

## Economic development and transformation of class structure in Korea after 1997-1998

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### *Introduction*

Problems of social development in the last ten years have come under scrutiny in Korea due to hard experiences many people got after the Asian financial crisis of 1997-1998. Korea that has enjoyed a comparatively even distribution of income suddenly faced the problem of rising inequality, insufficiency of social benefits and others. But not only this: crisis has produced a profound impact on the whole economy and forced it to globalize. Globalization policy was launched by Kim Young Sam government in the early 1990's. However, to our opinion, it accelerated and took a real course only after 1998 when the government launched a series of reforms. As a result, Korea has become open to many international influences that transformed its class structure especially in the sphere of professional occupation. In this paper we are going to look at changes happened and show through which mechanisms and how international environment could bring them into society. The paper consists of three parts: in the first we briefly review a process of class formation in Korea, the second brings into focus globalization and its influence on professional occupation, while the third shows transformation happened within the middle class.

### *I. Social structure in Korea in a historical perspective*

For the most part of the latter half of the 20th century social structure and classes in Korea were determined by the process of rapid industrialization. Generally speaking, the pattern of changes observed in Korea followed that one of other developed capitalist countries that had earlier came through similar stages (양춘, 2000, p.28.). But at the same time there were some peculiarities pertinent to the Korean experience and one of them was a speed with which those changes occurred. Almost each decade beginning from the early 1960's Korean society was reconfiguring itself according the needs of expanding economy which determined, as Korean scholars justly point out, a 'fluid'<sup>1</sup> nature of class structure(양춘, 김문조외, 2001, p.64). In the first place changes were reflected in the structure of professional occupation, presented in Chart 1.

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<sup>1</sup> Exceptional flexibility of Korea's class structure at the early stage of development was a produce of extremely turbulent times following end of Japanese colonization, during which structure of traditional society was ruined and accumulation posed a major difficulty, and Korean War. Flexibility was ascribed also to class of capitalists since system of ownership of wealth was broken. In later years as it will be argued later there was a trend towards cementation of the upper-middle class in Korea. // 양춘, 김문조외, 2001. 현대한국사회의계층구조. 아산재단연구총서제75집, p.64.

At the start off stage that took place in 1962-1971 and demanded a massive inflow of work force into labor-intensive textile, footwear and other light industries, there was a prominent increase of working class employed in manufacturing (Chart 1). Evolving working class mainly consisted of those that were previously employed in agriculture and was generally represented by people without higher education. During the next phase from 1972 to 1979 that coincides with Park Jun Hee's heavy and chemical industry drive (or in Korean 유신체제) working intelligentsia and professional workers that already have higher education crystallized out of the working class and moved to upper and low middle classes. For this period also falls the rise of major Korean capitalists that are mostly represented by owners of large industrial groups.

