

## **Crisis of Self-Confidence: Is the Miracle on the Han River Over?**

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### **Abstract**

South Korea's rapid economic development since the 1960s has transformed it from an impoverished agrarian economy to a prosperous industrial economy in less than half a century. But with the era of rapid growth having come to an end, its economy is suffering from stagnant GDP and wage growth. The loss of economic momentum has induced a deep crisis of confidence among the Korean people about whether Korea can achieve its long-held goal of joining the first tier of advanced industrial countries. This essay first examines how the economic slowdown and the daunting nature of the reforms that are needed to restore growth in the face of a maturing Korean economy have caused Koreans to question themselves and their identity. It then looks at the prospects for successful economic revitalization by showing how Koreans have acted in the face of similar challenges in their recent history.

**Keywords:** Korean identity, Korean nationalism, Korean economic miracle, low-growth trap, structural reform, IMF crisis, presidential scandal, candlelight protests

## Introduction

Ever since achieving the spectacular economic growth that catapulted South Korea into the rank of industrialized countries in less than half the time that it took other advanced countries to achieve a similar level of development—less than 50 years—Koreans have increasingly felt confident and optimistic that Korea would close the gap with the first tier of developed countries including U.S., Japan, Germany, United Kingdom, and France. They felt it would only be a matter of time before Korea would take its rightful place among the world's most developed countries.

This confidence, moreover, was reinforced by the belief that only by achieving the coveted status of a fully developed country would Korea finally be able to overcome its “century of humiliation” and achieve a new milestone to equal the past achievements in its long and illustrious history. Thus, the successful transformation of Korea into a fully developed country would not only be a vindication but, more importantly, fulfillment of who Koreans are as a people. The confluence of their self-confidence and identity fueled their belief that they were destined to join the front rank of leading, developed countries.

But Korean self-confidence and optimism have gradually eroded with the declining average annual growth rate from their historic highs of over 9% in the 1970s and 1980s to new lows of 2.7% in the 2010s (2011-2015). With the era of rapid growth having come to an end, Korea's economy is suffering from stagnant GDP and wage growth, which in turn is contributing to growing youth unemployment, shrinking middle class, and economic inequality.<sup>1</sup> The loss of economic momentum and its attendant problems have induced a deep crisis of confidence about whether Korea can achieve its long-held goal of becoming a fully developed country.

Despite the growing recognition of the urgency of revitalizing Korea's moribund economy among government officials, business leaders, academics, pundits, and the general public due to an increased attention to the problem in the media, the government has not yet been able to put the economy on a new trajectory toward long-term economic growth. Unless the government can provide the leadership to restore economic

vitality by constructively tackling the structural problems caused by the economic slowdown, the social consensus that supported its rapid development will begin to break down leading to an increasingly disillusioned and discontented public.

In this paper, we will explore the reasons for the profound anxiety about the future that the prolonged economic slowdown has caused. We will examine how the economic slowdown has caused Koreans to doubt themselves and their identity, and how the depth of this problem has led to the realization of the daunting nature of the reforms that are needed to restore growth and under circumstances vastly more difficult from those of the earlier period of rapid economic growth. Lastly, we will examine the prospects for successful economic revitalization by showing how Koreans have acted in the face of similar challenges in their recent history.

### **The Impact of Economic Performance on Korean Self-confidence and Identity**

In the decades leading up to the economic take-off in the 1960s, Korea had suffered from a “century of humiliation” that took a heavy toll on the Korean peoples’ psyche.<sup>2</sup> It was the failure to establish a modern, industrial economy at the turn of the century—with Japan the sole exception among Asian countries—that proved to be so costly. For the first time in their history, Koreans experienced the terrible humiliation of being ruled directly by an oppressive foreign power that inflicted untold suffering through economic exploitation, political repression, and extirpation of Korean nationalism by denigrating their history, culture, and identity.

The liberation of Korea from Japanese colonial rule at the end of World War II (1910-45), instead of ushering a period of national renewal and strength, marked a period of new powerlessness and dependency as the onset of the Cold War and the disunity among Koreans led to the division of the peninsula into two separate, antagonistic states: South and North Korea. When the inter-Korean tensions erupted into a regional war on the Korean peninsula involving South and North Korea, U.S., and

China (1950-53, also known as the Korean War), Koreans on both sides of the political divide experienced unspeakable horrors and near-total devastation of their societies that shattered the pride in their common ethnic identity.

As South Korea began its recovery after the end of a destructive war, it became utterly dependent on the U.S. for its economic survival and security, not unlike North Korea which also began to rebuild the country with economic and military aid from the fraternal communist countries, especially the Soviet Union and China. The tribulations of Korea's modern history arising from its inability to control its own destiny left deep psychological scars on the South Korean people. They suffered from low self-esteem and confidence and were pessimistic about their future. The political division of their once united country led to a rupture in their identity causing them to be estranged from themselves.

