

Social Impact of South Korea's Economic Polarization in the 21st Century

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ABSTRACT

Polarization has gained popularity as a pivotal lexicon to understand modern society. The rich and poor gap has been excessively widening to the point where the low and middle classes believe the effort is meaningless. Despite polarization being a global concern, this essay shall examine South Korea's economic polarization and its social impact. Specifically, the essay spotlights the potential causes of extreme discrepancy between the high-class and low-middle class, alongside social division. The gist of this piece is to propose that economic disparities in classes have resulted in social polarization. The essay shall be structured into three sections. First, I analyze the possible causes of economic polarization. Second, this part delineates how economic polarization has been manifested in South Korea. Third, the social impact of such disparity will be analyzed. These sections suggest that aggravated economic polarization significantly dwindles the low and low-middle classes to self-actualize.

Introduction

Polarization has gained popularity as a pivotal lexicon to understand modern society. The rich and poor gap has been excessively widening to the point where the low and middle classes believe the effort is meaningless.

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The gist of this piece is to propose that economic disparities in classes have resulted in social polarization. The essay shall be structured into three sections. First, I analyze the possible causes of economic polarization. This section analyzes how the IMF (International Monetary Fund) crisis and the real estate bubble have exacerbated the gap between rich and poor. The degree to which it aggravated polarization shall be established. Second, this part delineates how economic polarization has been manifested in South Korea. The 2022 Korean presidential election and debt investment (빚투) were notable outcomes. Third, the social impact of such disparity will be analyzed, reflecting on the emergence of a 'strike it rich' culture. These sections suggest that aggravated economic polarization significantly dwindles the low and low-middle classes to self-actualize.

Accounting South Korea's Economic Polarization

South Korea's economic polarization has been evident in recent years. Since the IMF crisis, many households have been in their financial restoration period. That is to say, the socio-economic mobilization of the low and middle classes has been stagnant. Yet, the process of recovery has failed, if not extremely slow. There have been several potential causes to account for exacerbated polarization. This section takes the IMF crisis and soaring real estate prices as primary causes. Both reasons have influenced how households make economic choices, reflecting their disparities. The purpose of this part is to identify the major causes of economic polarization.

Potential Causes of Economic Polarization

IMF Crisis and Its Side Effects (1998)

Many scholars have perceived The IMF crisis as a culprit of economic polarization. Lim and Han (2003) explain the crisis as a consequence of firms and financial institutions' excessive domestic and foreign loans. Such risk overlapped with foreign investor's erosion of confidence in Korea (Ungson et al., 1999). This was notable as foreign investors withdrew a lump sum of investment in Southeast Asia in the early 1990s, which became viral in the aftermath of East Asia. That is to say, South Korea could not overcome the crisis with its own capability. Therefore, Seoul requested IMF for financial aid after observing companies that led its economy, known as *chaebol*. Hinged on the provided context, the ripple effect of IMF on economic polarization shall be examined.

The pitfall of the IMF crisis was reflected in the amount of loans borrowed by private companies. This was critical for the failure to repay the debts accompanied by the risk of merchant bank's bankruptcy. Yet, the banks refused to roll over debt repayments, manifested in the Halla group's collapse, the 12th largest conglomerate (Bhanoji Rao, 1998). The symptoms of Chaebol's bankruptcy alluded to swinging South Korea's economy. This is pivotal to recognize as the bankruptcy conglomerates mean millions of workers being unemployed overlapped with soaring interest rate. That is to say, a household with debts are incapable of repaying, alongside with taking a heavier burden of interest rate. The structural failure to recover from financial crisis was severe to the degree of shackling households autonomous choice. It resulted in high suicide rate when economic vulnerable or entities that went on bankruptcy to have no hope in restoring their assets. Yet, the rich was able to avert the worst-case scenario of losing immense value, which provided them with the opportunity to invest with cheaper costs. Park (2004) contends that Chaebols have recklessly borrowed money from foreign financial institutions, leading to \$150 million external debt obliged to having less than a year for maturity, alongside with 25% maturing within ninety days. The consequence was atrocious, leaving majority of the population to share the burden. In this light, economic polarization was an expectable outcome.

Unrealistic Real Estate Price

Since the IMF crisis, there has been a precipitous rise in the desire of households to own their houses. South Korea's dire need for stability encouraged real estate investment. Real estate speculation was actively boosted by the ease of loans and lower interest rates. The policies allured innumerable households to opt into gap investment, which they gain profit by leaving the margin from the soaring real estate price. Therefore, the low and middle classes opted into debt investment, as happened in the subprime mortgage crisis in the US. Yet, the risk it accompanied has been considered severe for there is good possibility of real-estate value plummeting in the near future. The real-estate bubble has been disclosed during the Sub-prime mortgage crisis, which is reasonable for South Korea to expect financial collapse. Kim (2023) extrapolates the concern by suggesting the magnification of housing risks from unusual loan mark that sums up to \$828 million. This figure is critical to note as it is an unprecedented case in Korean history. Households are obsessed with purchasing housings for the purpose of investment, following their precipitous rise in prices. Jung (2022) offers statistics that indicate the 25.5% rise of housing price-to-income-ratio from January 2020 to May 2022. These numbers are sufficient to enough to aware of the real-estate bubble.

