

Globalization and Industrial Relations in Korea

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Abstract

The impact of globalization on industrial relations can be understood as the combination of two sets of interrelated factors: the contextual factors that effect the national economy and industrial relations on a national level, and the factors of government policies formed in a globalizing context for enhancing the competitiveness of the national economy. Globalization has changed Korean industrial relations in the 1990s, to a certain extent. At the national level, a social dialogue system of tripartite policy consultation has been implemented as a means to deal with the challenges of globalization. Enterprise-level industrial relations have shifted from wage-focused and labor-offensive relations to employment-focused and labor-defensive relations, and this has been accompanied by an increase in labor-management confrontations and the organizational reconfiguring. Moreover, the recent years of globalization have witnessed the growing presence of not only the marginal workforce but also foreign-invested companies, both of which have created new battlegrounds in Korean industrial relations. It is concluded that Korean industrial relations, confronted with the ever-growing challenges of globalization, have entered into an era of uncertainty.

Keywords: globalization, industrial relations, labor policy, social dialogue, union structure, foreign workers, nonstandard workers, foreign-invested firms

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Introduction

“Globalization” is now a buzzword frequently used by academics and policy-makers to depict the epoch-making transformation of human life that is occurring in nearly every social dimension: economic, political, cultural, and technological. Despite the ongoing debate¹ regarding the definition of globalization, its causal mechanism and consequences, it is undeniable that globalization has reshaped the way people everywhere live, work and do business.

Against this backdrop, globalization has been the subject matter of intense contention in Korea among organized labor, business circles, and the government. Labor unions are adamantly critical of contemporary globalization, presuming that it is stirring the “forces of evil” that victimize workers by imposing neoliberal economic restructuring and the “race to the bottom.” The other parties—the government and business groups—view globalization not only in the given context of inevitable worldwide economic integration, but also as imperative to economic reforms to enhance national competitiveness in global markets, which grow ever more competitive. Over the last decade, while giving rise to ideological debates among concerned parties, globalization, combined with social democratization and economic reforms, has exerted a significant influence on the transformation of national industrial relations.

This paper aims to explore what impact globalization has had on Korean industrial relations and how industrial relations were, in turn, transformed during the 1990s. The next section discusses how the

1. According to Held et al. (1999, 2-10), it is possible to distinguish three broad schools in conceptualizing globalization: hyperglobalizers, skeptics, and transformationalists. For the hyperglobalizers, contemporary globalization is becoming increasingly subject to the disciplines of the global marketplace. In contrast, the skeptics maintain that globalization is essentially a myth that exaggerates worldwide socioeconomic integration in that national governments remain powerful. For the transformationalists, globalization is historically unprecedented, so much so that states and societies across the globe are experiencing a profound change toward a more interconnected but highly uncertain world.

globalizing context and government policy evolved under the “civil government,” led by President Kim Young-sam, and the “people’s government,” led by President Kim Dae-jung. Section 3 delineates the changes in industrial relations in Korea during the era of globalization (and economic crisis). The concluding section addresses the causal relationship between globalization and industrial relations in Korea.

The Dual Face of Globalization: Environmental Pressure and Government Policy

Globalization has a twofold effect on industrial relations in Korea, both on the structural context of socioeconomic integration and on the government’s policy agenda.² On the one hand, globalization, which is a key contextual factor in influencing industrial relations in any country (including Korea), has been pushed forward by the new order of international free trade, increasing the international mobility of capital (and labor, to a lesser extent). It has led to stronger roles for international financial institutions, increased significance of global standards for both business and labor, and breakthroughs in information-communication technology (ICT) during the 1990s. On the other hand, globalization has also manifested itself in the Korean government’s policy agenda, a core part of which was to reform the existing institutional systems of industrial relations and labor markets in order to enhance the competitiveness of the national economy in the environment of economic integration in the mid-1990s and cope with the economic crisis that struck in late 1997. Keeping in mind that globalization is an interwoven force of environmental pressure and the government strategies in response to that pressure, and that it triggered and guided the reshaping of Korean industrial relations, I examine how the government’s globalization policy and its contextu-

2. In a similar vein, Bak (1999) distinguishes the contemporary evolution of globalization using two dimensions the experiential dimension (the integration of the global economy) and the normative dimension (the developmental strategies of the government to integrate the national economy into the global economy).

al background have evolved under the Kim Young-sam and Kim Dae-jung administrations.

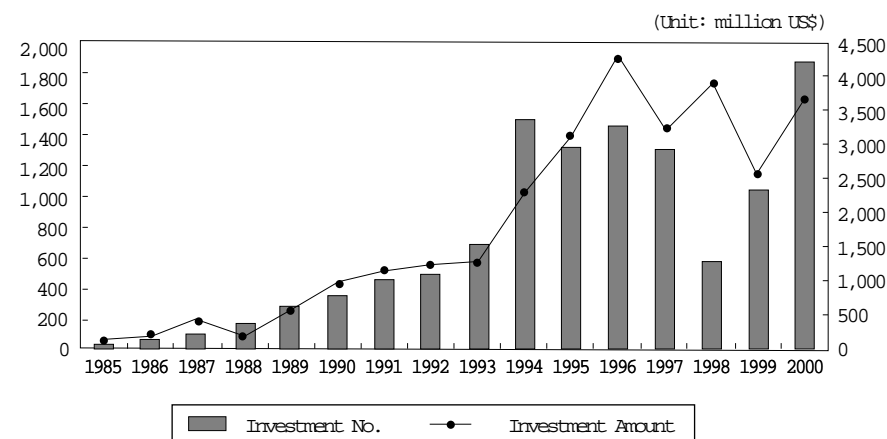
The Civil Government's Globalization Strategy under the WTO System

It was around 1994 that the term "globalization" came to the fore in Korea. The Uruguay Round, in which 117 countries, including Korea, took part in negotiations starting in 1986 to expand global free trade, reached a final agreement in 1994. As a result, the General Agreement on Tariffs and Trade (GATT) was replaced in January 1995 by the World Trade Organization (WTO), which has stronger regulatory powers that enable it to enforce the new norms of free trade in member countries. Under the WTO system, the Korean government began to develop its so-called "globalization strategy" to enhance the competitiveness of the national economy and promote economic liberalization.