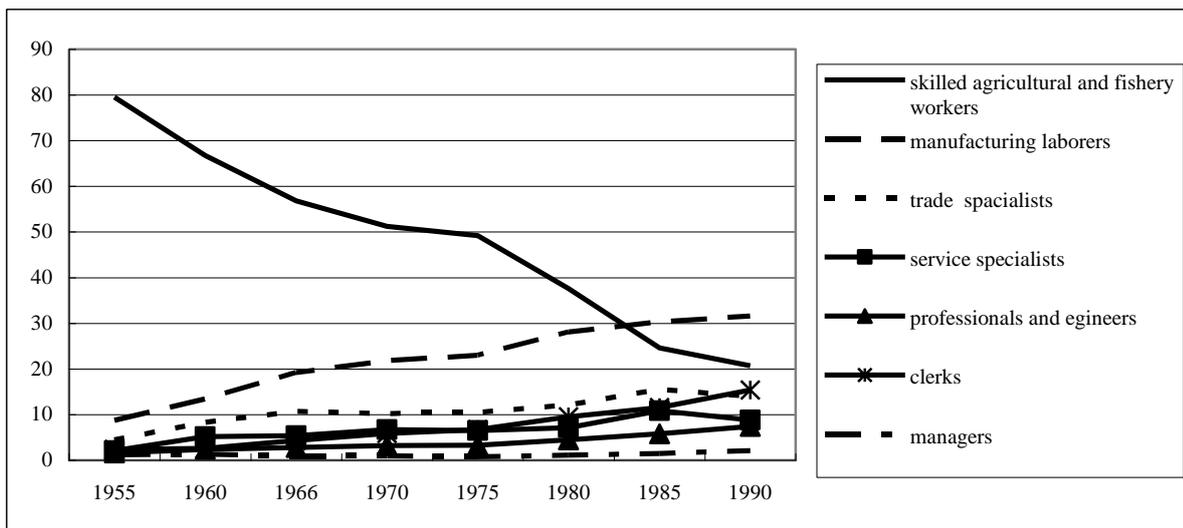
In the 1980's and further in the first half of 1990's up to Asian financial crisis social structure became less prone to changes, or rather the pace of changes slowed. These were the years of redistribution of income in favor of the middle class that was growing due to increasing number of people with higher education belonging employed in white- and blue- collar positions in an expanded Korean corporate sector. This process was spurred by overall intensification of industrial production that also became more capital- and science intensive and developing service sector. In 1980's Korean upper class (which as it was mentioned above is dominated by corporate leadership originating from poor families with no considerable background<sup>2</sup>) further cemented its growing wealth by diversification into new sectors of economy both industrial and service ones (홍두승, 1993 cited by 양춘, 2000, p.29)<sup>3</sup>.

Chart 1. Changes in professional occupation in Korea, 1955-1990, %

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<sup>2</sup> In his work published in 1988 Korean sociologist Soe Jae Jin show that majority of present-day capitalist came from poor families that by using different methods could find their ways in the process of rapid wealth accumulation ongoing in Korea during industrialization. // 서재진, 1988. 한국산업자본가의 사회적기원. 한국사회사연구회논문집 14집. Pp. 11-38.

<sup>3</sup> Together with new industrialists military elite formed the higher class. As 홍두승 (1993) wrote, "until the process of democratization has started and the first president has been chosen in a democratic way military elite exercised an extensive control over economic and social spheres (professional and academic thoughts) by putting managers and professionals they needed into key positions". // Cited by 양춘, 2000. 한국사회: 계층구조와동학. 고려대학교출판부, p.29.



Source: 양춘, 김문조외, 2001. 현대한국사회의계층구조. 아산재단연구총서제75집, p.48.

Following changes in positions of bourgeoisie represented by businessmen, social attitude towards it has also changed. In society in 1970's still highly regarding Confucians values prestige of this group was very low but by the early 1980's majority of Seoul students (61.5%) would prefer being businessman rather than scholars (10%) or government officials (8.4%).

At the same time specialists paid attention already in 1980's to unproportionately large share of population, almost 20%, occupied in the service and trade sector. The logic behind this phenomenon could be found in too rapid migration of workforce from the agricultural sector that had to be employed. Also another *raison d'être* is connected to a psychological orientation of Koreans to take risks and engage in self-entrepreneurship. They mostly consider their employment as an opportunity to learn and accumulate experience in order to use it later in their own business. The dominating part of self-employed was operating in the service sector. The share of self-employed in Korea as of 1992 was 28.5% of total working population against 8% in USA, 13% in Japan, 12.6% in Singapore and 23.3% in Taiwan (양춘, 2000, p.53).

Along with already mentioned factors a traditionally big role in movement between classes played education. The peculiarity of Korea is an impact paid by real estate sphere on social mobility. Rapid economic development was accompanied by progressive urbanization that demanded development of new areas around major cities and in the first place around Seoul. As a result prices for property were increasing in geometric progression leaving a lot of space for investments into and speculation with the real estate. Families that could accumulated some capital by the mid 1970's, times when the development of Southern areas of Seoul has begun, derived additional income.