But beginning in the early 1960s South Korea underwent a remarkable transformation that thoroughly changed how they viewed themselves and their country's future. The engine that drove this transformation was the unbelievably rapid, historically unprecedented development of its economy and society. Korea went from being an underdeveloped and resource poor country with GDP per capita of US\$79 in 1960 and human development levels comparable to the least developed countries in the world to the 11th largest global economy with GDP per capita of US\$29,115 in 2017, high-caliber human resources, and a top-notch technological and scientific infrastructure. The fact that the rapid industrialization took place in a country that had no prior industrial base to speak of (unlike Japan and Germany, which made rapid economic recoveries in the post-WWII period) makes this accomplishment all the more remarkable. According to Danny Leipziger, "no other country in the course of the last half-century has done as well and even China's remarkable rise does not detract from the Korean success story because of China's size and the unusual and predominant role of state capitalism."<sup>3</sup>

The remarkable economic transformation that had thoroughly changed the Korean psyche was made possible by the convergence of three factors: effective political leadership, appropriate developmental

strategy, and public mobilization. Under the strong leadership of President Park Chung Hee in the early 1960s, rapid economic development became the overriding goal of the government, hence, the use of the term developmental state to describe the essential role of the state in promoting growth. All the resources at governmental disposal were effectively mobilized to insure rapid, sustained growth based on the strategy of export-oriented industrialization.<sup>4</sup> Due to a lack of natural resources and a small domestic market, the government decided that it needed to foster the growth of large firms to take advantage of economies of scale to mass produce manufactured goods for export. This led to the emergence of powerful business conglomerates known as *chaebols* that not only helped to spearhead Korea's explosive export-oriented growth, but also continued to contribute to the nation's economic vitality by becoming some of the "most technologically and commercially progressive agents of the Korean economy."<sup>5</sup>

The government, however, not only focused on the role of the state in promoting growth, including economic planning, allocation of credit, and investing in infrastructure, education, and research, but also mobilizing the public to take personal responsibility for their country's development by boosting their self-confidence—that is, instilling a "can do" spirit—and appealing to their national identity. Thus, development came to be seen by the Koreans not only as a means of advancing their personal or societal interests, but also the collective advancement of the Korean people who throughout their history had achieved great deeds by overcoming enormous adversities.<sup>6</sup>

The Koreans' awareness that they were engaged in a cause greater than themselves—the renewal and restoration of their country to its rightful place in the world—was powerfully captured in a news documentary of President Park Chung Hee's state visit to West Germany in 1964. A meeting was held in Duisburg to encourage and console the first wave of Korean overseas workers who had arrived in Germany to work in the mines and the hospitals under a bi-lateral agreement to send workers in exchange for German government's economic aid. Park's physical presence in the hall and his subsequent speech electrified the audience who was first reduced to tears and then uncontrollable sobbing.

Park told them in a voice shaking with emotion, that although Korea's ignorance of the outside world was to blame for its failure to develop, if Koreans were willing to sacrifice themselves for their country's development, the next generation would be spared the poverty suffered by previous generations and enjoy a better life.<sup>7</sup> The audience wept because of what was left unsaid as much as what was said. They were overcome with emotion because they realized that they were united in a great cause to lift their country from "the century of humiliation" and poverty. If they were willing to endure the enormous hardship that was required of them to achieve this goal, they would not only succeed but their sacrifices would be remembered by future generations.

Due to the synergy created by the government, businesses, and the public acting in concert, Korea's astonishing development has been widely referred to as the "Miracle on the Han River." Korea went from one of the least developed and poorest countries in the world to a developed, high-income country in a single generation. By maintaining an average growth rate of more than 7 percent for over 50 years, Korea became the 11th largest economy (GDP of \$1.411 trillion) in the world and fourth largest economy in Asia behind China, Japan, and India in 2016. Although its per capita income of \$79 in 1960 was lower than some sub-Saharan countries, by 1995 South Korea was the only country among 60 countries with per capita income of less than \$300 dollars in the 1960s to attain a per capita income exceeding \$10,000. In 2012, Korea reached another important milestone in its development when it became the 7th member of the 20-50 club (countries with population over 50 million and maintaining per capita income of U.S. \$20,000) chronologically after Japan, United States, France, Italy, Germany, and United Kingdom. As of 2017, Korea's nominal per capita is estimated to be \$29,115. Korea also became the eighth largest trading nation in the world with its annual trade volume surpassing \$1.05 trillion in 2017 from \$500 million in 1962. Its annual export in goods and services increased from \$40 million in 1961 to \$627.4 billion in 2017, an increase of 15,000 times over 55 years making Korea the 6th largest export economy in the world.<sup>8</sup>

Lastly, within two generations, Korea has not only become a leader in several industries, but also home to some of the world's leading

industrial corporations such as Samsung, LG, and Hyundai. In terms of production, Korea was ranked number one in semiconductor memory chips, liquid crystal displays, and cellular phones; number three in shipbuilding; number six in automobiles, refinery capacity, and global steel production in 2016. In 2017, Korea surpassed Japan to become the third largest producer of electronics trailing only China and U.S., respectively. Emblematic of Korean industry's global reach is one of the most well-known and admired companies in the world, Samsung Electronics. In 2016, with revenue of \$171.6 billion, Samsung was the second largest information technology company in the world (trailing only Apple with revenue of \$217 billion) with sales networks in 80 countries and 308,745 employees. Moreover, it is the world's largest manufacturer of mobile phones, television, and memory chips. Therefore, the economic development propelled Korea into one of the global leaders in the production of high-tech and major industrial products. Apart from its impressive level of development that has no parallel in the last half century, what is even more noteworthy is the 'inclusive' growth which allowed the fruits of development to be widely shared.