President Kim Young-sam announced his "Grand Idea of Globalization" in November 1994, immediately following his participation in the Second APEC (Asia Pacific Economic Cooperation) summit held in Sydney. In accordance with a presidential directive, the Globalization Committee, cochaired by the prime minister, was formed in January 1995. This committee formulated national development strategies in the era of globalization and undertook 43 projects, covering the six major areas of government administration, diplomacy and unification, economy, social dimension, education and culture, and politics (Globalization Committee 1998).

Moreover, President Kim was active in trying to gain membership to the Organisation for Economic Cooperation and Development (OECD) for Korea as part of his plan to elevate the country to the elite status of advanced economies. Korea's successful entrance to the OECD in mid-1996 was the result of steps taken by the government to further expand economic liberalization for foreign capital in such areas as mergers and acquisitions, portfolio investment, real property investment and direct investment (ISPIC 1999). Owing to the government's promotion of inbound and outbound capital mobility, both overseas investment by domestic companies and foreign

investment in Korea increased sharply between 1994 and 1996, as illustrated in Figure 1 and Table 1.³



Source: The Bank of Korea, *Yearly Statistics of Overseas Investment* (2001).

Figure 1. Trends in Overseas Investment

Table 1. Trends in Foreign Investment

	1986-89	1990-93	1994-96	1997	1998	1999	2000
Direct Investment	8.0	8.2	16.4	28.4	54.1	93.3	87.3
Stock Investment	-	24.2	46.0	25.3	38.6	120.7	129.7

Source: Kim and Jeon (2001), p. 28.

Note: Figures for the periods between 1986 and 1996 denote a yearly average.

³ Between the late 1980s and early 1990s, many small firms moved their production facilities to countries with cheaper labor (e.g. Southeast Asian countries and China) due to sharp increases in the cost of domestic labor that resulted from the strengthened labor movement, beginning in 1987 (see Figure 1). Yet, the mid-1990s witnessed active overseas investment by large firms, such as Hyundai, Samsung, LG, and Daewoo, to build manufacturing plants in both advanced and developing countries. At the time, most of those large firms announced their own global business strategies to expand their market shares in the world economy.

In 1996, the government not only promised institutional reforms to meet international labor standards as a condition for joining the OECD, but also intended to promote labor market flexibility, which was required for the improvement of national economic competitiveness. Thus, it initiated extensive reforms of the existing labor laws by resorting to the process of tripartite consultation. In April 1996, President Kim Young-sam made public his "Grand Idea for New Industrial Relations," which addressed the government's intention to reshape industrial relations according to the new era of globalization and the information society. Accordingly, the Presidential Commission on Industrial Relations Reform (PCIRR) was formed in May 1996. However, the government and the ruling party disregarded the recommendation report on labor law reforms proposed by the PCIRR and legislated their own bills unilaterally. The government's unilateral revision of the labor laws, which placed more emphasis on labor market flexibility and less on labor rights for union activities, triggered nationwide general strikes and antigovernment protests from the end of 1996 to early 1997. Under the increasing pressure by unions and the international community, the government finally recommended those labor laws in agreement with the opposition parties in March 1997. The newly revised labor laws reflected a sort of compromise between the differing interests of employers and labor unions. For employers, the revised Labor Standards Act (LSA) introduced layoff procedures along with the flexible and selective working hour system, thereby promoting the flexible use and adjustment of the labor force. However, the layoff provision was suspended until 1999, due to strong opposition by the labor unions. At the same time, the new Labor Union Act elevated labor unions' rights to the level of international labor standards by doing away with existing antiunion provisions, which prohibited multiple union organizations, third party involvement, and political activity by unions.

In addition, the Kim Young-sam administration attempted to privatize the public sector⁴ and reconfigure the financial sector as a core

4 In December 1993, the government unveiled its plan to privatize 58 public corpo-

part of its economic reform programs beginning in 1994. Confronted with resistance from labor unions and widespread criticism from the opposition parties and public opinion, though, the government's efforts to reform the public and the financial sectors failed to take root as planned.

The People's Government's Neoliberal Restructuring Policy during the Economic Crisis

The outbreak of the foreign exchange crisis in November 1997 is to a large extent attributable to the globalization strategy pursued by the government and business groups.⁵ The government, obsessed with its ambitious plan to advance the national economy in the era of globalization, adhered to a flawed foreign exchange policy for a strong Korean won and mismanaged the external liabilities and balance of payment. These errors in government policy-making resulted in the sharp increase of both the national payment deficit and external liability between 1994 and 1996, as shown in Table 2. Business groups, which overexpanded production capacity both at home and overseas in order to advance as global competitors, also contributed to the crippling of the national economy with their excessive debt. As vast amounts of foreign capital flowed out of the country under the worsening economic conditions, Korea was plunged into a serious crisis in late 1997.

Ironically, the economic crisis has deepened the impact of globalization on the Korean economy. In coping with the foreign exchange crisis, the government entered into a stand-by agreement with the International Monetary Fund (IMF) for a bailout program that provided emergency loans amounting to US\$19.5 billion. The stand-by

rations and integrate business units of ten public firms between 1994 and 1998 (Lee and Hwang 2000).

