

ECONOMIC CRISIS AND ITS CONSEQUENCES

ABSTRACT. The financial crisis that began in late 1997, led to a catastrophic downturn of economic and social development in Korea. Rather than dealing with the macroeconomic and financial issues of the crisis, this study analyzes human aspects of the turmoil, that is, the social impact of the economic crisis on Korea. After reviewing indicators of unemployment, poverty, and income distribution in Korea during and after the crisis, this study details the responses and programs that the government undertook to promote employment, to alleviate poverty, and to protect the vulnerable. Since it is expected that the unemployment rate will remain high for a long period even after the economy recovers from the worst of the crisis, this study suggests the necessity of the government's special efforts to strengthen the system of social protection.

1. INTRODUCTION

Since 1997 the Republic of Korea (Korea hereinafter) has experienced an economic shock of unprecedented severity after decades of uninterrupted high growth. Before the economic crisis, many social development indicators of Korea were comparable to those of developed countries. Poverty in Korea declined steeply from 41 percent in 1965 to less than 8 percent in the 1990s (Kim and Leipziger, 1997). Life expectancy increased from 53.9 years in 1960 to 72 years in 1997, and the rate of infant mortality decreased from 85 per 1000 to 5 per 1000 for the same period (World Bank, 1999). The adult literacy rate, already high by Third World standards, in 1970 as 88 percent, reached 98 percent in 1994, while the education enrollment rate at all levels, as a percentage of total population between 6 and 23 years of age, rose from 66 percent in 1980 to 82 percent in 1994 (UNDP, 1999). Moreover, according to the United Nation's Human Development Index (HDI), Korea is classified as a high human development country.¹ A trend analysis of the HDI from 1960 to 1997 indicates a continual improvement. The HDI was



0.398 in 1960, rising to 0.680 in 1975 and 0.761 in 1985. It reached 0.852 in 1997.

However, the financial crisis that began in late 1997 with a foreign currency shortage led to a catastrophic downturn of economic and social development. The crisis and economic restructuring process had major destabilizing consequences, such as shaking confidence in the financial system, disrupting economic activity, forcing many firms into bankruptcy, and producing many other economic problems. Of greater concern than these general negative impacts were those with distributional consequences. Foremost among these was the impact on unemployment and poverty. The effect of the economic crisis on Korea was devastating, particularly for the average citizen who suffered through a period of: the most exacerbating unemployment; frozen wages; a curtailing of non-wage benefits; and an increase in the number of homeless people.

A great deal has been written on the origin and nature of the economic crisis in Korea since its onset (Chang, 1998; Garron, 1998; Haggard, 2000; Pempel, 1999; Radelet and Sachs, 1998; Wade, 2000). However, these studies have dealt with the macroeconomic and financial issues of the crisis, rather than human aspects of the turmoil. Only recently Hoa (2000) brought together a collection of studies on the issue of the social or human dimension of the Asian meltdown. This study is another analysis on the social impact of the economic crisis, specifically on the Korean case. After reviewing indicators of unemployment, poverty, and income distribution in Korea during and after the economic crisis, this study details the responses and programs that the government has undertaken to promote employment, to alleviate poverty, and to protect the vulnerable. The author hopes that this study can be an additional means to help understand pertinent deep-rooted economic issues, and to help develop suitable economic and social policies of national interest. Before examining key social outcomes of the crisis, the next section briefly discusses the current economic situation in Korea, which has continued its recovery from the 1998 recession.

2. ECONOMIC CRISIS AND RECOVERY

Since the financial crisis hit the Korean economy in 1997, the new Kim Dae Jung government has been relatively quick in implementing much-needed reform. It passed a package of financial reform bills accelerating capital market liberalization, restructuring the banking sector and improving prudential supervision of financial transactions through the newly established Financial Supervisory Commission. The government also undertook a series of measures to force big business to: focus their business operations on a small number of core businesses to; diminish debt financing; and enhance the accountability of controlling shareholders and managers.