As a sign that Korea had made a successful transition from an underdeveloped to a developed country, it was accepted into the exclusive club of advanced countries—the Organization of Economic Cooperation and Development (OECD)—in 1996 and joined the trillion-dollar club of world economies in 2004. In 2010, Korea became the first country to go from international aid recipient to aid donor by being admitted to OECD's advanced nation's assistance club—the Development Assistance Committee (DAC)—and the first country to do so in the post-WWII period.<sup>9</sup> In 1999, Korea became a member of G20, the world's premier economic forum and unofficial steering committee of the global economy, and hosted the G20 summit in 2010. By hosting the summit, Korea played a leading role in international economic policymaking that was unprecedented in its national history.<sup>10</sup> Korea reached another milestone in its development when it became the seventh country to join the "20-50" club in 2012 and the first country to achieve this that had not been an industrialized country before World War II. Japan was the first to meet the standard in 1987 followed immediately by the U.S. in 1988,

with France and Italy joining in 1990, Germany in 1991, and Britain in 1996.<sup>11</sup> Thus, Korea's success in achieving unprecedented development has not only raised the stature of Korea internationally, but also made it a role model for developing countries wanting to emulate its rapid economic growth.

At the same time, however, the Koreans felt that in spite of the rapid progress in transforming Korea into a major industrial economy, its historical task of joining the first tier of leading, developed countries remained a work-in-progress. Because their developmental goal has always been to achieve the status of one of the most advanced countries in the world, Koreans are genuinely surprised when foreigners refer to Korea as a developed country. Since in their minds Korea is deserving of that status only when its developmental level is fully comparable to that of the original G7 countries.<sup>12</sup>

But the Korean people's confidence in themselves and their identity wrought by the "Miracle on the Han River" is being questioned by the prolonged economic slowdown. Korea's average annual economic growth rate was 7.5% in the 1960s, 9.2% in the 1970s, and 9.8% in the 1980s. But it declined to 6.6% in the 1990s and 4.2% in the 2000s. From 2010 to 2015, its GDP growth averaged only 3% and OECD has projected that the growth rate will decline further to about 2% in the following decade.<sup>13</sup> While the slowing down of the economy is inevitable because as the economy matures there is less scope for catch-up development by imitating the prior trajectories of more advanced economies (that is, by absorbing ideas and technologies already tested in the developing world), there is growing concern that the underlying prospects for economic growth are weakening. In fact, the potential growth has markedly declined from 7% in the 1990s to less than 3% in 2017. During the last twenty years the potential growth rate has declined by 1% every five years and at this rate, given the current rate around 2%, Korean economy in the not too distant future is set to register 0%, bringing growth to a stop.<sup>14</sup> A declining growth rate, however, is not the only sign of an economic slowdown. The profitability of Korean companies shows a long-term decline from 10% in the 1960s to under 5% from 2010. The industrial ecosystem is also stagnant. The major export items and the



ranking of large business conglomerates in the last 20 years have more or less remained the same.<sup>15</sup>

The economic slowdown has made it more difficult for Korea to achieve its ultimate goal of joining the world's top economies in terms of per capita income. Upon joining the "20-50" club in 2012, it had set its sights on advancing to the next level by joining the "30-50" club (countries with population over 50 million and per capita income over \$30,000).<sup>16</sup> As of 2014, the "30-50" club are comprised of six major economies: U.S., U.K., Germany, France, Italy, and Japan. If Korea achieves this goal, Korea would be the only country that gained independence after World War II to join the club of world's top economies. But with per capita income faltering due to the slowing economic growth rate, Korea has been stuck in the "20-50" club for the past 10 years.<sup>17</sup> While it has taken on the average 10 years for countries to jump from US\$20,000 to US\$30,000 to join the club, Korea's has taken longer time in increasing its income compared to the time it has taken other countries to surpass this mark: Japan in 4 years, Germany in 6 years and U.S. in 9 years.

Having taken the continued high growth rate of the Korean economy for granted, the prospect of permanent slowdown in the economy is causing profound anxiety among the Koreans about themselves and their country's future. Korea's unprecedented economic success had engendered enormous pride in their country as well as confidence in themselves and who they are as a people. They felt that they were destined to bring the development of their country into fruition by transforming Korea into one of the most advanced economies in the world along with U.S., Japan, and Germany. But the economic slowdown has shaken their belief that they can successfully complete the process of transforming Korea into a fully developed country. The possibility of failure is all the more difficult to accept because of the sacrifices they had to make to come this far and having come so close only to have their goal elude them in the end.

### The Difficulties of the Transition to a New Growth Model

The loss of confidence and anxiety over the country's future caused by the economic slowdown have deepened because of the growing realization of the daunting nature of the structural reforms that are needed to restore growth.<sup>18</sup> The challenges facing the Korean economy can be best understood by using the metaphor of a multi-stage rocket launched into space. In a two-stage rocket, there is a small, second stage rocket that is placed on top of a larger first stage rocket. The engine in the first stage rocket is ignited at launch and provides the initial thrust to send the rocket skyward. The engine will continue to operate until the fuel is spent at which time it detaches itself from the rocket and falls to the ground. After having separated from the first stage engine, the second stage engine is ignited and the rocket continues on its trajectory.