So, it can be concluded that the most important factors behind rapid social changes in Korea were determined by need of economic development. By the mid 1990's before Asian financial crisis

Korean society ended up being very close to advanced capitalist economies in terms of class structure. The country had a high percentage of middle class but at the same time was characterized by a more even dispersion of income. From 1990's Korea began entering a stage when embodied cultural capital by Bourdieu's definition which under certain conditions can be converted into economic capital and is institutionalized in the form of educational qualifications. Cultural capital began playing an increasing role in the structure of the Korean society determining to some extent social mobility. However, despite all the advances and achievements made by Korea some deep-rooted traditional norms retained their influence; those were orientation towards family and belonging to a certain group (like graduation from the same school, university, serving in army together, etc.), hierarchical structure of subordination that is defined by age in the first place.

## *II. Asian financial crisis and changed economic landscape in Korea*

Asian financial crisis could be considered a certain type of demarcation line that put a divide between types of economic development observed in Korea before and after it. The crisis was a final signal that model of development based on inputs of large amounts of factors of production – financial and human capital in the first place and assimilated technologies – with lesser regard towards productivity was no longer possible in the changing international and domestic environment. Effectiveness, productivity of inputs acquired greater importance at a mature stage of economic development that Korea has found itself by that time. Korea also had to be concerned about growing presence of countries like China, Vietnam, India, etc. in international markets and find ways to retain and advance its positions. Korea was not able to compete with them only by the price factor. Besides, the country had to watch global situation more closely, become more flexible, quicker and better adjust to changing trends. One way to achieve the desired outcome was through liberalization.

Liberalization process in Korea has a very curious peculiarity, i.e. its tied up to a much more extensive process of globalization. Moreover, policies that intended to increase economic openness in the first place (like liberalization of financial transactions) were regarded as policies for globalization. The globalization program was launched by Kim Yong Sam government in the beginning of 1990's. But it could be hardly viewed as such since it contained only limited number of liberalization measures that in fact severed the crisis. For example, the decision to liberalize short-term transactions ahead of long-term ones led to debt accumulation and added to the build-up of the crisis. So, to our opinion globalization policy became more consistent and better planned only after the crisis when Korean government launched a series of reforms. The focus of reforms was

placed on corporate and financial spheres as well as labor market.

All of the changes introduced after the crises had far reaching consequences for the economy and society on the whole. On the state level Korean government has lost a great deal of its coordinative and controlling power as a result of liberal reforms (Shin, 2008) giving momentum to further growth of large business's influence on the society. Following the abolishment of restrictive regulation they became some kind of conductors of international influences Korean corporations assumed a very proactive position in international markets, expanded their network through investments by opening facilities. And eventually they have become conductor of many international influences.

Changes associated with this primarily occurred in professional occupation sphere. Several points should be made with regard to this. From now on big business demanded new professional skills adequate to the global level of operations. Knowledge of foreign languages became the most important ability. This could not but be reflected in the education process. From the end of 1990's Korean education was developing as highly English-oriented. Some parents even started to send their children sometimes from the early childhood to English-speaking countries.

