

# A Glance at Dual Structure of Labor Market in South Korea

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## I. A welding worker who locked himself in a cage

Despite the crisis of a population cliff, South Korea has been listed as a country with a per capita GDP of more than USD30,000 and has continued to grow even during the COVID-19 era. However, this glory does not seem to have led to an improvement in the standard of living of individual citizens, and a pessimistic economic outlook has recently emerged.

On June 22, 2022, a welder with 20 years of experience welded a steel cage-like structure with only one meter in width, length, and height respectively, and confined himself inside the cage-like structure for 31 days. He is a worker at a subcontractor of Daewoo Shipbuilding & Marine Engineering (“DSME”). Around that time, the so-called labor union at DSME’s subcontractors went on strike, demanding better working conditions including higher wages. In 2016, during the shipbuilding business recession, the subcontractors accepted the demand for a 30% wage cut by the primary contractor, DSME, and after that, despite the return of the business boom, the reduced wages were not recovered to their original level.

Representatives of partner companies of DSME (not DSME itself) and the subcontracted workers’ union have reached a provisional agreement on a 4.5% wage increase at the end of July 2022, 51 days after the strike. However, DSME filed a lawsuit against the union for damages worth about KRW 50 billion (USD 38 million) due to the shutdown during the strike. The key point of the case is that it is a representative example of the problem of the dual structure of the labor market in Korea.

## II. Several dimensions of labor market duality

### 1. Introduction

The Korean labor market is divided into the primary sector, which guarantees working conditions such as wages and job security at a relatively high level, while the other is the secondary sector. The two sectors can be evaluated as structured and fixed in its labor market, they show a significant qualitative gap from each other and that it is not easy to move from the secondary sector to the primary sector. This dual structure has been pointed out as one of the long-standing tasks of the Korean labor market along with the youth job problem. Recently, the Korean government has shown great interest in the issue.

### 2. Example of dimensions of dual structure

#### A. Differences by employment type: Regular vs. non-regular

The primary cause of the dual structure of the labor market is the employment type, regular or non-regular

**Table 1. Average monthly wage by employment type<sup>1</sup> (unit: thousand KRW)**

|             | Wage and salary workers | Regular workers (A) | Non-regular workers (B) | Ratio (B/A*100) |
|-------------|-------------------------|---------------------|-------------------------|-----------------|
| August 2004 | 154.1                   | 176.9               | 115.3                   | 65.2%           |
| August 2006 | 165.6                   | 190.5               | 120.2                   | 63.1%           |
| August 2008 | 184.7                   | 212.6               | 129.9                   | 61.1%           |
| August 2010 | 195.0                   | 229.4               | 126.0                   | 54.9%           |
| August 2012 | 210.9                   | 246.2               | 139.8                   | 56.8%           |
| August 2014 | 224.0                   | 261.1               | 145.9                   | 55.9%           |
| August 2016 | 237.2                   | 279.9               | 149.8                   | 53.5%           |
| August 2018 | 255.8                   | 300.9               | 164.4                   | 54.6%           |
| August 2020 | 268.1                   | 323.4               | 171.1                   | 52.9%           |
| August 2022 | 288.0                   | 348.0               | 188.1                   | 54.1%           |

Source: Statistics Korea, *Economically Active Population Survey*.

workers. In Korea, non-regular workers are considered to have poor working conditions and job security compared to those of regular workers, and this is exactly consistent with the characteristics of the dual structure of the labor market. The wage gap according to the type of employment is widening over time as shown in Table 1.

#### B. Differences by company size: Large vs. small businesses

It is widely known that Korea has been experiencing economic growth centered on large companies (“LCs,” especially those run by chaebol [family-owned conglomerate]). LCs in Korea have provided the highest level of remuneration and benefits to their workers. On the other hand, small and medium-sized enterprises (“SMEs”) have provided a relatively low level of them, and the problem is that over time, the wage gap between LCs and SMEs has been widening to a comparable level of the differences between regular and non-regular workers (Table 1). As a result, a large number of people want to work at LCs, and young people, in particular, are eager to start their careers at LCs and tend to prepare for long-term employment.

Table 2 shows the average hourly wage by company size in 2021. According to this data, compared to regular workers at companies with 300 employees or more, regular workers at companies with less than 300 employees show a wage level of 58.6%, and non-regular workers at the same companies show a wage level of 45.6%, respectively. As the ratio differences indicate, the wage gap according to the size of the company is significant. The wage ratio of workers at LCs to workers at SMEs is likewise the ratio of regular to non-regular workers seen earlier.