The export-oriented industrialization that led to the rapid economic growth of the earlier period is the first stage rocket that transformed Korea from a poor, agrarian economy to a prosperous, high-tech economy.<sup>19</sup> But the economic model that Korea has employed so skillfully to engineer its rapid growth is losing its utility in overcoming the limits of its increasingly mature economy. Just as the first stage rocket is separated after it has accomplished its mission by having exhausted its fuel, Korea must discard the earlier model that has lost its utility and replace it with a new economic growth model that will re-ignite the economy and provide the necessary thrust to put Korea on a trajectory to sustained growth in the future.<sup>20</sup>

But developing a new model will be deeply challenging. This is not only because the economy needs to be completely reconfigured but because this reconfiguration needs to be accompanied by changes to the culture and society. Because of the wide-ranging nature of the structural reforms that impinges on the interests of the various groups affected by the changes, as well as the government, forging social and political consensus will be a major challenge. Other reforms may be even more difficult to implement because they require changes in the institutions that are deeply entrenched in Korean society and the way people define themselves. Lastly, structural changes accompanying Korea's development, which are not easily reversible, have become

significant impediments to promoting long-term growth. But unless comprehensive reforms are carried out with the aim of lifting Korea out of the low-growth trap, they will not be able to reignite and boost the Korean economy onto the next stage of its development that is necessary for achieving the ultimate goal of becoming an advanced developed country.<sup>21</sup>

Some of the urgent reforms that are needed to put Korea on a path toward sustained growth have been the most difficult to implement because they are opposed by well-entrenched groups, both within and outside the government, who fear that the reforms will have an adverse impact on their interests. The consensus among both domestic and foreign experts is that Korea must reduce its reliance on manufacturing to spur growth, since there will be fewer jobs available in the future due to increasing automation and relocation of manufacturing facilities overseas to take advantage of cheaper wages. Instead, Korea must develop its service sector to generate much needed GDP and employment growth. The transition from manufacturing to services as the primary contributor to GDP and employment growth has occurred in the advanced economies in the course of their development. According to McKinsey Global Institute, nearly 85% of the GDP growth in the high-income developed countries in the last 25 years came from the services.<sup>22</sup>

Because Korea's service sector growth, as well as its productivity, has lagged behind highly developed countries such as the U.S., the United Kingdom, Germany, and Japan, and it accounts for smaller portion of the economy, there is ample room to develop the service sector into an engine of growth by generating high-skilled jobs and GDP growth—that is, accounting for an increasing share of GDP. To ensure that the development of the service sector leads to the creation of jobs in high-value knowledge services such as IT and related software, education, legal, and medical services, content creation, and cultural tourism, rather than low value-added sectors in the food and lodging industries, bold deregulation and liberalization of the service sector will be required.<sup>23</sup> But efforts to remove government regulations that limit competition, as well as the opening of the high-value added services to foreign investment, have been opposed by powerful domestic interest groups

such as lawyers who have benefited from keeping foreign competition out of the domestic market.<sup>24</sup>

Another crucial reform is to make the labor market more flexible by giving companies greater leeway in hiring and dismissing workers in order to allow them to adapt more easily to a fiercely competitive and fast-changing global business environment. While high levels of employment security for workers may have been suitable when growth depended on providing vocational training and familiarizing them with known technologies imported from abroad, labor inflexibility can impede growth by discouraging firms from bringing innovative products and services to the market.<sup>25</sup> In other words, companies need labor flexibility to make risky investments in new technologies which, if successful, can lead to growth and the need to hire more workers or, if it ends in failure, may necessitate layoffs.

Under the current labor law, however, it is difficult to lay off workers. This has not only had the effect of discouraging firms from hiring new employees, but also of bifurcating the labor market into permanent workers who enjoy higher wages and job security and non-permanent or contractual workers who have lower wages and greater job instability. In fact, the World Economic Forum has noted that this low labor market flexibility weighed heavily on the Korean economy.<sup>26</sup> In 2015, it ranked Korea 86th in labor market efficiency and 106th for hiring and firing workers. Thus, the rigid labor market is a drag on the ailing Korean economy that suppresses job creation, particularly for young people. While employers support labor flexibility, workers have fiercely resisted labor reform by arguing that it hurts job security, wages, and collective bargaining.

The deregulation of the Korean economy is also seen as an important means of strengthening Korea's growth potential. To find new engines of growth to replace traditional manufacturing, the government needs to foster an ecosystem to nurture innovative start-ups that can take advantage of creative ideas and emerging industries to bring tech-driven services and products to market. But excessive regulations that are designed for offline businesses stifle startups from commercializing their innovations. Therefore, Korea needs to adopt a negative regulation

system. In a positive regulation system, new businesses or services that are covered by the law are permitted and those that are not covered are banned. But in a negative system, any new business or service is permitted as long as it has not been explicitly prohibited. Therefore, the “negative system is touted as a more open regulatory framework that offers more freedom to businesses in developing and introducing entirely new technologies and services currently unavailable in the market.”<sup>27</sup> But, due to inertia and resistance by bureaucrats who are worried about losing their power and prestige, wholesale change in the regulatory system is proving to be a difficult undertaking.

