure the “lament of survivors”: continuing job insecurity, work overload, and stress from working in unfamiliar settings if dispatched to a different
department through restructuring. More recent surveys further demonstrate that workers are constantly worried about being laid off. For example, a survey of 2,791 workers in May 2002 showed that 70% of polled workers expressed their fear of layoffs.\textsuperscript{31}

In reaction to all of these uncertainties and “harsher” corporate environment, workers have become more realistic about their career and become more self-centered: the thought of lifetime employment and blind loyalty has changed to one of “I work only as much as I am paid.” This is particularly true for white-collar workers, who are much more conscious of their pay than ever before and are prone to calculating whether they are getting paid enough for the amount of work they put in. This has always been the case for blue-collar workers in Korea, but white-collar workers themselves seem to have picked up the habit in this era of downsizing. Workers are also well aware that hard work alone no longer guarantees that they can remain with the same company until the retirement age. The prevailing thought is that one can be deserted by his or her company as easily as he or she is ready to leave. Moreover, the camaraderie that used to rule supreme among colleagues is increasingly being replaced by competition. Now, the “us” versus “them” mentality is being increasingly, albeit discreetly, replaced by the “I” versus “You” attitude within the workplace in the fight to survive layoffs. It is also true that, to stay ahead of the pack and to dodge layoffs at least, employees in general can be said to have regained their industriousness that might have been lost somewhat in the days of prosperity. In addition to working hard, many white-collar employees also sacrifice their free time in the early morning or evening or even weekends to improve their English or obtain certificates of qualifications. That is because English proficiency and certificates figure most prominently in promotion and other considerations, with the exception perhaps of educational background (and school ties). While the penchant for learning English and other skills has been around for some time, it has become far more intense since the financial crisis. What is also different about the post-crisis Korea is that individuals are making these sacrifices in preparation for possible layoffs, to better ready themselves in finding other jobs in the event of layoffs. Faced with uncertain future, it is also true that many workers are constantly looking into the possibility of establishing a small business of their own.

The heartless world of work, as it is now popularly perceived, has also inspired a change in the perception of work among those seeking jobs, e.g., recent college graduates and senior college students. In the past, job security used to be the least of concern for those looking for a job, but it is now deemed more important than such issues as future potential and pay level. For example, a 1995 survey of 30,000 households by the National Statistical Office, which asked the respondents to identify the most important issue in a considering job, showed that the top three responses were job security, future potential, and pay, and that the difference between them was minimal: for example, 29.6% of the respondents chose “job security,” while 29.2% selected “future potential” and 27.1% “pay.\textsuperscript{32} A survey three years later, however, showed a conspicuous change: 41.5% of the respondents chose “job security” as the most important issue in choosing a job, followed by 20.7% for future potential and 18.2% for pay.\textsuperscript{33} A 2002 survey also shows that job security is still the top concern for job seekers.\textsuperscript{34} Accordingly, gone are the days when jobs at a large conglomerate used to top the list of job seekers. Aspiring workers
increasingly prefer employment as civil servants and teachers, as these jobs, albeit with relatively smaller pay and less prestige, offer greater job security. Jobs at small- to mid-sized firms also have become more popular for the same reason.35 What all of this means is that some of the most able would-be-workers for conglomerates are opting for more secure jobs and that conglomerates can no longer be complacent about recruiting the most talented workers.

Widening Income Disparity

Immediately following the outbreak of the financial crisis, there was a public outcry about a shrinking or a collapse of the middle class.36 In fact, a survey in 1998 showed a marked decline in the number of respondents who identified themselves as belonging to the middle class (Table 3). A 2000 survey sponsored by a Korean daily newspaper further showed that 36.5% of the respondents felt that they were financially worse off in that year than five years ago.37

| Table 3: Self-Identification of Class Membership (%) |
|-----------------|----------------|----------------|
| Before the Crisis | Upper Class | 4.3 | Middle Class | 61.1 | Low Class | 34.3 |
| After the Crisis | 0.6 | 45.1 | 54 |

Source: Hankyoreh, 13 April 1999.