This statistic can also be understood from the perspective of the supply chain or the value chain. LCs in Korea often manage their value chains by subordinating SMEs through subcontracting arrangements. As seen in the case of DSME, the company has many subcontractors. In Korea, the relationship between LCs and SMEs is usually called a subcontracting relationship. The question is whether a surplus produced within a single value chain is fairly distributed among the companies and workers constituting the value chain. The wage gap between workers at LCs and SMEs also implies unfair distribution in the subcontracting relationship.

1. For reference, at the time of the survey in August 2022, regular and non-regular workers accounted for 62.5% and 37.5%, respectively.

**Table 2. Average hourly wage comparison by number of employees**

|             | Companies with 300 employees or more | Companies with less than 300 employees |
|-------------|--------------------------------------|--|
| Regular     | KRW 32,699 (A)<br>100%               | KRW 19,148 (D)<br>58.6% (D/A*100)      |
| Non-regular | KRW 22,602 (B)<br>69.1% (B/A*100)    | KRW 14,899 (E)<br>45.6% (E/A*100)      |
| Total       | KRW 31,290 (C)<br>100%               | KRW 18,024 (F)<br>57.6% (F/C*100)      |

Source: Ministry of Employment and Labor, 2021 Survey Report on Labor Conditions by Employment Type.

### C. Other dimensions

Other dimensions of the labor market duality are (1) differences in the presence or absence of labor unions, (2) generational differences, and (3) chronic gender gap, etc.:

- (1) The difference between the existence and non-existence of labor unions is emphasized by the government and management, focusing on the fact that Korea's wage system is centered on seniority rather than performance-based pay. The logic is that strong labor unions use their bargaining power to widen the wage gap.
- (2) The generation gap is a problem caused by the conflict between the existing labor market culture and the values that the younger generations place importance on, and the conflict is drawing social attention in line with phenomena such as low economic growth, aging population, and low birth rate.

## 3. The effects of COVID-19

The key issue in the dual structure of the labor market is the wage gap. As the wage gap widens, the dual structure becomes more solid. It is still difficult to know how the COVID-19 era affected this gap. In the early days of the pandemic, the economic pain in Korea tended to be concentrated on self-employed workers. However, according to a survey, no meaningful change was observed in the distribution of average monthly wages. Therefore, it is reasonable to say that the wage gap itself has had no significant impact.<sup>2</sup> When it comes to wage gap the influence of the dual structure remained the same even during the pandemic period. Rather, the gap in working conditions is widening again, according to a recent survey at a time when the pandemic is losing its steam. If that is the case, the pandemic is not significantly related to the dual structure of the labor market. It has not fundamentally changed the existing tendency. In other words, by getting used to non-contact life through digitalization, the future has only come sooner.

## III. Responses to dual structure problem

Remedy for the dual structure of the labor market differ among labor unions, employers, and the government.

### 1. Employers' response

Employers' organizations allege that overprotection of regular workers at LCs is the biggest cause of deepening labor market duality. Once hired as a regular employee at a LC, their wages are automatically

2. While the job security of non-regular workers must have been significantly affected by the pandemic, please note that this article focuses on the wage gap and does not deal with the job security.

raised according to a seniority-based system, and strict dismissal restrictions are applied. To solve this problem, they argue that, along with a wage system reform based on job performance, implementing policies such as easing employment regulations, enhancing flexibility and stability in the labor market, and expanding win-win strategy on cooperation between LCs and SMEs should be promoted first.

## **2. Unions' response**

The labor unions' side believes that the problem of the wage gap due to the dual structure of the labor market depends on the difference in the ability of companies to pay wages. Their argument is as follows: In relation to SMEs, laws and systems are established in favor of LCs with economic power, pay more wages and provide better working conditions to attract talented human resources, which inevitably widens the wage gap with SMEs. Even if a company changes its seniority pay system to a performance-based pay system, it will only be a change at the corporate level and will not resolve the wage gap due to the dual structure. The solution to this problem must be approached from the perspective of democracy. Therefore, in addition to the continuous increase in the minimum wage and the expansion of regular jobs, other efforts such as the democratization of the economic structure, which is the structural cause of wage inequality, are needed.