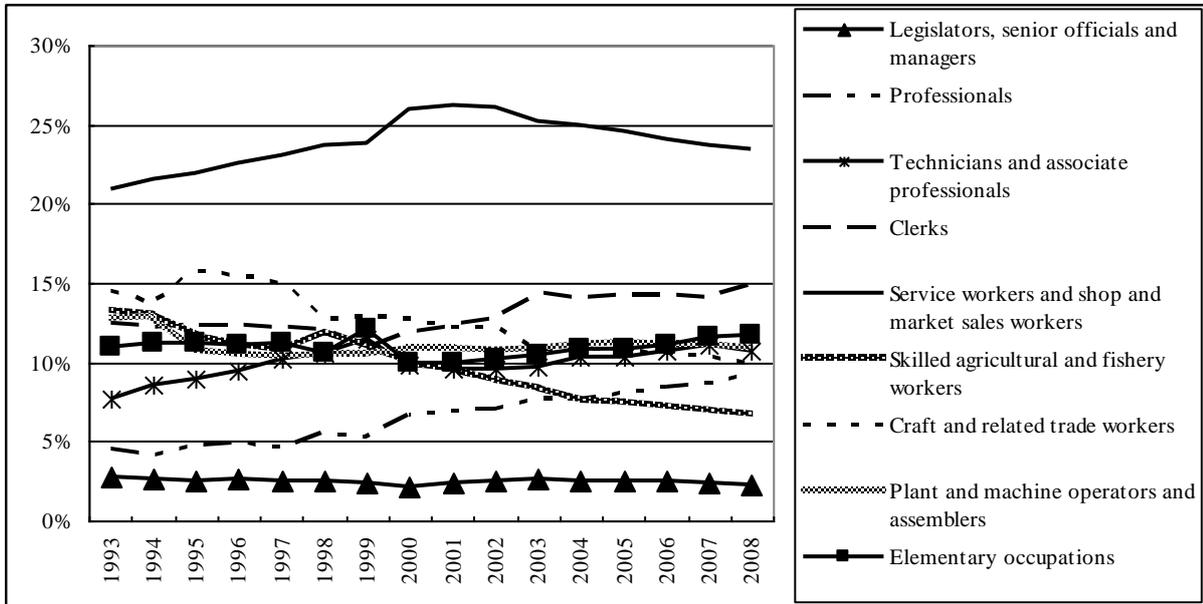
Another point deals with evolvement of new types of jobs. Accordingly, positions in companies were adjusted to suit international operations of business. Korean companies began practicing sending of personnel to its affiliates and manufacturing facilities located abroad. Greater complexity of high value-added branded products they were producing now also demanded new professions many of which represented highly paid jobs. According to data provided by Shin Kwang-Yeoung, salaries for professionals were increasing at the most rapid pace, in four years 1998-2001 they rose a compound 13% (신광영, 2004, p. 182). Thus, business contributed to income increase of a certain portion of the society and conditioned the formation of new well-to-do groups.

So did the financial market. Following financial liberalization Korean financial market demonstrated high growth and turned into a sizeable sector of national economy. It provided not only opportunities for getting income through investment. Integration of Korean stock market into international financial market created demand for new types of highly paid jobs. But at the same time many jobs in financial industry became outdated and were lost. Rapid development of global IT industry that formed as a global tendency allowed to increase effectiveness through automation and digitization of working processes. So, low managerial and clerical jobs in the service industry, especially in banking, become no longer needed (Shin, 2008).

During the course of liberalization reforms great deal of attention was given to socially one

of the most sensitive spheres – nature of employment. In pursue of effectiveness and greater flexibility Korean government eased rules for managerial layoffs which in practice put an end to the system of life time employment. At the same time officials progressively introduced measures to allow hiring foreign workers and specialists which was extremely difficult, if not impossible, in previous decades.

Chart 2 Professional occupation in Korea



Source: 통계청, 통계정보시스템, <http://kosis.nso.go.kr>

Speaking broadly years of crisis accelerated change of development paradigm. The focus gradually shifted from primary needs of domestic economy (like industrialization in 1960-1970's) to globally determined ones. Later in 2000's the world has become concerned with the issues of knowledge economy (in some cases called information economy) as a new stage of post-industrial development. The centerpiece of this concept is represented by innovations. Innovations are responsible for the dynamism of the overall economic process on the macrolevel; on the microlevel they represent a crucial element in companies' strategies to win in tight international competition. Korea embraced this new trend, economic programs of several administrations were built around increasing innovative capacity and development of information technologies. Korea began investing a lot into R&D on both state and private levels; the country even launched its own space program. Country's total R&D expenditures increased to 3.7% of GDP in 2010 forging it into the lead among not only developing but also developed countries. In OECD Korea fall behind only Israel that spends 4.4% of its GDP on science. Other countries spend considerably less, for example, France invested 2.2% of GDP in R&D activity in the same year, Germany – 2.8%, Japan – 3.3% (OECD, 2012). The number of people involved in production of the new knowledge also increased. By the

number of researcher per thousand of population Korea has already surpassed Japan and many European countries. In OECD it occupies the 3<sup>rd</sup> place with 10.6 researchers per thousand of population. The biggest number of researchers is found in Finland – 15.4 people and Denmark – 12.2 people while in Japan there are 10 researchers for each thousand (OECD, 2012).