Notwithstanding whether the shrinking of the middle class has really transpired, what seemed to have happened in the last few years in regard to class is a greater polarization of “haves” and “have-nots.” In The Global Trap: Globalization and the Assault on Prosperity and Democracy, Hans-Peter Martin and Harald Schumann argue that the world is being restructured dualistically between 20% “haves” and 80% “have-nots,” 20% professional core workers and 80% peripheral temporary workers, and 20% employed and 80% unemployed or would-be-unemployed.38 All of this, they argue, will lead to the collapse of the middle class and allow the rich to get richer and the poor poorer. Although Korea has not yet entered the so-called 20-80 society, it is increasingly becoming a polarized society of haves and have-nots. For example, the top quintile of urban households earned 4.49 times more than what the bottom 20% grossed in 1997, but, as of the end of 1999, the top 20% earned 5.49 times more than the total income garnered by the bottom 20% (4.4 million won compared to 820,000 won).39 Such income gap has persisted through 2000, 2001 and 2002. Income inequality is actually worse than what these numbers indicate, for these tabulations are based on the incomes of workers living in at least two-person, urban households, excluding the high incomes of senior managers and self-employed individuals as well as the low incomes of farmers. Since the financial crisis, therefore, the rich got richer, while the poor got poorer, and this trend is likely to be sustained for some time to come.

The increasing number of people living under the poverty line further indicates the widening income inequality. Both the absolute and relative poverty rates remain higher
than those of 1997. For example, the proportion of Korean households living under the poverty line—a family of four making less than 928,000 won in 2000, 956,000 won in 2001, and 989,000 won in 2002—soared from 2.8% in 1997 to 6.4% and 7.3% in 1998 and 1999, respectively. While the rates declined noticeably in the next three years to 5.4% (2000), 4.4% (2001), and 3.5% (2002), they are still higher than the 1997 rate. The poverty problem seems even more serious if we look at the relative poverty rate (proportion of the households that make less than 40% of the average income of all households) during the same period: from 1997 to 2002, the relative poverty rate jumped from 6.6% to 9.2% in 1998, 9.4% in 1999, 8.7% in 2000, 8.7% in 2001, and 8.0% in 2002. This brings to mind the phenomenon of “hidden poverty” in Korea. Poverty in economically underdeveloped nations is discernible outright, for it often involves malnourishment and poor hygiene. Poverty in the economically advanced countries and in a developing nation like Korea is not as conspicuous and is thus “hidden.” Although not as compelling as the Third World poverty, hidden poverty is a serious problem affecting large numbers of low-income class and/or unemployed who cannot adequately provide for their children and who may not have sufficient medical care.

The growing income inequality and poverty have prompted the government to introduce a system of “productive welfare,” which is akin to the concept of “workfare” in emphasizing self-help and pro-market human resource development in combination with the provision of aid for the poor. Subsequently, the government implemented in October 2000 the Basic Livelihood Security System, which provides support for people who have inadequate income. For those who make incomes below the government-set points of reference—320,000 won (roughly US $250) for a one-person household, 540,000 won for two-person household, 740,000 won for a three-person household, 930,000 won for a four-person household, and 1,060,000 won for a five-person household—they are entitled to the difference. For example, a four-person household with a total income of 800,000 won would receive 130,000 won in assistance. It also offers subsidized vocation training for those who have lost their jobs. However, the budgetary allocation for the new welfare program is far from sufficient. In its first year, for example, the government earmarked a mere 1.7 trillion won (about US $1.3 billion) or about 1.5% of its annual budget for the program. This is not surprising given that the Korean government’s spending on social welfare, which is about 10% of its annual budget, is far lower than 40 to 50% rates found in such economically advanced nations as Sweden, Canada, Germany and France. Korea’s figure also pales in comparison with similarly developed nations: Czechoslovakia, Hungary and Mexico each spends 20 to 30% of its annual budget on social welfare.