## **3. Government's response**

In March 2022, South Korea held a presidential election. The Korean public chose a regime change from moderate to conservative. Newly inaugurated President Yoon said on December 13, 2022, "Improving the dual structure of the labor market, which is directly related to the competitiveness of our industry and the jobs of future generations, is a task that can no longer be postponed." The government sees the wage gap as the key link in the dual structure of the labor market, and is pointing to the seniority-based wage system as the main cause of the wage gap. According to the government's claim, under the seniority-based wage system, workers organized in unions (who are mainly regular employees in LCs) receive excessive benefits, while unorganized workers (who are mainly SMEs' employees or non-regular workers) are not properly compensated for their work. As a result, the dual structure is solidified. From this point of view, recently, the government is preparing policies.

## **4. Comment on responses**

Inequality in the dual structure of the labor market is mainly due to the wage gap. The wage gap can be resolved by either raising wages of the lower tier, lowering wages of the upper tier, or both. It is understood that the expansion of the performance-based wage system advocated by employers' organizations, and the government took the second method that is lowering the higher wages. They focused on the fact that the seniority system is relatively widely adopted by LCs with unions. This logic is in line with the trickle-down effect theory that has been believed in for a long time in the Korean economy. It is the labor version of the theory that if the LC does well, then the SME and the nation will do well. In principle, the wage system reform requires workers' agreement, therefore a deeper understanding of labor unions composed of employees at LCs must be preceded to implement this policy. However, even if this policy is implemented with these conditions met, it is unclear whether the effect will lead to wage increases for workers in the lower tier. This is because a change in the distribution method of labor costs within a particular company does not guarantee a change in the method of distribution of labor costs outside that company such as subcontractors. This claim, just like the trickle-down effect theory, has clear limitations in that the intended final effect cannot be guaranteed.

While the measures proposed by trade unions may be considered the ultimate solution in principle, it is

equally important for the unions themselves to make efforts in overcoming their own dual structure. This includes transitioning from specific company-based union structures to industry-based union structures, thereby fostering a more inclusive and solidarity approach to addressing labor market issues.

## **IV. Remarks**

### **1. Need to determine wages by industry-wide or occupation-wide**

The problem of labor market duality is related to the entire economic sphere. Consequently, resolving the wage gap needs to be approached from an industrial and occupational perspective beyond the walls of individual companies.

Therefore, the wage level needs to be determined not in which company you are employed, but in terms of what industry you are engaged in and which job you are doing. Korea also applies the principle of equal pay for equal work, but there is a limit in that it cannot break down the barriers across companies. As for labor unions, there is little room for improvement through collective bargaining because, in Korea, company-level trade unions are mainly established. In order to overcome these problems and make an industry-wide and/or occupation-wide collective agreement, establishing a bargaining system at the industry and/or occupation level must be preceded. In other words, a broader perspective beyond the company level is required.

Recently in Korea, there is a lively debate about whether primary contractors should respond to collective bargaining requests from the so-called unions at subcontractors. This was also an issue in the DSME case mentioned earlier. It is a legal attempt to overcome the walls of individual companies called primary contractor and subcontractors. In the past, the prevailing opinion was that collective bargaining was not feasible as there was no direct employment contract between the members of the subcontractors' union and the primary contractor. However, the Central Labor Relations Commission and a lower court recently ruled that the primary contractor must comply with the collective bargaining request of the subcontractors' union. These decisions are evaluated as being influenced by the Supreme Court's more active interpretation of the constitutional right to association, collective bargaining, and collective action, and the recent ratification of ILO Convention No. 98. If collective bargaining beyond the company level is widely used, it will considerable help resolve the gap caused by the dual structure.

### **2. Attempt to utilize the constitutional concept of adequate wage**

To add one more idea, one may point out the legal principle of guaranteeing adequate wages stipulated in the Constitution of Korea. According to the Constitution, the state is obliged to make efforts to ensure adequate wages and achieve adequate income distribution.<sup>3</sup> Based on these articles, the government can set adequate wages for each occupation and industry and apply them to the public sector, and by providing incentives to the private sector, national-wide expansion of adequate wages could be encouraged. If the application of adequate wages becomes common, it can contribute to reducing the wage gap due to the dual structure. Currently, there are similar policies in the construction and trucking industry, although it is recognized as a charitable character rather than a constitutional order, thus there is a tendency that the policy may not be continuously implemented.<sup>4</sup>

In addition, it is important to consider the concept of an adequate wage within the framework of adequate

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3. See meaning of Korean constitutional adequate wage: KIM, Lin. 2019. "A Study on Constitutional Adequate Wage Guarantee Obligation." *Labor Law Review* 47, SNU Society of Labor Law.