Together with science cultural sphere evolved as yet another source of creativity. The general understanding is that the richer a nation becomes the higher the demand for culture is. Welfare of the Korean nation did see an increase giving people means to spend money on cultural things but not only this. Here we can also find traces of international influence represented by the global popularization of mass-culture and especially entertainment sphere like movies, pop-songs, etc. TV series, or dramas, enjoying an exceptional popularity among Koreans, pop-groups, or idol groups, became an important part of everyday life of many Koreans. These phenomena exercised and continue to exercise up to date a profound impact over minds of younger generations by introducing new lifestyles and what is more important new professional aspirations. Korean entertainment products are acclaimed in East and South-East Asia and evolved as one of the source of significant export earnings. Shortly speaking, one can observe economization of culture in Korea which falls within a global tendency and confirms Bourdieu's views mentioned earlier in the paper. At the same time this sphere produced new types of capital owners not connected with industrial sphere.

Concluding the discussion on the major trends in the Korean economy triggered by the Asian financial crisis we would like to say that aggressive globalization policy of Korean government from the one hand has created new opportunities for growth but from the other hand changed social economic and social landscape of the country. The problems of development that in times of industrialization were mostly concentrated around major need for industrialization gave way to in some respect more complex issues of international scale. In the next section we will look at how all these tendencies become interpreted in the social structure and social attitudes of Korea.

### *III. Trajectories in the Korean middle class after Asian Financial crisis of 1997-1998*

Due to stabilization of the growth pattern changes in the social structure of Korea has become less profound and much slower. Big masses of people were no longer swept from one class to another or from one professional occupation to another as a result of transformations. As sociologists say, it ceased to be 'fluid' and stabilized. Generally speaking, the class structure of Korean society that formed as a result of developmental process remained very much the same as before the crisis, no new types of classes emerged. Nonetheless one cannot say that changes ceased

rather they shifted from inter-class to in-class level where they occurred under the influence of international environment. As professor Koo (2010) in his lecture at Australia National University points out inter-class differences gave way to in-class class changes that appeared as a direct cause of aggressive globalization. By the mid-1990's Korea managed to create an egalitarian society with a large share of middle class. In the first half of the 1990's almost two thirds of Korean population considered themselves belonging to a middle class. So, it was quite natural that most of the transformations developed within the most numerous social class.

Severe economic crisis that stroke Korea in 1997-1998 (it is also referred as IMF crisis in Korea) became a milestone that for many Koreans on psychological level, divided their lifetime on a pre-IMF and after-IMF period. Indeed, reforms launched by the government in six spheres brought a lot of changes and sometimes even painfully reversed very specific features of the society. One of the most vivid examples of the last one is an abandonment of life-time employment system that lay at the core of social security and defined the middle class. As a result, many middle-aged lost their jobs. National unemployment climbed to almost 9% in 1999. Even though later it dropped to modest 3-4% the problem of job security remained pervasive. Middle-aged people who formerly belonged to the middle class, usually considered the most secured and stable part of any society, began changing jobs moreas frequent as younger generation does (신광용, p. 262). This caused a steady rise in the level of unemployment and temporarily employed among people in their late 20's and early 30's. Number of temporary workers increased from 3.9 mln. people in 1996 to 5.1 mln. people in 2006.

Nevertheless, not all of the representatives of this group suffered because of the crisis. On the contrary, for those who accumulated some wealth used the crisis to increase their affluence. They invested into real estate market and Korea's stock exchange market that with liberalization received a momentum for growth. This lead to growth of income disparity inside the middle class that had far reaching consequences in changing access as Koo (2010) notes to education and consumption opportunities. It created the whole discussion inside of Korea about "crises of the middle class". And there are solid reasons for such statements: distribution of income has worsened and Gini coefficient grew from 0.26 in mid-1990's to 0.33 in 2008.