Faced with the growing inequality and inadequate government subsidies, more and more families are becoming dependent on the income of wives. Traditionally, a majority of Korean families have fathers as the sole breadwinner, but the economic hardship caused by layoffs has forced many wives—and more women in general—to work outside the home. As an income earner now, wives reportedly have more say in household matters, and the father’s authority accordingly seems to have somewhat diminished. Along with the rise in dual-income families, it is also evident that an increasing number of men are holding more than one job to make ends meet: those with
two jobs are found to be working as, in addition to their regular job, freelance translator, freelance consultant, tutor, delivery service person, proxy driver, door-to-door sales person (e.g., Amway), etc. Some also resort to establishing a small business of their own on the side, like a mini coffee shop, snack bar, or take-out-only eatery.

**Impact on the Family and on Women**

The financial crisis has been also harsh on the Korean family. Particularly troublesome is a rising divorce rate. The number of divorces has steadily increased from 1970 to 1996, but jumped more conspicuously since then: the number of divorces increased from 11,600 in 1970 to 23,700 in 1980, 45,700 in 1990, 68,300 in 1995, 93,200 in 1997, 116,700 in 1998, 118,000 in 1999, 120,000 in 2000, 135,000 in 2001, and 145,300 in 2002. In fact, Korea’s divorce rate, i.e., ratio of divorces to marriages in a given year, is one of the highest in the world: for example, there were 145,300 divorces compared to 306,600 marriages in 2002, meaning that divorces numerically accounted for about a half of all marriages. Even when we calculate divorces per 1000 population, another popular method of tabulating the divorce rate, Korea’s rate of 3.0 in 2002, which is 2.5 times higher than the rate of 1.2 in 1992, trails only the United States (4.2), but surpasses those of the United Kingdom (2.9), Sweden (2.4), Germany (2.3), France (2.0), Japan (2.0), and Taiwan (1.8). As regards the reasons for divorce, those who specifically cited financial problems rose from 3.0% in 1995 to 10.8% in 2000, 11.6% in 2001 and 13.6% in 2002, the latter of which is more than four-fold increase in just seven years. But, since other reasons cited for divorce, such as personal incompatibility or troubles with in-laws, are found to be linked to money problems, the financial strain as a contributing factor to divorce can be said to be much stronger than what the above numbers suggest.

Perhaps a propitious decline in the fertility rate can also be attributed to the overall harsher economic circumstances. The fertility has been gradually declining since the early 1990s, but it fell more conspicuously in the post-crisis period—it fell from 1.54 in 1997 to 1.47 in 1998, 1.42 in 1999, 1.47 in 2000, 1.30 in 2001, and 1.17 in 2002. The 2002 rate is one of the lowest in the world, lower than the rates of 2.13 in the United States, 1.89 in France, 1.64 in Britain, 1.34 in Germany, 1.33 in Japan, and 1.22 in Spain.

The rise in immigration is another noteworthy development in recent years. Since the number of outbound immigrants topped at 46,533 in 1976, it had been steadily decreasing due to the overall improvement in the standard of living in Korea, hovering around 20,000 in the early 1990s and 12,000 in the mid 1990s. The figure stood at 10,672 in 1997 but increased next year for the first time in 22 years to 11,539. The number of immigrants then rose to 12,655 in 1999 and 15,307 in 2000. Chances are that the number of outbound immigrants will increase even more in the near future, especially because surveys show that a considerable number of Koreans desire to immigrate if they have a chance. For example, a 2001 survey indicated that 45.3% of Koreans are interested in moving to another country, especially to such favored countries as Canada, the U.S., Australia and New Zealand. A survey two years later also showed similar trends: more than 40% of the respondents expressed their wish to migrate overseas. What is alarming is that nearly 60% and about 53% of the respondents in their twenties...
and thirties, respectively, said so, while nearly 70% of women in their twenties affirmed their wish to immigrate. The respondents on the whole gave three main reasons for wishing to immigrate: their dislike of Korean politics and society (36.2% of the respondents), concern for their children’s education (33.1%) and economic difficulties (24.5%). What this demonstrates is that Koreans are reacting to the harsher reality brought upon by the financial crisis by opting or, at least, wishing to immigrate to seek a better life else where. In addition to immigration, another noteworthy change in regard to their reaction to the new reality is that there has been a renewed emphasis on the family and family cohesion, both of which had been increasingly overshadowed by the onslaught of industrialization, modernization and urbanization as well as growing individualism.