5 The economic crisis can be also explained by structural problems within the Korean economy, such as the government-dominated finance system, the inefficient business operations of the corporate conglomerate (*jaebeol*) system, and the corrupt relationships between politicians and businesses. Labor unions and radical academics contend that the economic crisis was due to the conspiracy of international hedge funds.

Table 2. Indices of the Korean National Economy

	1993	1994	1995	1996	1997	1998	1999	2000
GDP growth (%)	5.5	8.3	8.9	6.8	5.0	-6.7	10.9	8.8
GNP per capita	8,381	8,998	10,823	11,380	10,307	6,723	8,551	9,628
Balance of payment	0.99	-3.87	-8.51	-23.01	-8.17	40.56	24.48	11.04
External liability	43.9	97.4	127.5	163.5	159.2	148.7	137.1	136.3
Foreign currency reserve	18.3	22.4	29.4	29.4	8.8	48.5	74.1	96.2
Exchange rate (Won/US\$)	803	804	771	805	951	1,399	1,189	1,131

Source: Center for Economic Information, KDI (<http://epic.kdi.re.kr/home/english/index.html>).

Note: The figures for external liability and foreign currency reserve are as of year-end. The figure for 2000 is preliminary.

agreement included various economic restructuring programs to be carried out by the Korean government.⁶

Under the burden of the economic crisis and in accordance with the economic reform guidelines imposed by international finance institutions (i.e., the IMF and the World Bank), President Kim Dae-jung, who was elected in December 1997, led extensive restructuring policies targeting four sectors—corporate, financial, public, and labor—beginning in early 1998. His economic restructuring policies basically aimed to transform the existing state-dominated economy into a market-driven system by following the neoliberal model of Anglo-Saxon countries (i.e., the U.S. and the UK).

In addition to its various reforms in the private, financial, and public sectors,⁷ the Kim Dae-jung administration made a partial change in labor laws, in accordance with the IMF agreement, specifi-

6 The stand-by agreement between the IMF and the Korean government included reform of corporate governance, restructuring and liberalization of the financial market, dissolution of import regulations, enhancement of labor market flexibility, and expansion of the social safety net.

7 Representative reforms in the three sectors include the enhancement of corporate governance transparency, business swaps, finance industry restructuring while increasing the soundness of assets, and privatization.

cally designed to promote labor market flexibility. After gaining the labor unions' endorsement as part of the Social Pact of the Tripartite Commission, the government amended the LSA to put the layoff provision into effect and enacted the Dispatched Workers Protection Act in February 1998. At the same time, it guaranteed that civil servants' works councils and teachers' unions could be established in 1999.

In the context of the economic crisis, President Kim Dae-jung formulated liberalization policies to promote foreign investment in Korea. He emphasized that foreign investment not only frees a country from the burden of repaying the principal and interest on loans, but it is also good for the foreign currency reserve, creation of jobs, and introduction of advanced management know-how. Accordingly, the government abolished most of the existing regulations on foreign investment and enacted the Foreign Investment Promotion Act in August 1998, which aims to provide a supportive and convenient environment for foreign investors. As a result, foreign investment has grown sharply since 1998, as illustrated in Table 1. As of the end of 2000, shares owned by foreign investors amounted to 56.5 trillion won, which is 30.1 percent of the Korean stock market's total share value (Korea Institute of Finance 2001). During this period, the country witnessed a massive influx of foreign direct investment (FDI) through the acquisition of domestic companies and the establishment of new businesses.⁸ The government also abolished most of the remaining import regulations in accordance with its agreement with the IMF. As shown in Table 3, the government's policy to guarantee the free inflow of foreign capital and commodities has further increased national economic liberalization, to the extent that the national economy has become completely open to foreign capital and commodities.

8 Major industrial sectors experiencing massive inflow of foreign investment during this period are the financial sector (US\$5.42 billion), electronics sector (US\$6.8 billion), machinery sector (US\$2.8 billion), and retail sales (US\$2.4 billion) (Korea Institute of Finance, 2001). Representative cases of FDI are the acquisitions by New Bridge (Cheil Bank), Phillips (LG LCD division), Renault (Samsung Auto) and Volvo (Samsung Heavy Industry), and the investment by Walmart and Carrefour to build distribution chains.

Table 3. Indicators of Economic Liberalization

	(Unit: %)		
	1980	1993	2000
Import liberalization rate ¹	69.1	98.6	99.9
Average tariff rate	25.5	8.9	7.9
Foreign investment liberalization rate ²	60.9 ³	84.1	99.6

Source: Ministry of Commerce, Industry, and Energy (2001).

Note: 1: Import liberalization rate denotes the percentage of goods without import restrictions.

2: Foreign investment liberalization rate denotes the percentage of business areas where foreign investment is allowed.

3: Figure as of 1984

Transformation of Korean Industrial Relations

Establishment of a Social Dialogue System

In pursuit of a globalization strategy (Kim Young-sam administration) and neoliberal restructuring policies (Kim Dae-jung administration), the government has attempted to implement a model of social dialogue for labor relations at the national level.⁹ As noted above, the government resorted to tripartite consultations as a means of promoting concerted efforts (i.e., labor law reform by the PCIRR and economic restructuring via the Tripartite Commission) for the three parties to deal with the various challenges of globalization.

The establishment of the PCIRR in May 1996 can be viewed as the first genuine attempt at tripartism. The PCIRR, which was formed as a presidential advisory body and composed of representatives from labor unions, employers' associations, the academic world, and public interest groups, provided a formal and open forum of social dialogue among various stakeholders with regard to the reform of labor laws. In particular, the PCIRR included representatives of the Korean Confeder-

9. For the details of historical evolution of social dialogue in Korea, see Lee (1999).

ation of Trade Unions (KCTU), the second national center of democratic labor unions, which was formed in November 1995, but not legally recognized at the time. The government, which did not directly participate in the PCIRR, was also substantially involved in the process of discussion and negotiation between the two core participants groups—labor unions and employers.