As a result, the domestic economy started to show rapid improvement. The GDP growth rate recorded 10.7 percent in 1999 and 8.8 percent in 2000, from -6.7 percent in 1998. Export growth also picked up from -2.8 percent in 1998 to 8.6 in 1999 and 20.1 in 2000, reflecting the increased competitiveness of Korea, following the depreciation of the won (MOFE, 2001). The capital account, which experienced a deficit of \$3.2 billion in 1998 as a result of capital outflows, improved to show a surplus of \$2 billion in 1999 and \$11.7 billion in 2000. As a result of the combined current and capital account surpluses, foreign reserves rose from \$74 billion in 1999 to about \$96 billion at the end of 2000 (ADB, 2001).

Furthermore, consumer and business sentiment continued to grow stronger. As seen in Table I, a recent survey on household consumption and business activities, which were conducted by the National Statistical Office (NSO) and the Federation of Korean Industries (FKI), resulted in the improvement of economic agents' confidence. For example, Consumer Expectation Index, which represents households' forecast of their consumption six months later, recorded 94.1 in March 2001. Although the index still remains below its base line of 100, meaning that more than half of domestic households answered that they would reduce their consumption in the future, the trend continued upward rising from 92 in February and 89.7 in January. The Business Survey Index also shows an increasing trend to 102.4 in March 2001. This is a signal that more consumers and businesspeople anticipate the economy picking up.

TABLE I

Results of Survey on Household Consumption and Business Activities

	Consumer Expectation Index by the NSO	Business Survey Index by the FKI
July 2000	102.3	91.4
Aug.	102.2	91.1
Sep.	90.9	104.7
Oct.	89.8	91.8
Nov.	82.4	81.0
Dec.	82.2	68.0
Jan. 2001	89.7	62.7
Feb.	92.0	83.0
Mar.	94.1	102.4

Source: National Statistical Office and the Federation of Korean Industries, cited in Ministry of Finance and Economy (2001).

Note: Base value is 100.

From the macroeconomic indicators that show the economy on a recovery path, Korea seems to be pulling itself out of the financial crisis. Even so, the Korean people are still undergoing various hardships. There has been no clear indication, as yet, that Korea is completely out of the woods. The next section assesses the social impact of the economic crisis on employment.

3. UNEMPLOYMENT

The most obvious social effect of the crisis is in the form of increased unemployment, which mounted from total employment, (the unemployment rate was normally below 3.0 percent in the early 1990s) to an historical high unemployment rate of 8.6 percent in February 1999. Table II shows the unemployment rate recorded 6.8 percent in 1998, 6.3 percent in 1999, and 4.1 percent in 2000. It was still higher than the pre-crisis level. According to Kim (2001: p. 5), this was due to the shift in the direction of corporate strategy from one of growth in size to one of higher profitability, in which companies have been reluctant to hire new employees even with the

TABLE II
Unemployment Trend

	Unemployment rate (%)	Number of jobless (10,000)	Participation rate (%)
1996	2.0	42	62.0
1997	2.6	55	62.2
1998	6.8	146	60.7
1999	6.3	135	60.5
2000	4.1	89	60.7
Jan. 2001	4.6	98	—
Feb. 2001	5.0	107	—

Source: Ministry of Finance and Economy (2001).

Note: Percent change over the same month of last year.

economic boom evident since 1999. As a result, the number of the jobless in February 2001 totaled 1070000 increasing by 90000 from the preceding month. The unemployment rate in February 2001 registered 5.0 percent, which was an eleven month high since the rate stood at 4.7 percent in March 2000 (MOFE, 2001).

Furthermore, given the significant decline in the labor force participation rate since 1998, the unemployment problem is actually more pronounced than indicated by official statistics. As seen in Table II, the unemployment problem was moderated by a significant decline in the labor force participation rate from 62 percent to 60 percent. The decrease mainly resulted from the postponement of job searches by younger workers, and a substantial withdrawal from the labor force by discouraged female workers (IMF, 2000: p. 22). In addition, the official rate of unemployment does not include those engaged in compulsory national military service, or those employed in specially created public service projects, such as street cleaning and part-time public sector jobs (Kwon and O'Donnell, 1998: p. 279).

The composition of the ranks of the unemployment by specification of workers is more serious than the overall index indicates. Table III indicates a decline in full-time employment and a corresponding expansion in part-time employment since the crisis began

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