The difficulty of adopting a new model is compounded by the need to effect changes not only in the economic system but also in the educational system and in Korea’s deeper underlying cultural values and beliefs. As Korea’s growth can no longer be sustained by the highly successful catch-up developmental model—that is, by being a “fast follower”—it must now become a “first mover” by “developing and commercializing innovative techniques, products, services and business methods”<sup>28</sup> through creative ways of analyzing problems and approaching tasks from fresh perspectives.<sup>29</sup> With Korea approaching the technology frontier, the capacity for innovation is paramount if Korea is to foster new engines of growth.

But the capacity for creativity cannot be acquired overnight. It can only be developed over a long period of time through a process of trial and error, in which individuals learn from their mistakes and failures in taking up challenging tasks and working on problem-solving.<sup>30</sup> More importantly, creativity requires a long process of gestation because this ability can only be developed and nurtured in individuals starting from a relatively young age by teaching them how to apply the critical skills to solve problems through a process of continuous learning. This means that the educational system must be designed to teach students not only critical skills and their practical applications, but also provide them with hands-on experience in applying what they have learned. The education system, moreover, must not only teach but also encourage and incentivize students to become not so much “fast followers” but rather “first movers.”

Unfortunately, the Korean educational system still largely functions to produce “fast followers.” Because the system is geared to prepare students for competitive college entrance examinations with the aim of gaining admission to the top universities, there is heavy emphasis on rote learning and memorization.<sup>31</sup> As if concentrating on school work was not enough to do well in the examination, students, despite having long school hours, pay expensive fees to go to private cram schools to learn test-taking techniques and skills. The students are not taught how to think independently or creatively nor are they encouraged to do so. They do not gain the experience of applying critical skills or developing new approaches to solving problems or working collaboratively to find solutions by sharing their ideas and perspectives.<sup>32</sup> Accordingly, reforming the educational system to teach and encourage students to become “first movers” will not be successful unless the reformers address the root cause of the problem. Without fundamental changes in how society views the purpose and value of education and, more importantly, what kinds of values and beliefs the society wants its students to learn in order to become productive and personally fulfilled members of society, educational reform will be shallow at best.

Perhaps the single most important long-term structural problem that Korea faces in sustaining economic growth, however, is the one that will prove to be the most intractable. Korea’s rapid development has been accompanied by dramatic shifts in its demography.<sup>33</sup> It is not only one of the most rapidly aging societies in the world (people over 65 make up an increasing share of the total population), but also has one of the lowest birth rates among the developed countries. The economic implications of these demographic trends are ominous to say the least. As Korea’s working population—people aged between 15 and 64—begins to decline (after peaking in 2016), this shift will “reduce production and consumption and thus hurting growth potential and crippling the economy.”<sup>34</sup> In addition, due to the demographic cliff, Korean consumption will reach a peak between 2000 and 2008 and decline thereafter as the population of the age group accounting for the most spending, which is 47 for Koreans, begins to shrink. Japan has already experienced plummeting consumption in the wake its own demographic

cliff, an important factor in its long-term economic downturn since 1989.<sup>35</sup> Therefore, without a young and growing work force to increase production and consumption, Korea will not be able to sustain long-term economic growth.<sup>36</sup>

While raising the birth rate or increasing labor productivity or the participation of older people and women in the workforce can mitigate some of the demographic pressures on the long-term growth potential, none of them individually or even collectively are a lasting solution. If Korea wants to join the first tier of advanced countries by sustaining long-term growth, it must open its doors to immigration to increase its workforce, sooner rather than later.<sup>37</sup> But Korea's capacity to absorb large numbers of immigrants and integrate them into society will depend on whether Koreans can re-invent their collective identity.

Fashioning a collective identity that integrates all the different members of a multi-cultural and multi-ethnic society into one cohesive whole will be one of the biggest challenges Korea has ever faced.<sup>38</sup> Koreans have long prided themselves on having a homogeneous society based on a common ethnicity, history, language, and culture. In fact, at the heart of their national identity is the sense that Koreans are an indivisible and homogenous whole. Even now they feel that their identity is being challenged in an increasingly globalized world as the number of international residents and marriages is on the rise. Many Koreans are not always comfortable with people who have different physical appearances, speak different languages, and are defined by different customs and cultures. In a 2010-2014 World Values Survey, 44.2% of Koreans stated that they do not want to have foreigners as their neighbors.<sup>39</sup> Thus, a fairly large segment of society has shown reluctance to accept foreigners and incidents of prejudice or bias against foreigners or Koreans of mixed heritages are not uncommon. It is telling that Korea still does not have an anti-discrimination law, the adoption of which the government has said has been stalled due to lack of public consensus. Therefore, in contemplating whether to encourage immigration to increase the labor force necessary to sustain economic growth in the face of a shrinking, aging population, the possibility of major influx of foreigners will greatly compound the anxiety Koreans have about

maintaining their cultural and ethnic homogeneity and, thus, their identity. The choice between preserving their traditional identity that has sustained the Korean people over a millennium and re-inventing that identity in order to transform their society into one of the world's most advanced countries through immigration will be excruciating.