4. The Safe Rates System on road freight trucking industry, which was implemented from March 2020, ended in December 2022, due to the conflict between the new government and the Trucking Workers' Federation.

income distribution. By taking a more assertive approach to this concept, wages can be increased for those in the lower tier while simultaneously imposing certain limitations on excessive wages at the top. This approach actively works towards reducing the wage gap and reinstating a sense of social solidarity. However, addressing the issue of setting limits on top wages is a complex and long-term challenge that necessitates extensive social dialogue and deliberation.

### 3. Overcoming similarity between dual structure and caste system

The problem of the dual structure of the labor market is that it is difficult to move from the lower tier to the upper tier, and the gap between two tiers is wide. This is the cause of inequality, and I see the shadow of the caste system in this form. More than 100 years ago we moved “from status to contract,” and now we are back to status again, by contract.

For reference, a case in which the issue is whether a particular type of employment falls under social status, which is one of the grounds for prohibiting discrimination under the Labor Standards Act (the “LSA”), has been pending in the Korean Supreme Court for years. According to the precedents of the Constitutional Court of Korea, “social status” is a position held by an individual for a long period of time, accompanied by a certain social evaluation. In some workplaces in Korea, it is almost impossible for someone to be promoted to a regular employee later once they have joined the company as a fixed-term (non-regular) employee. In these workplaces, if she or he was promoted only with working conditions that is intermediate between regular and fixed-term workers (for example, the contract period is the same as that of a regular worker, but the pay is the same as that of a fixed-term worker), the issue becomes whether her or his status can be regarded as a “social status.” Some lower courts have recognized it as a “social status,” while others have denied it.<sup>5</sup> If it is recognized as a “social status,” such discrimination is recognized as illegal under the LSA; otherwise, it is considered legally justified. The dual structure of the labor market causes inequality and becomes the cause of social polarization. It is highly likely to function as a modern version of the caste system in that it weakens mobility between classes and consolidates the structure. South Korea is one of those countries with a strong desire for equality. The more the dual structure fortifies, the more it will stimulate the people’s desire for equality, which will intensify social conflicts. The Supreme Court is expected to play a role in resolving social conflicts. If the type of employment is recognized as a social status, the government will have no choice but to present a stronger solution to the dual structure.

### 4. Approach in value chain perspective

Today is an era in which value chains, not individual companies, compete. Taking smartphones as an example, not only are Samsung and Apple competing, but also are Samsung’s supply chain and Apple’s supply chain. The dual structure of the labor market is also related to whether the companies that make up the value chain can receive the final performance fairly. Fair distribution of performance is not only necessary between employers and workers within a company, but also among companies. In resolving the dual structure, solidarity and dialogue between members of the same value chain are required. Particularly, this should be borne in mind by the primary contractors. While South Korea does have prominent trade union federations such as the Korean Confederation of Trade Unions or the Federation of Korean Trade Unions, it is true that most unions in the country are organized within individual companies and operated on a company-

5. Under the Fixed-Term Workers Protection Act, the prohibition of discrimination against fixed-term workers is widely stipulated. In principle, the Act is not applied to employees without contract period. Only the Labor Standards Act applies to them. However, Article 6 of the Labor Standards Act specifies only gender, nationality, religion, and social status as reasons for prohibiting discrimination by employers. This is the legal background of this case. See further in this issue: SHIM, Jaejin, 2023. “The Equal Treatment Clause in Labor Standards Act and Workers of Indefinite Term.” *Journal of Labour Law* 85, Korea Society of Labour Law.

by-company basis. As such, each company's labor union tends to prioritize the interests of its own members rather than the workers as a whole. Therefore, it is difficult to see a case where a labor union of a primary contractor in the same value chain demands a wage increase for workers at its subcontracting company. In the future, if workers' solidarity-based activities such as promotion of collective bargaining agreements at the industrial level or conversion of non-regular workers into regular ones increase, it is expected that labor unions will actively demand adequate compensation and treatment for all workers in the same value chain.

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