As regards the impact of the financial crisis on Korean women, it has been negative, to say the least. In fact, women faced even more discrimination in hiring and in promotion, and were openly targeted for layoffs. Many policies aimed at helping women’s cause were also scrapped in the wake of the crisis. For example, the government put heavy pressure on large firms to set up a quota system to appoint more women to managerial positions, but retreated in the wake of the financial crisis. The government applied similar pressure on firms to hire more women, but this policy was also put on hold. For many years, large firms have limited the hiring of women to about 20% of the new recruits, despite the fact that as many women as men apply and that their qualifications stand in equal footing in comparison to their male counterparts. Needless to say, the employment situation for Korean women remains very unfavourable: although women’s labor force participation rate has increased continually from the early 1960s—for example, the rate increased from 36 in 1964 to 39.3 in 1970, 42.8 in 1980, 47 in 1990, 48.4 in 1995, 48.6 in 2000 and 49.7 in 2002—more and more working women are gaining employment in the informal/subcontracting sector, i.e., firms employing less than five, in the low-paying service sector and in part-time jobs. In 1997, 62% of all female workers were either day laborers or temporary workers, but the rate rose to 65.9% next year, 69.5% in 1999, 69.7% in 2000, 66.4% in 2001, and 66.9% in 2002. For comparison, the proportion of male employees who are contingent workers hovered between 35% and 41% during the same period. Another conspicuous difference manifesting gender discrimination in employment is found in the representation of such workers in different age groups: while male contingent workers are concentrated among those in their early 20s and late 50s, female contingent workers are found evenly high throughout all the age groups.

Discriminatory practices against women in hiring, pay and promotion in the workplace are still the norm, for only a very few reach managerial, supervisory, executive, or administrative positions. For example, the proportion of women in management positions was only 4% in 1991, and of the total number of women workers, only 0.1% held managerial or administrative positions. The proportion of women in management actually dropped to three percent in 1997, only to rise again to reach the five-percent level in 2001. The latter figure pales in stark contrast to those of other Asian countries, including Singapore (21%), Malaysia (21%) and the Philippines (33%). As regards its correlation with the firm’s size, women’s status at large conglomerates or chaebol is the worst: women comprise a mere 0.7% of those in the management level. Given these
disadvantages of women workers, it is not surprising to find a wide income gap between male and female workers: female workers earned only 45.1% of what their male counterparts earned in 1972, 42.9% in 1980, 52.4% in 1989, 56.8% in 1994, and 63.1% in 1999. \(^{34}\) In fact, between 1980 and 1988, South Korea registered the highest wage difference between males and females among the twenty-one countries that provided data to the International Labour Organization (ILO, 1990). Things have improved only marginally as of 2002: women’s earnings average around 64% of what men earn. \(^{35}\)

As with efforts to eliminate discrimination against contingent workers, various groups, especially women groups—e.g., Korean League of Women Voters, Women Net, Women Link and Korea Foundation for Women—and organizations representing the interests of female workers—e.g., Korean Women Workers Associations United, Korea Women’s Trade Union, Seoul Women’s Trade Unions and Action Center for Restoration of Irregular Women Workers’ Rights—have been calling for an end to gender discrimination in hiring, pay and promotion. They have also been calling, for among others, longer maternity leave and subsidies for daycare costs.

**Self-Reflection and Crisis of Values**

The new Korea engendered by the financial crisis has galvanized Koreans to reflect on their values, worldview and the overall Korean Way. The financial crisis has made Koreans to not only become more humble in their assessment of their country’s place in the international community but also more aware of their vulnerability. Immediately following the outbreak of the financial crisis, there was at first a sense of denial, with the public crying “Why us?” Soon the reality set in, and people became frustrated and felt dejected over their own blunders. The financial crisis has also reawakened a sense of crisis, which has remained dormant among the Koreans who have not experienced too many failures during their decades-long economic growth. People are thus more aware that nothing can be taken for granted and that high economic growth cannot continue forever. As a result, the notion that things somehow work out in the end has largely disappeared.