After a number of public hearings and workshops of its subcommittees, and following lengthy discussions in plenary sessions, the PCIRR prepared a recommendation report of labor law reforms that was submitted to President Kim Young-sam.¹⁰ The PCIRR may be remembered as a significant experiment in tripartism to achieve national-level policy consultations among the three parties, although it drew little attention from organized labor and the public press after the intensified labor-state confrontations of early 1997, brought about when the government disregarded the PCIRR's recommendations and unilaterally revised labor laws.

The financial crisis that broke out in November 1997 offered a new reason for further pursuing the agenda of social dialogue and encouraging tripartite policy consultations. President Kim Dae-jung established the Tripartite Commission in January 1998 in order to promote the joint efforts of three parties—the government, labor unions, and employers—to cope with this unprecedented crisis. Like the PCIRR, the Tripartite Commission is a presidential advisory organ. At the same time, the Tripartite Commission is different from the PCIRR in two aspects. First, in contrast to the PCIRR, which had no direct representation from the government, the Tripartite Commission includes as regular members representatives from the government (and major political parties), in addition to representatives from labor unions, employers, and public interest groups. The new composition of the Tripartite Commission enables labor unions to directly address their demands to government officials and engage in discussion with them.

10. In the PCIRR's recommendation report, 107 out of 148 labor law issues were agreed upon, while 41 issues, including multiple labor unions, redundancy dismissal, teachers' right to organize, and replacement of striking workers, remained contested issues among different interest groups.

Second, unlike the PCIRR, which focused on labor law issues, the Tripartite Commission covers a more extensive agenda, including economic reforms, social welfare policies, and labor issues. As a matter of fact, the historic "Social Pact," which the First Tripartite Commission drafted on 9 February 1998, after 25 days of intensive negotiations between the three parties, embraces 90 agreed items in ten policy areas, as summarized in Table 4. It should be noted that the purpose of most of the items in the social pact was basically either to endorse the terms of the stand-by agreement imposed by the IMF and World Bank (i.e. corporate transparency, labor market flexibility, and social security for the unemployed), or to reflect basic labor rights issues of concern to international labor institutions, such as the International Labor Organization (ILO) and the Trade Union Advisory Committee (TUAC) of the OECD.

The Second Tripartite Commission began operation in early June 1998. Its main mission was to formulate detailed action programs and legislative proposals for fulfilling the social pact made by the First Commission and to guarantee prepolicy consultations concerning the direction and principles of economic restructuring for the banking and financial sector and the public sector, which is the core part of the IMF-guided reform programs. Since 2000, the Tripartite Commission has acted as an intermediating forum for the three parties to negotiate newly emerging labor issues, like the reduction of working hours, protection of nonstandard workers and unionization of civil servants. With the exception of legislation allowing teachers' unions, though, there have been few notable results.

As Vogel and Lindauer (1989) suggest, social dialogue, exemplified by the PCIRR and the Tripartite Commission, has been a key instrument of new governance for national industrial relations since the mid-1990s, even though these organs have not been able to fully operate as intended due to recurrent labor-state confrontations and the withdrawal of the KCTU.¹¹ The social dialogue system has been implemented

11. In May 1999, the Tripartite Commission Act was legislated, promoting the Commission to the status of a permanent body for social dialogue.

Table 4. Key Contents of the Social Pact

- | |
|---|
| (1) Promotion of management transparency and corporate restructuring |
| (2) Stabilization of consumer prices |
| (3) Employment stabilization and unemployment policy |
| - Improvements on the employment insurance system and expansion of its coverage |
| - Support for unemployed workers |
| - Enlargement of job placement service |
| - Expansion of vocational training |
| - Job creation |
| (4) Extension and consolidation of social security system |
| - Integration of health insurance system and expansion of its coverage |
| - Enactment of Worker's Wage Claims Act |
| (5) Wage stabilization and the promotion of labor-management cooperation |
| - Securing the effectiveness of collective agreements |
| (6) Enhancement of basic labor rights |
| - Legalization of teachers' unions |
| - Trade unions' right to political activities |
| - Establishment of works council for government officials from January 1999 |
| - Recognition of unemployed workers' right to join trade unions organized beyond enterprise level |
| (7) Enhancement of labor market flexibility |
| - Introduction of a worker dispatch scheme |
| - Deregulation of dismissals for managerial reasons |

as a result of the government's strategic choice to handle the policy issues of a globalizing context (and the economic crisis). It has also become an institutionalized vehicle for both labor unions and employers to advance their interests in connection with global standards (i.e., the enhancement of labor rights for the former, and the promotion of labor flexibility for the latter). In particular, labor unions have tried to gain the assistance of or invoke pressure from international society in order to achieve their goals in the social dialogue process by taking part in official conferences of the ILO and the OECD, and using the relevant resources of those international institu-

tions. At the same time, it should be noted that the growing force of marketization, prompted by globalization, has hindered the social dialogue process, since the necessity of market restructuring, emphasized by the government and employers, has created intense conflict with organized labor.

Changes in Enterprise-level Labor Relations and Union Structure

The years of globalization (1995–) have seen substantial changes in labor-management relations at the enterprise level. Above all, the chief causes of contention between labor unions and management have shifted from economic issues such as wages and corporate welfare plans toward employment security or flexibility. This is evident in an examination of the reasons for labor disputes, as demonstrated in Table 5. Labor disputes arose largely from wage negotiations until 1994. From 1995 on, however, contract language, a key part of which was related to union members' employment security, has been the main reason for labor-management confrontation at the firm level. This is because management at many firms, concerned over growing competition in the global market, attempts to increase external labor flexibility by such tactics as outsourcing, spin-offs, organizational restructuring and early retirement plans, while labor unions try to gain labor contracts to prevent these tactics from threatening member job security.