The challenges facing Korea in adopting a new growth model to replace the one that was highly successful in transforming Korea into a major industrial power are truly daunting. Paradoxically, it is partly the success of the earlier model that is hindering Koreans from seeing the urgency of embracing a new model. But as the effects of the economic slowdown including growing youth unemployment, income stagnation, and economic inequality increasingly affect people's livelihood, Koreans are beginning to realize that maintaining the economic status quo is no longer a viable option. Changing the status quo, however, will require overturning the beliefs and values and institutions that undergirded and made the old model so successful, and replacing it with new model whose effects can only be gauged with the passage of time. Thus, they have become profoundly uneasy about whether they have the ability to transform their society due to the enormous scale of the reforms that are necessary to revive long-term growth.

### **A Second Economic Miracle?**

Given the importance of achieving their ultimate goal of becoming a highly-developed country, the question is will the Korean people be able to unite and work together in carrying out the comprehensive reforms and the cultural changes that are necessary for sustaining long-term growth. Or will they find the reforms so daunting and difficult to carry out that they will be overwhelmed and muddle through rather than taking decisive action? This question can only be answered by going back into recent history to see how the Korean people have acted in times of crisis.

In times of crisis Koreans instinctively have demonstrated unity and resolve, based on their identity as one people with common history, culture, and ethnicity, in overcoming adversity and making sacrifices



for the greater good of their country. From 1907-1910, with Japan in de facto control of Korea, ordinary Koreans organized a campaign to collect donations to pay back the country's debt to the Japanese government in an effort to prevent Japan from completing the colonization of Korea. Though the campaign ended in failure with subsequent Japanese suppression, it elicited widespread support from all sectors of society including women who donated their precious jewelry to the patriotic cause.<sup>40</sup> In 2017, 2,264 documents related to the *Gukchaе Bosang Undong* (National Debt Redemption or Repayment Movement) were registered in UNESCO's Memory of the World Programme as a precious heritage of a people trying to save their country from a national crisis.<sup>41</sup>

In an uncanny reprise of what happened 92 years earlier when Koreans tried to save their country from becoming a Japanese colony through their voluntary contributions, Korea responded in a strikingly similar fashion in 1997 when Korea suffered an unexpected crisis that at the time was considered by many as the most serious calamity that Korea had ever faced—the so-called IMF crisis. When the financial crisis hit Korea, the country went into shock as it faced an imminent collapse of its economy. At the last minute, \$58 billion emergency loan bailout from the International Monetary Fund (IMF) was negotiated, the largest loan ever given by the institution, which prevented the Korean economy from going into free-fall. Because of the unnecessarily stringent conditions that Koreans had to accept to get the loan, Korean economy fell into a deep recession with its economy registering negative growth (-5.5% in 1998) accompanied by massive unemployment (1.4 million workers were laid off) and large number of businesses both small and large going bankrupt (an average of 2,000 to 3,000 companies went bankrupt monthly from end of 1997 to middle of 1998).<sup>42</sup> Fourteen of the country's largest conglomerates closed their doors and twelve of the 24 largest banks were closed or restructured with the government spending \$60 billion to shore up the remaining banks.<sup>43</sup>

The economic and the social toll of the financial crisis was not only shocking but deeply humiliating. Koreans not even in their wildest imagination could have envisioned that their economy could be reduced to such dire straits. Their economic growth at an annual average rate

over 9% in the 1970s and the 1980s appeared to be unstoppable and Korea was rapidly closing the gap with the most advanced countries in terms of per capita GDP. The rise in Korea's international standing and their standard of living had swelled them with pride in their country's achievements and boosted their confidence in themselves and who they are as a people. They thought they had nearly reached the top only to see what they had worked so hard to achieve collapse all around them. Adding insult to injury, they had to importune the IMF for aid on terms that were perceived to be unfair and unfavorable to their interests.

Nevertheless, as if by an unspoken agreement, the government and the people rallied together in show of unity and resolve to lift the country out of the crisis.<sup>44</sup> No sacrifice was too great if that would lead Koreans to regain their pride in their country and themselves, as well as show the world that they were a people who would never accept defeat and overcome whatever adversity that came their way. As before in their history, the collective response to the crisis was immediate and decisive. The government acted swiftly to carry out wrenching structural reforms and elicited public support in opening the economy to foreign investment which the public had expressed deep misgivings, while the Korean businesses also carried out painful reforms to increase their competitiveness. In tandem with the government, the people instead of feeling despondent or apathetic began to tighten their belts by spending less, saving more, and buying South Korean-made products.

But what garnered international attention was the remarkable demonstration of shared national purpose and the willingness to sacrifice for the good of the country manifested in the nationwide grassroots movement to urge people to voluntarily sell the gold in their possession to pay off the IMF loan in 1998.<sup>45</sup> Approximately 3.5 million people or about 10% of the total population sold their gold at a far below market price in an effort to rescue the economy. Each person on average gave 65 grams of gold amounting to \$640 dollars based on prices at that time.<sup>46</sup> In about 2 months, over 227 metric tons of gold valued at \$2.2 billion was collected and melted into ingots that were then promptly delivered to IMF.