What was disheartening was the fact that their prized way, at least in the economic sphere, proved to be inefficient and to a certain extent, even irrational. \(^{36}\) The controversy over Confucian values or “Asian Values” is a case in point. Koreans have long prided themselves in having embraced Confucian values—i.e., deference to societal or group interests, emphasis on self-cultivation and education, respect for probity and loyalty, emphasis on social harmony, respect for authority and consensus over confrontation—and believed in their superiority over western individualism in achieving rapid industrialization and sustained economic growth. However, the financial crisis highlighted the dark side of the cherished values. Respect for authority, for example, often meant the inability to question those in authority as well as the blind respect for and pursuit of esteemed titles. Strict hierarchical social structure granted only the rights and privileges to superiors—which often led to corruption—while depriving the rights of subordinates. Emphasis on family led to nepotism or factionalism, while the accent on personal relationships bred cronyism and unhealthy school ties and regional ties. Moreover, emphasis on group interests often stifled individual creativity and an ability
to innovate. Needless to say, these problems have inspired Koreans to reassess the rightful role of Confucianism in Korean society.

Reflecting the sentiment of those disenchanted with Confucianism is the non-fiction bestseller entitled “Confucius Must Die if Korea Wants to Survive.” In the book, the author, Kim Gyoung-il, a professor of Chinese classical literature, calls for a complete rejection of Confucianism, saying that the outdated social doctrine has been the root cause of various social ills, including those mentioned above. Kim goes as far as to say that Confucianism is a virus that has rotten the Korean spirit for hundreds of years. Not surprisingly, the premise of the book has drawn intense criticism from Confucian devotees and engendered explosive debates among academics. The intellectual and emotional conflict over the role of Confucianism in contemporary Korean society seems to indicate that there is an ongoing debate about the present and future role of time-honored values in Korean society. Some argue that the “shackles” of traditional values impede progressive cultural and social reform, while others advocate a perpetuation, if not renascence, of traditional mores to sustain moral family life and familial social life as well as to rally against the onslaught of western influence. Such controversy over the role of Confucianism indicates that things old and new combine to constitute Korean society today and that dynamic contradiction—between western and traditional, between preservation and transformation, between familiar and unfamiliar, and between conflict and consensus—is at the heart of contemporary Korea.

More recently, Koreans have been trying to put the humiliation of the financial crisis behind them and move ahead for a better future. They believe that they have done enough reflecting and self-evaluation and that it is better to look ahead and put more effort into building a “stronger” Korea. Accordingly, they are trying to regain their pride and confidence. One thing they are doing in this regard is to put a positive spin on their humbling experience, i.e., the crisis facilitated economic restructuring that has made the Korean economy more sound and transparent. Hosting the 2002 Korea/Japan World Cup helped as well, for it allowed Koreans to showcase their resilience in having successfully overcome their economic troubles. All of this has made one of the favorite sayings of Koreans, “hanryondoenda” (“I can make it if I try”) to become popular again. Indeed, the “can do” spirit, which had lost its lustre in the wake of the financial crisis, is now being used as a slogan once again to galvanize Koreans to work hard.