The years of the economic crisis witnessed a sharp worsening of labor-management relations at the firm level, which was largely attributed to management-led downsizing and business restructuring.¹² In fact, as shown in Table 5, the number of labor disputes, which had fallen below 100 during the three years prior to the crisis (1995–1997), increased from 129 in 1998 to 250 in 2000. Several severe labor disputes at large firms took place as labor unions opposed the

12. A KLI survey shows that, during the economic crisis, many employers carried out organizational restructuring including spin-offs (74 percent), outsourcing (57.6 percent), and delayering (49.2 percent), while undertaking downsizing actions and expanding the use of the nonstandard workforce.

government's economic restructuring policies for the public and banking sectors, as well as the management-led employment adjustment plans (e.g. Hyundai Motor in 1998 and Daewoo Motor in 2001).

Table 5. Trends of Labor Disputes by Reasons

	Total	Overdue Wage	Wages Increases	Dismissal ¹	Contract Language	Others ²
1990	322	10 (3.1)	167 (51.9)	18 (5.6)	49 (15.2)	78 (24.2)
1991	234	5 (2.1)	132 (56.4)	7 (3.0)	56 (23.9)	34 (14.5)
1992	235	27 (11.5)	134 (57.0)	4 (1.7)	49 (20.9)	21 (8.9)
1993	144	11 (7.6)	66 (45.8)	1 (0.7)	52 (36.1)	14 (9.7)
1994	121	6 (5.0)	51 (42.1)	3 (2.5)	42 (34.7)	19 (15.7)
1995	88	0 (0.0)	33 (37.5)	1 (1.1)	49 (55.7)	5 (5.7)
1996	85	1 (1.2)	19 (22.4)	0 (0.0)	62 (72.9)	3 (3.5)
1997	78	3 (3.8)	18 (23.1)	0 (0.0)	51 (65.4)	6 (7.7)
1998	129	23 (17.8)	28 (21.7)	3 (2.3)	57 (44.2)	10 (7.8)
1999	198	22 (11.1)	40 (20.2)	0 (0.0)	89 (44.9)	47 (23.7)
2000	250	7 (2.8)	47 (18.8)	2 (0.8)	167 (66.8)	27 (10.8)
2001	235	6 (2.6)	59 (25.1)	0 (0.0)	149 (63.4)	21 (8.9)

Source: Korea Labor Institute (2002).

Note: 1. Dismissal due to management's disciplinary action or union activities.

2. Including various reasons for layoffs, merger & acquisition, spin-offs & outsourcing.

Taking advantage of weakened union leverage during the economic crisis, management pushed for unprecedented concessions, freezing wages and reducing bonuses and welfare programs. As a result, the nationwide wage increase in 1998 was -2.7 percent on average.

Moreover, management was able to reform the existing personnel schemes according to their own agenda; they had been blocked by labor unions until 1997. As a matter of fact, according to a KLI survey conducted in 2000, the vast majority of Korean companies (376 cases) have made noticeable changes in such personnel schemes as the wage system, performance evaluations, job promotions, and career management from 1998 on, as illustrated in Table 6

(Bak and No 2001). Concerning wage systems, the same survey reports that 45.2 percent of respondent companies have implemented a merit pay plan (called "annual salary"), particularly for white-collar employees.¹³

Table 6. Changes in Personnel Schemes

	Wage System	Performance Appraisal	Job Promotion	Career Management	Organizational Structure
Reform Rate ¹	92.8%	87.7%	87.8%	73.7%	96.8%

Source: Bak and No (2001), p. 11.

Note: Reform rate denotes the percentage of companies that have changed their personnel schemes.

In general, globalization and, more significantly, the economic crisis, which placed labor unions into a defensive position, allowed employers to introduce performance-based personnel systems and more closely link workers' wages and employment to market trends.

At the same time, labor unions in Korea have undergone noticeable organizational changes in the context of globalization. The unionization of teachers, which was allowed as part of the 1998 social pact, contributed to a resurgence in union membership, which had continuously declined until 1998, mainly due to the de-industrialization of the national economy and massive downsizing, as illustrated in Figure 4.¹⁴ In 2001, civil servants began demanding their

13. The survey, conducted by the Korea Employers Federation, reports that 15.3 percent of companies with more than 50 employees introduced the merit pay scheme in 1998, while another survey by the Ministry of Labor shows that 12.7 percent of companies with more than 100 employees implemented the same plan in 1999. Similarly, the government has introduced performance-based pay for civil servants and employees of the public sector from 2000 on.

14. As of early 2002, around 120,000 teachers had joined the National Teachers Union, affiliated with the KCTU, while another 30,000 teachers belonged to the Korea Teachers Union, affiliated with the Federation of Korean Trade Unions.

right to organize as guaranteed in most countries, and formed their labor unions in early 2002, although these have not yet been legally recognized by the government. The unionization of both teachers and civil servants has, to a certain extent, been aided by both international labor institutions and foreign unions, which continuously urged them to demand their labor rights from the Korean government.