Manifestation of South Korea's Economic Polarization

The consecutive economic crisis of IMF and Sub-prime mortgages holistically changed the landscape of South Korea's economy. Since the IMF crisis, households have immensely suffered from recovering from their financial losses. Despite discrepancies in the extent to which they have suffered, it was evident that the nation

had to find a breakthrough to stabilize the domestic economy. Nevertheless, the overlapping problems of real-estate speculation and Covid-19 exacerbated the rich and poor gap. This section delineates the manifestation of economic polarization in South Korea and its implications. Specifically, it highlights the potential dangers of society's widening gap between rich and poor. Socio-economic polarization has overwhelmed society to the extent that individuals have given up identifying and pursuing interests. This section shall be structured on suggesting why financial crisis change government, conglomerates, and households economic calculus and choices. Then, it analyzes the social impact of unplanned spendings and perceiving effort as useless.

Individual's Holistic Change in Economic Choice

Economic crisis accompany holistic change in economic structure. The collapse of government, conglomerates, and households challenge a country's financial status. Government has far limited budget to spend on welfare, corporations have little incentive to employ workers, and individuals strive to survive. Restoring economic value is an extremely complicated process, requiring a structural change. This was the case for South Korea after IMF crisis. Citizens voluntarily donated their possessions, companies have attempt to accompany the '아나바다' movement (save, share, change, and reuse goods), and government urgently demanded help from the international financial institutions. In this process, the aforementioned actors' economic calculus demonstrated astonishing alternation from the past. The financial crisis mostly entails considerable modification, particularly true for South Korea during IMF crisis.

The notable stakeholder to look for is households as they account for the majority. The primary reason to focus on them is reflective of politicians and financial institution's policy enactment process. They collect data, analyze it, and suggest economic policies to remedy the financial damage. One of the prominent examples to how citizens influence such policies is bankrun. When the public fear the bankruptcy of a bank, they run to withdraw their savings. As a consequence, the bank goes on a bankruptcy regardless of whether it was case otherwise. In this sense, it is pivotal to comprehend how households make economic decisions. South Korean economic polarization resulted in two potential problems. First, the society, in general, detours from conventional economic wisdom of saving money. Rather, the public, particularly the actors who cannot accumulate wealth (i.e., buy houses), presents propensity to invest in temporary happiness. Specifically, Millennial Z (MZ) generation in South Korea led to a rise of Instagram culture, bragging fancy hotels, luxurious boutiques, and prestigious cars. The outcome was apparently an immeasurable debt, which raises concern. Second, there is a trend of people perceiving effort as meaningless. That is to say, they rationalize their spendings by claiming saving doesn't lead to anything. Rather, they would invest to shaping their lives more happy, even if it remains temporal. These two impacts shall be explained in this section.

Social Impact of Fettered Economic Disparities

The significance of understanding South Korea's economic polarization was to assess its social impact. This is attributed to the fact that the backlashes of economic disparity raises profound concerns on the future of South Korea's economy. There are two discernable features of the current economic consumption pattern by the consumers. First, they buy into the narrative of *Shibal Biyong*, the Korean version of YOLO culture, which resulted in considerable amount of accumulated debts. Particularly, this was the case for 20s and 30s as maximizing the utility of their economic choices is deemed more pivotal than saving nickels and dimes. Such propensity has been exacerbated by Instagram culture where its users post luxury hotels to brag their expenditures. Second, the public began to create a narrative that effort is meaningless. They flag and reproduce the norm that birth determines majority part of our lives. The impact of autonomous choices is substantially degraded, bandwagoning the society.

The Pervasion of YOLO Culture (Shibal Biyong)

Social media has been a primary platform where users communicate with others. Hinged on its accessibility, ubiquity, and Instagram, one of the popular Social Network Service (SNS), the platform gained immense attention. Users took advantage of such advantages to share their daily lives, communicate with friends, and gain information on certain issues to some degree. Specifically, the MZ generation (Millennial Z) was eager to post their experiences such as visiting five star hotels, purchases of luxury items, and achievements. The trend became mainstream, imposing peer pressure to opt-into publicizing them of their wealth. Such atmosphere coined the term “Shibal Biyong”, meaning heavy expenditure but not as meaningful as they believe in. Oh and Sohn (2023) extrapolates the severity of the 20s’ economic habits who are unbothered with the reckless accumulation of debts. They are highly inclined to spend money without considering potential long-term outcomes, which puts heavy burden on both the government and themselves. Having 1.26 million being unemployed from 15-29, their debt growth reached 41.2%. This indicator is not to be overlooked, considering their ability to repay debts in the future.