Previously, it was difficult to lose one's social status once achieved. Age and level of education to some extent guaranteed a position within the middle-class. But after 1998 it was no longer so the line between working class and middle class became very feasible (신광용, 2004, p. 262). Globalization changed attitude towards age and put more focus on individual knowledge and experience. In its turn education that helped to climb up the social ladder suddenly became another

reason for polarization within the middle class not mentioning polarization between the classes. Additional costs incurred by new necessities to study English pushed education expenses. Some parents went as far as sending children in their early childhood to English-speaking countries. In society with strong Confucian ethics and high regard for education as Korean society a lot could be sacrificed for education, and such fact as heavy burden on families' budgets could not be a reason enough not to do it. Among OECD-member countries Korea holds the first place by the share of private expenditures on education: in Korea they get as high as 42%, while OECD average stands at a little bit more than 20%. Korea follows US, Chile and Turkey by the expensiveness of university education. In Korea 70% of students attend after-school language lessons, in OECD countries on average only 20%. OECD reports that households with a child attending hagwon pay an average of about 8% of monthly income, with the total cost for the country amounting 2.2% of GDP in 2007 (OECD, 2011). But it goes without saying that for children from well-to-do families there are more better options.

As abovementioned large part of responsibility for making Korean education English-oriented lies on Korean business and its demands to working skills. Corporations also partially replaced age and education as a symbol of belonging to the middle-class. Organizational structure one is employed by suddenly acquired higher value in eyes of Koreans. And this represents a major difference with times of industrialization and demonstrates significant social values shift. As the Korean scholar Shin Kwang-Yeoung points out, during period of industrialization a personal example of Hyundai founder influenced minds of Korean who believed that they or their children have a chance to succeed and live a better life. But after 1998 rising risks and diminishing number of mechanisms of protection in view of growing competition made it difficult to pursue a way of individual entrepreneur. Career in an already established structure seems more appealing to young generation. Results of the recent polls of high-school students show that working in Korean companies is the 3-4<sup>th</sup> most desired place of work. Meanwhile, most of university students especially when they near graduation aim to enter such corporation as Samsung or LG, Hyundai and basically study to achieve this goal.

Working in chaebols is also prestigious from the economic point of view. Expansion of global operations, higher demand for innovations created new highly paid managerial jobs. Managers in corporations get almost twice the average salary in Korea. Besides, companies provide other benefits like coverage of food expenses or expenses for university education of employees' children. In the end, Korean enterprises like Samsung, Hyundai has increasingly become a powerful factor behind polarization of the middle class. The problem is further aggravated by reform of the labor market in the wake of the crisis that introduced a system of temporary and irregular workers for

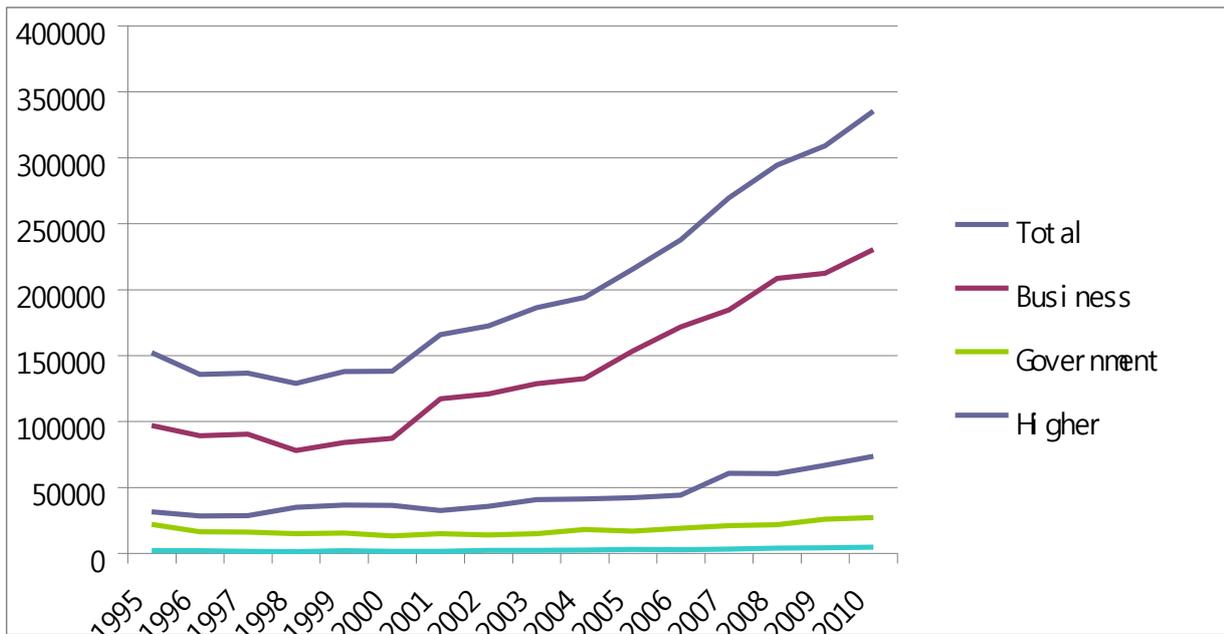
some categories of professional occupations.