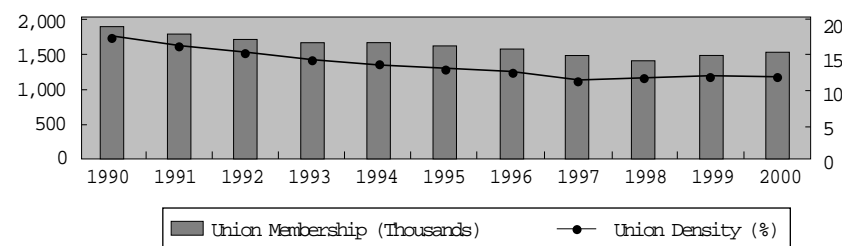


Figure 2. Trends in Union Membership and Union Density

Other organizational restructuring has occurred as well. Many industrial federations (mainly affiliated with the KCTU) merged and, more significantly, industrial federations such as the Medical & Health Industrial Union (1998), the Banking Workers Industrial Union (2000) and the Metal Workers Industrial Union (2001) adopted the industrial union model for their organizational structures. The main reason for those organizational changes, claim union leaders, is that the decentralized structure of the enterprise model prevented labor unions from effectively responding to the challenges of globalization and economic restructuring, and therefore needed to be transformed into a larger and more concentrated model. Along with the adoption of the industrial union model, the newly-born industrial unions demanded an industry-wide centralized bargaining structure, which is an interesting contrast to the recent trends of bargaining decentralization in the Western countries. However, the unions' demands have not yet been met due to the negative response from employers, who prefer the decentralized structure of the existing enterprise bar-

gaining system. As such, globalization has made an indirect impact on the restructuring of unions and, consequently, the disputed dearticulation of union structure and bargaining schemes.

It is also noteworthy that many labor unions have changed their affiliation from the Federation of Korean Trade Unions (FKTU) to the KCTU over recent years, since they preferred the latter's more active opposition to restructuring policies led by the government and employers. As a result, membership of the KCTU, which was established in 1995 and legally recognized in 1999, continued to grow from 418,000 (862 unions) in 1995 to 565,000 (1,256 unions) in 1999, while that of the FKTU declined to 888,500 (4,501 unions) during the same period. Accordingly, the experience of economic restructuring under the context of globalization has produced a substantial shift in membership distribution between the two national centers, which in turn mirrors the surge of militancy among the rank and file.

Increasing Importance of Labor Issues of Marginal Workers

Globalization has contributed to a noticeable change in the labor market situation in Korea. In particular, new employment strategies, which are supported by the environment of globalization and government policies, have led to a proliferation of the marginal workforce, including foreign and nonstandard workers and the unemployed, in the labor market. The growing presence of these marginal worker groups, in turn, has created new labor issues in the contested arena of industrial relations during the 1990s.

Under the tight labor market conditions before the economic crisis of late 1997, the nation continued to have a very low unemployment rate of below 3 percent, and the influx of foreign workers, which can be viewed as an indicator of the globalizing labor market mechanism, increased rapidly from the early 1990s to 1996, as illustrated in Figure 3. The increase of foreign workers can be explained by the theory of supply and demand. On the side of demand, domestic workers' aversion to "3D" (difficult, dangerous and dirty) manufacturing jobs led to a severe labor shortage in small manufacturing

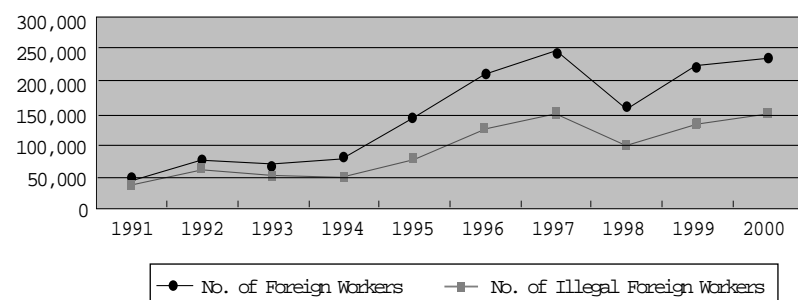
firms and caused an influx of foreign workers.¹⁵ On the supply side, those foreign workers from countries with much cheaper labor immigrated in search of the "Korean dream" of earning relatively higher wages.

The problem is, however, that foreign workers, particularly those without a legal working visa, were excluded from the protection of Korean labor laws and suffered from inferior working conditions in the small manufacturing firms. As a result, many civil activist groups were formed and, deeply concerned with the precarious status of foreign workers, undertook various activities to draw social attention to the inhumane employment situation of these workers and demanded government action to improve their legal situation with regard to working conditions. Even foreign workers organized their own collective demonstrations with the aid of these civil groups. Confronted with mounting pressure from civil activist groups and the social attention given to foreign workers, the government began providing partial legal protection, such as basic labor standards and occupational safety regulations, from the mid-1990s. The government also changed the foreigner industrial training program, introduced in 1991, to the training-employment program in 1998 as a means of more effectively managing foreign workers' employment.

In 2000, the government attempted to introduce the "work-permit" program in order to guarantee foreign workers legal employment status. This attempt, though, was foiled by strong resistance from the employers of small firms, who are concerned about the increasing costs of foreign labor. As a result, the regulation of foreign labor remains a point of contention between civil activist groups (and the foreign workers they represent) and employers of small firms.

The sharp growth of the nonstandard workforce, including temporary workers, part-timers, temporary agency (or dispatched) work-

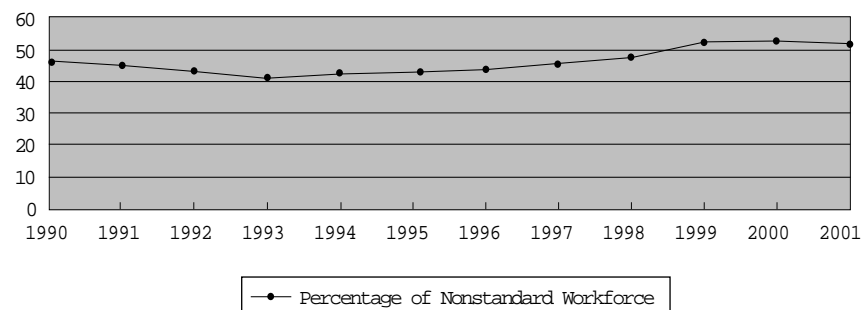
15. According to Kang (1996), the overall shortage rate of production labor in the manufacturing sector ranged from 5.5 percent to 9.6 percent between 1990 and 1996. In particular, the labor shortage of small manufacturing firms was even more severe, at a rate of 8.6-16.4 percentages.