Conclusions

21st century Korea is very different from what it was just five years ago, i.e., before the financial crisis. It goes without saying that the financial crisis has profoundly impacted Korean society, whereby job insecurity, underemployment and the widening income inequality have become the norm. A more self-centered perception of work, upsurge in immigration and renewed sense of vulnerability are other changes evident in the post-crisis Korea. This does not mean, of course, that all has been negative, for certain positive changes such as economic reform and restructuring have made the organization and governance of Korean firms more efficient and their products more competitive in the international market.
These changes discussed in this article, by no means exhaustive, provide a glimpse into a kind of new Korean society that has emerged. We can draw several important conclusions from the overall impact of the financial crisis and about Korea in the 21st century. First, underemployment has become the norm, whereby the number of non-standard or irregular workers now exceeds that of full-time, regular workers. Changes in labor law have allowed employers to not only layoff workers relatively more easily but also to staff their firms with temporary workers who are substantially paid less than regular workers doing the same task. Second, the polarization of society between rich and poor, employed and unemployed, and skilled and unskilled workers has become more conspicuous. Korean society now manifests itself as being increasingly restructured dualistically between “haves” and “have-nots,” and between fully employed and unemployed or underemployed. Third, the unstable employment conditions and the changes that amount to worsening quality of life have prompted more Koreans to seek a better life by either finding overseas jobs or immigrating. Fourth, the changes brought upon by the financial crisis had a harsher impact on such disadvantaged groups as the poor and women. Fifth, in reaction to all of these changes, Koreans have devised many ingenious ways, such as seeking overseas employment; quitting their job to enrol in degree programs that offer more stable occupations; holding two jobs or having wives work outside the home; resorting to immigration or job-related immigration; joining efforts with civic groups and labor unions to combat discrimination against contingent and/or women workers; and renewing their emphasis on family cohesion. Sixth, the financial crisis has inspired Koreans to be more humble in their assessment of their achievement and feel more vulnerable about the future. A related point is that Koreans are rethinking about the relevance and importance of such time-honored values as Confucianism (or Asian values). Finally, Koreans have had to make great psychological and social adjustment to the vastly changing society, especially in light of greater job insecurity and potential deterioration in living standard.

The Korean case shows that we need to look at the issue of financial crisis in a more balanced way. Financial crises could strike any country and we need to view this problem as not only an economic problem but also social and psychological ones as well. Indeed, we need to pay as much attention to the social impact of the financial crisis as the causes. The Korean case also reveals that the government needs to respond more quickly and actively in dealing with the negative consequences of such crisis. One of the ways it could do so, of course, is to prioritize the provision of adequate social safety net, including more extensive unemployment insurance benefits and welfare programs.

Notes


6. Workers with low education were more susceptible to layoffs immediately following the financial crisis. According to a poll by the National Statistical Office (1998), the unemployment rate rose 49 percent among those with college or higher education, while the rates for those with high school diplomas and those with only middle school education jumped 60.4 percent and 112.3 percent, respectively.
8. Labor statistics in other countries also exclude day laborers in the calculation of unemployment rate, but what makes the Korean case stand out is the high number of such workers.
25. Although the merit-based salary system is gaining more acceptance, the dominant remuneration system in Korea still bases the employee’s salary on the year of entrance to the company (in this way, salary is the same for all the identical-ranked employees who entered the company in the same year).
28. Ibid.
30. What must be noted here is that “unemployment shock” has greater impact on Korean families than it has on their American or European counterparts, because more Korean households have husbands as the sole income earner and because most Korean families allow children to rely on their parents’ financial support until they get married. The relative lack of social safety net is another reason why unemployment is more devastating for Korean families. Furthermore, being laid off is like a death sentence in Korea. It is not just a deprivation of the means to earn a livelihood, for it means social death, loss of face in a society where one’s occupation is more intimately linked to social status than most other societies—and status means practically everything in Korea. Being laid off is also harsher for Koreans than for the people of most other societies, because the chance of finding employment which is comparable to the former job is severely limited by the practice of age-based seniority system within the firm.

31. Hankyoreh, 10 May 2002.


35. Multinational companies stationed in Korea are also popular among aspiring workers, but for different reasons. They are admired in the belief that they offer better pay, more relaxed company atmosphere, more holidays, e.g., a majority of Korean companies have half-working day Saturdays, while multinationals have them off, etc.


43. Ibid.

44. Ibid.


46. Ibid. The figures for the United States, France, Britain, Germany, and Spain are based on 2000 data, while that of Japan is based on 2001 data.

47. Dongailbo, 4 April 2001.


50. Ibid.


52. Hankyoreh, 8 January 2001; Dongailbo, 7 March 2002.


54. Gyeongjoon Yu, Seongbryul ingeumgyeokchaui chiaiwachabuyeol (Gender Differences in Earnings), Research Paper (Seoul: Korea Development Institute, 2002).


57. Gyoun-gil Kim, Gongjiga jukoeoya naraqasanda (Confucius Must Die if Korea Wants to Survive) (Seoul: Badachulpansa, 1999).