Shibal Biyong is a national concern, regarding the 20s and 30s lifestyle. This is because South Korea has observed sharp increase in its national debt, while the economic development failed to catch up with the numbers. Kim (2023) refers to IMF’s debt-to-GDP ratio, indicating South Korea reaching 52%. The figure is the highest among the non-key currency countries (South Korea, Czech Republic, Denmark, Hong Kong, Iceland, Israel, Malta, New Zealand, Norway, Singapore and Sweden). Therefore, the continuous accumulation of loans by the MZ generation poses a significant threat to the Korean economy. The economic impact of Shibal Biyong is likely to create a vicious cycle translating it into social harms. If the primary reason for their indiscrete spending is on economic polarization, it is likely to be far worse in the future. In a few years, the MZ would find much difficulty repaying their debts and interests rate, which does not justify their irrational consumption of “I cannot buy house anyways”.

Radical Inquiries on Social Welfare

The social impact of the economic disparities has been viral on social media in the past few months. The main aspect which caught the audience’s attention is radicalisation. This section will dissect the process of Korean young adults embodying radicalism under the social division economic disparities pose on society. It is common to see the MZ generation commenting on why making an effort to achieve one’s purpose is meaningless. Their primary contention hinges on the belief that there is little to gain, even with their best attempts. They attribute the culprit to the veiled class system where people are born determined. Undreamable real-estate prices, polarized quality of education between Seoul and rural areas, and unscrupulous politicians’ abuse of their power are what they blame. Such structural barriers to climbing up the social ladder incentivized socio-economically vulnerable stakeholders to defy the system, particularly the MZ generation. The generation passively resisted the economic structure by holistically shifting the conventional way of economic calculus, maximizing savings.

Nevertheless, their spending habits laid outcome of requesting lump-sum amount of subsidies. In this light, politicians have devoted themselves to immensely increasing subsidies to the youth.

Socio-economic disparity incrementally reached the tipping point of social discontent. The extent to which the disempowered engage with society urges the government to enact radical social policies. They have continuously argued that inheritance tax be imposed heavily, regulate conglomerates, and limit private education. The outcome manifested as a 50% inheritance tax, removal of killer questions in KSAT (Korean SAT), and ease of loan. These policies targeted to redistribute wealth. Yet, unscrupulous politicians failed to implement them effectively, while heightening the expectation of the low and low-middle class on reduction of economic polarization. In this light, the government was pushed to reflecting their voices, incentivizing populist

policy enactment. Protests have precipitously increased since then, including “전장연 (Group of disabled people who go against discrimination against the disabled)” and “민주노총 (Korean Federation of Trade Unions)”. Their protests were made in public transportation, Gwanghwamun square, and streets during the rush hours. They have denounced Chaebol centric economic system, demanding further rights to the laborers.

However, unlike their good intentions, the conservatives and workers who used transportation found them disturbing. It postponed vast population of laborers who had to commute on time, questioning the legitimacy of their movements.

Discussion

Politicians, academia, and citizens have much discussed South Korea’s economic polarization. The extent to which it creates controversy seems to have reached its tipping point. Specifically, the excessive education gap has been accentuated where people are expected to hold a certificate from worldwide accredited universities. Reflecting on such a high entry barrier to workplaces, professions, and social recognition, the economically vulnerable classes have presented ostensibly irrational thought processes and choices. They have been reluctant to save assets, opt-into risky financial commodities, and requested radical welfare policies. The rise of ‘YOLO culture’ and ‘Shibal biyong’ are exemplary social atmospheres. Socio-economic polarization shall be the primary concern for South Korea in next few years.

Conclusion

The focal point of this paper was to analyze probable causes of South Korea’s socio-economic polarization, alongside with its social impacts. The significance of this proposal is to raise awareness on the degree to which economic disparities invokes precipitously changing landscape of consumption pattern in South Korea. The first section on accounting South Korea’s economic polarization was to help readers understand the gravity of IMF crisis and real-estate price soar in solidifying the discrepancy between the rich and poor. The second section was to portray how economic disparities have manifested unhealthy in terms of arguing social change and potential concerns on South Korea’s economy.

Limitations

This paper primarily centered on explaining the causality between two economic problems and their consequences. Yet, the social impact was not delved to the extent to analyzing the nuanced impact it has to South Korea’s economy. It has elaborated on the causal relationship to a good degree, however, would have improved upon accentuating the gravity of the potential economic problems.

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