Source: Ministry of Justice (2001).

Note: Data for 1991-1999 is as of year-end, and that of 2000 as of April.

Figure 3. Trends in Foreign Workforce in Korea



Source: Korea Labor Institute (2002).

Figure 4. Percentage of Nonstandard Workforce

ers, and independent contractors, has been another “hot potato” of industrial relations. As shown in Figure 4, the size of the nonstandard workforce as a percentage of the total working population has continued to soar since the mid-1990s, and drastically increased especially during the period of economic crisis. The government’s official reports reveal that the percentage of nonstandard workers increased from 45.9 percent in 1997 to 52.4 percent in 2000 and, therefore, exceeded that of regular workers. Employers’ increased use of the

cheaper and more flexible nonstandard workforce is due largely to their growing concern over the high labor costs and inflexible working practices of regular workers, which hurt their competitiveness in global markets.

According to recent research, nonstandard workers experience, in general, worse working conditions than standard workers. In fact, the 2000 Working Population Survey of the Labor Statistics Office demonstrates that the wages of nonstandard workers reach only about 54 percentage of the wages of regular workers, and that over 70 percentage of the nonstandard workforce is excluded from social security programs (e.g., national pension, medical insurance and unemployment insurance) and legal labor standards (e.g., paid leaves, extra working time allowances, severance pay and bonuses) (Kim 2001). Concerned about the rapid proliferation of the nonstandard workforce and their poor employment conditions, the national centers of labor unions (the FKTU and the KCTU) pressured the government to reform the existing labor laws to protect these marginal workers and regulate employers’ excessive use of nonstandard labor, and also launched their own organizing campaigns to unionize the unprotected workers. As a consequence, the special committee to discuss labor law reforms and government policies to protect and regulate the employment terms of nonstandard workers was established under the Tripartite Commission in July 2001. Some groups of those nonstandard workers succeeded in unionizing themselves, which provoked intense conflicts with management and, sometimes, regular workers. Moreover, during recent years the national union centers and civil activist groups, which were formed to represent the interests of the nonstandard workers, have engaged in joint demonstrations to demand that the government act to improve the inferior employment conditions of those marginal workers. As such, the rapid proliferation of nonstandard labor, which has been prompted by management’s strategic move to increase labor flexibility in the globalizing context, has generated important points of contention between the three parties (along with civil activist groups).

The economic crisis, occurring on the road to globalization,

focused society's attention on the unemployed, as the unemployment rate soared to over 6 percent in 1998–1999. The sharp rise in the unemployment rate was attributed to the bankruptcy of numerous companies and the massive downsizing undertaken by employers during the economic crisis.¹⁶ Given social attention to the soaring unemployment, the government and labor unions agreed upon special policy steps to protect the unemployed as part of the social pact of early 1998. The government allocated a special budget totaling five trillion won in 1998 to assisting the unemployed in seeking employment. It also expanded the coverage of employment insurance¹⁷ and eased the requirements for qualifying for an unemployment allowance. Furthermore, the Tripartite Commission reached an agreement to provide the unemployed with the right to organize as another means to protect themselves; the government changed its position, however, and this measure was not implemented. As the unemployment rate has declined to 3-4 percent along with the economic recovery that began in 2000, less attention has been given to the issue of the unemployed. Nonetheless, the unemployment of the youth (15-24 years old), which remains as high as over 10 percent, continues to be an issue in government labor market policymaking.

In sum, the liberation and market-driven restructuring of labor markets, pursued by the government and employers in the context of globalization, has led to the growing presence of a marginal workforce, such as foreign workers, nonstandard workers, and the unemployed, which has resulted in increasing labor market segmentization.

16. The monthly average of bankrupt companies more than doubled from 430 in 1996 to around 1,000 in the fourth quarter of 1997 and the first quarter of 1998. According to a KLI survey of 400 companies listed on the stock market, 52.2 percent and 28.2 percent took downsizing actions in 1998 and 1999, respectively (Bak and No 2001). The same survey reports that the rate of employment reduction in 1998 reached 16.2 percent.

17. The coverage of employment insurance expanded to include small firms with more than five employees in March 1998 and later to all firms, including those with less than five employees, in April 1999. Moreover, the government began to apply employment insurance to temporary employees from July 1999 and plans to expand its coverage to daily workers beginning in 2003.

The Growing Influence of Foreign Companies

The government's economic liberalization policy has resulted in a gradual increase of foreign direct investment (FDI) since the mid-1990s and a sharp increase from 1998 (as shown in Table 1). As a consequence, foreign companies have emerged as a significant force in Korean labor relations. According to the Korea Metal Worker's Federation (2000), for instance, 60 out of 230 companies organized by the federation's affiliated unions were acquired by foreign companies between 1998 and 1999, and 11 of those foreign companies experienced severe labor disputes arising from the new management's suppression of union activities, restructuring, and unfair labor practices. Similarly, some FDI firms in the service sector, like Carrefour and FedEx, experienced very troubled labor-management relations caused by the different perspectives of foreign management and local unions. At the same time, some foreign-invested companies, including Volvo and Fuji-Xerox, become models of labor-management partnership, and were imitated by domestic companies. As of early 2002, 35 percent of foreign companies had been unionized, and 8.5 percent (20 cases) of labor disputes in 2001 took place in FDI firms (Noh and Kim 2002).