Temporary and irregular workers spend same number of hours as regular workers do, they often are employed for a number of years as well. But these workers do not get enough payment, rewards and social benefits. Commonly a temporary worker (though in essence he/she does types of work and performs at the level of an ordinary employer) gets at least 30% less payment, in some cases even 50% less than regular workers (Kang, 2005, p.58). Only 20% of irregular workers get welfare coverage, including health insurance. The biggest share of irregular workers in 2005 was found among women in white collar positions (46.7%) and among unskilled workers (66.3%) and men among skilled (43.7%) and unskilled (34.7%) workers (Shin, 2008).

Increased social insecurity makes young Koreans and their parents opt for safer jobs many of which are in the public sector. A survey done by the Korean Ministry of Education, Science and Technology record that positions of university professor and school teacher (11%), government official (4.2%), policeman (4.15), nurse (3.9%), business manager (3.6%), CEO (3.4%), doctor (3.2%) and researcher (2.0%) as the most desired professions among high school students. But other surveys also show that many students would like to try themselves in financial and entertainment spheres.

Data for the structure of professional occupancy represented in Chart 2 also demonstrate an increase in blue- and white-collar workforce represented by managers, professionals in service sector and other. Especially notable is the rise in the number of R&D personnel, that has increased more than twofold (Chart 3). Thanks to Korean government support for IT industry development through the concept of knowledge economy corporate sector expanded employment in these positions. As it is shown in Chart 3 the number of researchers excluding technical and other personal in this sphere grew three-fold. In eyes of many Korean position of a researcher provides enough social security and social prestige and at the same time allows to follow one's individual inclinations. Moreover, very often these professions are less stressful and allow better self-realization which can be extremely hard to fulfill in a very competitive Korean society.

Chart 3 Number of R&D personnel in Korea, 1995-2010, thousand of people



Source: OECD, [www.oecd.org](http://www.oecd.org)

But these changes should be also regarded in a broader context of interaction between domestic and international trends. Expansion of employed in white- and blue-collar jobs happened as result of both transformation of Korean economy and the rise of global demand for creative products either represented by technological innovations or cultural products. It is also worthy to note that in this regard Korea followed a pattern of developed countries.

### Conclusions

Asian financial crisis played a vital role in the transformation of social classes in Korea. Its major impact is found in the fact that it forced Korea to open and let in greater amount of international influence that before. Consequently changes extended over basic economic need for domestic development that prevailed in previous decades. In general international forces intensified the convergence process of Korean professional occupation structure with developed countries in the rise of managerial, creativity-oriented jobs, jobs in financial sphere, R&D related jobs, etc. We would call it a further ‘slicing up’ of the middleclass along professional occupation. Automation of many processes that is a global trend involving each country, development of Korea’s exchange market due to liberalization policies, evolvment of entertainment sphere as a new productive sector of economy gave rise to formerly nonexistent professions or tremendous expansion of formerly unattractive ones from the point of view of Confucian society found mostly in the entertainment sphere. Many of these jobs are highly paid. So, their creation brought to consolidation of a new well-to-do group within the society.

Another characteristic of transformations found after the crisis is that they happened inside

one class rather than between classes, in other words transformations were of an in-class type and less inter-class type. Middle-class in Korea had to confront polarization, falling security, growing burden of new expenses, especially in connection with education and English learning. Interestingly enough major conductor of these changes was Korean business that enjoyed a lot of benefits from internationalization of its activity. The internationalization of chaebols happened very rapidly, almost within a decade. Consequently societal changes also happened very quickly. In future the pace of transformation might become slower but it will most probably go in line with international changes.

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