Even though this amount was only a fraction of the total IMF loan,

the symbolism was not lost on the Korean people. The Korean people were not going to sink but rise above the economic crisis to regain their pride and respect in themselves and for their country. The country rallied back from the crisis to pay back the loan in 2003, three years ahead of schedule and setting a new record for the fastest time ever for IMF loan repayment. Twenty years later in a public survey marking the 20<sup>th</sup> anniversary of the IMF crisis, 42.4% of the respondents “named the nation-wide gold collecting campaign as the most memorable and symbolic event to represent the crisis.”<sup>47</sup> More significantly, 54.4% of the respondents said the collective resolve of the Korean people to save their country, as manifested in the gold collection campaign, was the driving force for overcoming the crisis.<sup>48</sup>

In another unusual display of unity and resolve arising from their deep sense of identity as one people, an estimated 2.13 million ordinary Koreans ranging from preschool children to seniors volunteered to clean up a massive oil spill (12 tons), the country’s largest ever, in the coastal area near Taean city in 2007. As a result, in less than five years the environment was restored to its original state, a feat that would have been impossible without the massive outpouring of volunteers using the simplest of cleaning tools to remove the oil by hand in the early stages of the disaster.<sup>49</sup> The grateful city decided to establish a memorial hall to honor the dedication and the sacrifice of the selfless volunteers who came from all over the country to help the people of the area recover from the devastating disaster.<sup>50</sup> What is difficult to fathom even now is how the Koreans could have decided to do what they did collectively when they knew that the efforts of each individual would only have a negligible impact on the problem. But they did not allow themselves to be deterred because what was important to them was the show of unity and resolve that would affirm who they are as a people. Even if their efforts were insufficient in addressing the problem, nevertheless the impact of their collective will would be felt.

But what is arguably the most astonishing display of national unity and resolve in recent history was the massive candle-light demonstrations that shook the nation to its core from October 2016 to March 2017, in which, a cumulative total of 17 million people poured

into the streets throughout the country to demand the ouster of President Park Geun-hye for her shocking role in the biggest political scandal since the democratic transition in 1987.<sup>51</sup> The public demonstrations critical of the president, which were relatively small when the allegations of wrongdoing first surfaced in the media in late October, began to get progressively larger as the public became increasingly outraged by the unprecedented scale of corruption involving the president and her long-time confidante, Choi Soon-sil. In fact, as the investigation of the president by the special prosecutor and parliamentary panel led to an uninterrupted flow of ever more unsettling revelations about the president's role in the influence-peddling scandal involving Choi, an increasingly disillusioned and angry public began to take to the streets to clamor for her removal from office.

While only 20,000 people<sup>52</sup> participated in the first of the 23 weekly rallies (October 29, 2016 – April 29, 2017) organized by an association of some 1,500 civic groups and held in central Seoul on October 29, with each passing week the street rallies attracted ever larger numbers of people demanding impeachment because of president's refusal to step down despite mounting evidence of her wrongdoing.<sup>53</sup> The second rally attracted an estimated 240,000 people<sup>54</sup> and the third 850,000 people<sup>55</sup> on November 2 and 12 in central Seoul respectively. The fourth rally on November 19 mobilized almost a million people<sup>56</sup> and the fifth rally 1.9 million people<sup>57</sup> in nation-wide demonstrations. Just in central Seoul alone on the 19th, the mounting criticism of the president culminated in the largest ever turnout of ordinary citizens since the pro-democracy demonstrations in 1987. The mass rally was not only noteworthy for the estimated 1.3 million people from all over the country who came together in an impressive show of unity and resolve, but also the orderliness, lack of violence, and even a festive atmosphere of people enjoying the exercise of their democratic freedoms and their collective solidarity and purpose.<sup>58</sup>

The turning point in the street rallies came when, angry not only at Park for her refusal to step down but also lawmakers for not taking decisive action to impeach her, an estimated 2.3 million people poured into the streets across the country, as well as an estimated 1.7 million in

Seoul alone, in the nations' largest political protest ever on December 3 for the 5th street rally.<sup>59</sup> The resounding public condemnation of Park finally led a moderate faction from the ruling party to join the opposition parties in getting the National Assembly to overwhelmingly pass an impeachment motion on charges that the president violated the Constitution and various laws by allowing her civilian confidante Choi Soon-sil and her associates to interfere in state affairs, colluding with Choi to compel private companies to make donations and give contracts to designated businesses in return for political favors, and turning over top-secret presidential and governmental documents to Choi on December 9.<sup>60</sup>

Three months later in March 10, 2017, the impeachment motion was upheld by the ruling of the Constitutional Court that Park had "seriously impaired the spirit of ... democracy and the rule of law."<sup>61</sup> With the loss of immunity from prosecution, she was immediately arrested and put on trial, which are ongoing, on eighteen criminal counts of bribery, abuse of power, coercion, and leak of official secrets mostly involving her confidante Choi and key former aides.<sup>62</sup> While some former presidents since 1987 had been convicted of or investigated for corruption after leaving office, no sitting president has been impeached and subsequently arrested and put on trial for criminal violations. The unprecedented scandal was a profound shock to the system because it caused the complete loss of legitimacy of the president and called into question the integrity of the office of the president.