Moreover, associations of foreign-invested companies, such as the American Chamber of Commerce (AMCHAM), the European Union Chamber of Commerce (EUCCK), and the Japan Club, have exerted substantial influence over the government's labor relations policymaking. These associations, representing the interests of foreign-invested companies, are indirectly involved in the process of labor law reforms, and propose their own policy recommendations to the government every year. In the process of the First Tripartite Commission negotiations, for example, AMCHAM played the role of reference group, from which the government tried to gain informal advice concerning foreign companies' interests (Lee and Yoo 2001). These associations of FDI companies have since made policy recommendations urging the government, through both official statements and informal contacts, to revise several provisions of labor laws concern-

ing wages and bonuses, layoff procedures, paid vacation, and unfair labor practices.

As a direct result of globalization, FDI firms and their collective interests have not only attracted close attention from labor unions and the government, but also exerted a growing influence on Korean industrial relations.

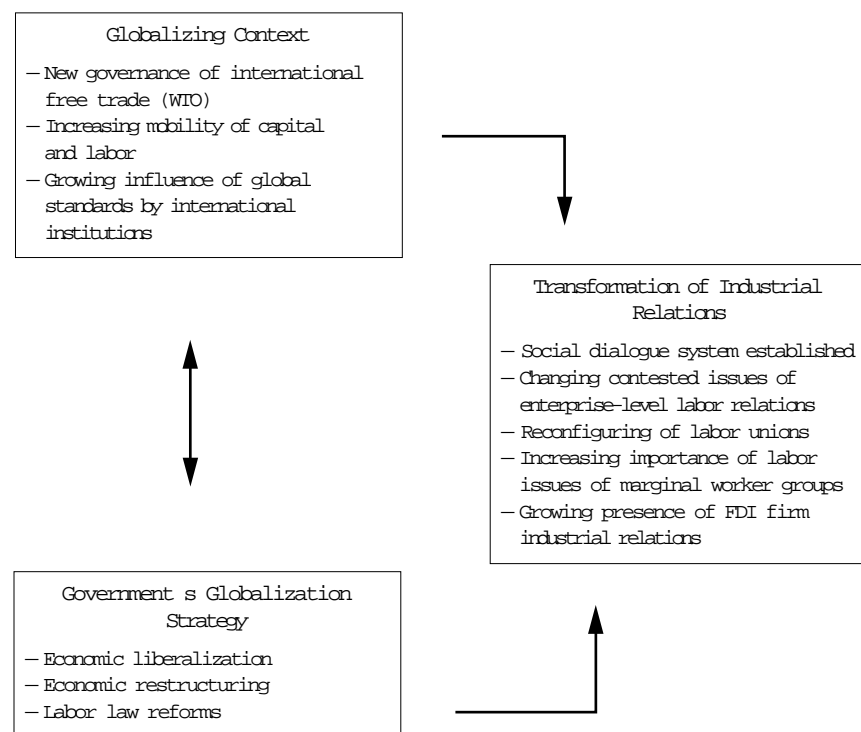


Figure 5. Diagram of the Globalization's Effect on Industrial Relations

Conclusion: The Causality of Globalization and Industrial Relations

Globalization alone cannot account for all the changes that have taken place in Korean industrial relations over the last decade. Yet it has definitely been one of the most influential forces in transforming the country's industrial relations. As summarized in Figure 5, the impact of globalization on industrial relations can be understood as the combination of two sets interrelated factors: the contextual factors that effect the national economy and industrial relations on a national level, and the factors of government policies formed in a globalizing context for enhancing the competitiveness of the national economy. Some factors, like the increasing influx of foreign capital and labor, labor reforms and economic restructuring policy, have a direct and immediate effect on the reshaping of industrial relations, while other factors, such as the new order of international free trade (the establishment of the WTO system), global standards set by international institutions and the government's economic liberalization policy, indirectly affect the interaction of industrial relations actors.

Globalization, as a product of the ever-changing international environment and government policies formed in response to those changes, has played a leading role in changes in Korean industrial relations. At the national level, a social dialogue system of tripartite policy consultation has been implemented as a means to deal with the challenges of globalization, but this social dialogue system is not yet completely stable. Enterprise-level industrial relations have shifted from wage-focused and labor-offensive relations to employment-focused and labor-defensive relations, and this has been accompanied by an increase in labor-management confrontations and the organizational reconfiguring of union structures and membership. Moreover, the recent years of globalization have witnessed the growing presence of not only the marginal workforce (e.g., foreign workers, nonstandard employees and the unemployed, particularly during the economic crisis), but also foreign-invested companies, both of which have created new battlegrounds in Korean industrial relations.

As Giles (2000) indicates, globalization has turned Korean industrial relations into a more complicated game, involving domestic actors and institutions as well as overseas actors and institutions. The recent evolution of industrial relations in Korea has also shown a somewhat contradictory combination of a social dialogue approach and a neoliberal (or market-dominated) restructuring drive. It can be only concluded that Korean industrial relations, confronted with the ever-growing challenges of globalization, have entered into an era of uncertainty, in that Korean industrial relations tend to embrace a more complex and conflicting interplay of domestic and overseas players in the relentless march of globalization.

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Notification

The article by An Ok-Sun titled "The Fundamental Ideals of Human Rights in the Thought of Wonhyo," appearing in the Winter 2002 issue (Vol. 42, No. 4), were missing its notes. The revised version of this article will be available through the online Korea Journal by the end of June 2003.

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