With the country increasingly paralyzed by the scandal, the Korean people rose up once again in an impressive display of national unity and resolve to save their country from a grave crisis. Fearful that, if the people did not intervene to restore the legitimacy and the integrity of the government and uphold the values and beliefs upon which not only the government but also society is based, the very foundation of their country would suffer irreparable damage, they decided to make their collective will felt through lawful exercise of people power. Above all, instead of venting their deep disappointment and anger at the betrayal of their trust and confidence by the very person they had elected to be their leader and the head of government, the Korean people turned the crisis

into an opportunity by constructively engaging in painful soul-searching about the depth to which the corruption of public power can undermine not only the government but also the whole society, and constitutionally exercising their right to demand change of government. That the protest was motivated by a deep sense of urgency to restore the legitimacy of the political and social order was reflected in the phrase uttered by the protestors, who were shocked to learn how everything that they had held dear about their government and society had been undermined by the scandal: Does Korea deserve to be called a nation when the norms, laws, and institutions that define a nation have been so completely subverted?<sup>63</sup> On December 5, 2017, the German political foundation, Friedrich-Ebert-Stiftung, recognized the millions of Korean people who participated in the candlelight rallies for their contribution to peace and democracy by presenting them with a Human Rights Award Prize.<sup>64</sup>

When the Korean people throughout their long history have faced great adversities, they have repeatedly shown that they can come together to achieve extraordinary feats of collective resolve and self-sacrifice, which are then etched in their collective memory. In fact, the historical lessons have been a continual source of unity and resolve in demonstrating who they are as a people to themselves and the world in times of crisis. If and when Korean people recognize the prolonged economic slowdown as a crisis that will push Korea into the abyss, history predicts that they will act with unity and resolve as they have done many times to save themselves and their country.<sup>65</sup> In doing so future generations of Koreans will long remember how Koreans during a critical juncture achieved the second “Miracle on the Han River.”

## Notes

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<sup>3</sup> Danny Leipziger, "Lessons from the Economic Development Experience of South Korea," in *Korea's Economy Volume 30*, ed. Troy Stangarone (Washington D.C.: Korea Economic Institute of America, 2015), 5.

<sup>4</sup> See Eun Mee Kim, *Big Business, Strong State: Collusion and Conflict in South Korean Development, 1960-1990* (Albany: State University of New York Press, 1997).

<sup>5</sup> "What do You do When You Reach the Top," *Economist*, November 12, 2011, accessed October 17, 2017, <http://www.economist.com/node/21538104>.

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<sup>15</sup> *Ibid.*, 34.

<sup>16</sup> “Korean Economic Growth Halts before Reaching 30 Thousand Dollars,” *Yonhap News*, May 29, 2016, accessed January 13, 2018, <http://www.yonhapnews.co.kr/economy/2016/05/28/0301000000AKR20160528028800002.HTML?template=2085>. See also Park Hyong-ki, “Per Capita Income of \$30,000 Elusive,” *Korea Times*, accessed January 13, 2018, [http://www.koreatimes.co.kr/www/biz/2017/03/488\\_226493.html](http://www.koreatimes.co.kr/www/biz/2017/03/488_226493.html).

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<sup>19</sup> Dong, *Chukjeogui Gil*, 35-39.

<sup>20</sup> *Ibid.*, 35-36. Dong argues that, despite the warnings that the Korean economy is suffering from long-term decline, Korea has failed to discard the old economic growth model that has lost its utility while, at the same time, has been unable to fully adopt the new economic growth model to replace the earlier model. The Korean economy is stuck in transition with time running out. Metaphorically speaking, the first rocket engine has failed to separate and the second engine has also failed to ignite and eventually the gravity will force the rocket to plummet back to earth.

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<sup>23</sup> Park, “Deja-vu,” 6.

<sup>24</sup> Kim Jun-il and Bak Jae-myeong, “Service Industry Bound by Restriction and Increasing Youth Unemployment,” *Dong-A Daily*, September 25, 2017, accessed January 13, 2018, <http://news.donga.com/Main/3/all/20170925/86506409/1>.

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<sup>31</sup> Jong-im Bang "Urinary Gyoyugeun Bijeongsangeok... Saeroun Pyeonggabangsik Doip Sigeup" [Our Education Is Abnormal, New Evaluation System Is Urgently Needed], *Chosun Daily*, September 21, 2017, accessed October 18, 2017, [http://edu.chosun.com/site/data/html\\_dir/2017/09/21/2017092102363.html?link=chosun](http://edu.chosun.com/site/data/html_dir/2017/09/21/2017092102363.html?link=chosun). See also S. J. Chang, "A Cultural and Philosophical Perspective on Korea's Educational Reform: A Critical Way to Maintain Korea's Economic Momentum," in *On Korea: Academic Paper Series* (U.S.: Korea Economic Institute of America, 2008), 4, accessed October 18, 2017, <http://www.keia.org/publication/cultural-and-philosophical-perspective-koreas-education-reform-critical-way-maintain-kor>; Kim Min-sok, "Korea Needs Better Educational System," *Korea Times*, September 16, 2015, accessed October 18, 2017, [http://www.koreatimes.co.kr/www/news/nation/2016/05/181\\_186931.html](http://www.koreatimes.co.kr/www/news/nation/2016/05/181_186931.html); U-seon Im, "SAT Math by Rote Memorization, Even Difficult for Cambridge Engineering Students," *Donga*, June 13, 2017, accessed October 18, 2017, <http://news.donga.com/Main/3/all/20170612/84815096/1>; and Yun-su Bak, "Cramming Education: A Common Denominator of Countries Afflicted with Social Conflict and Stalled Economic Growth," *Jungang Daily*, September 21, 2017, accessed October 20, 2017, <http://news.joins.com/article/21956414?cloc=joongang|home|newlist2>.

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