

**FY2003 Liaison Meeting**

**Changing Employment Structure and  
Industrial Relations in Korea**

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# 1. Introduction

One of the major trends that have emerged in developed countries for the past few decades is a gradual change in the employment structure. The traditional structure, which was defined by male and regular workers in the private manufacturing sector, is now becoming diversified by encompassing those in the public and service sectors, as well as irregular and female workers. Not free from this global trend, Korea is also undergoing significant changes in the employment structure.

## *1) Basic Indexes of the Korean Labor Market*

The labor force participation rate has been stabilizing at about 60 percent since the 1980s. The jobless rate and the number of the jobless had also showed a similar trend until 1997, when the financial crisis hit the country. The crisis led to corporate bankruptcies and restructuring, and consequently, a sharp rise in the jobless rate and the number of the jobless. Yet these two indexes have started to stabilize again recently.

**<Table 1 > Changes in Key Indexes of the Korean Labor Market**

(unit : 1,000 people, percent)

Classification	1982	1987	1992	1997	1999	2002
No. of economically active people	15,032	16,873	19,499	21,782	21,666	22,877
Percent of economically active people	58.6	58.3	60.9	61.4	60.6	61.9
No. of the employed	14,379	16,354	19,009	20,106	20,291	22,169
No. of the unemployed	654	519	490	568	1,374	708
Unemployment rate	4.4	3.1	2.5	2.6	6.3	3.1

Source: Korea National Statistical Office

## *2) Changes in Employment Structure by Industry*

The number of people employed in the agriculture, fishery, and forestry industries has sharply fallen from 32.1 percent in 1982 to 9.3 percent in 2002. Meanwhile, the number of those employed in the manufacturing industry had steadily grown until the mid-1990s, since which it has been on the decline.

**<Table2> Changes in the Number of Employed People by Industry**

(Unit : percent)

Classification	1982	1987	1992	1997	2002
Agriculture, fishery & forestry	32.1	21.9	14	10.8	9.3
Mining	0.8	1.1	0.2	0.1	0.1
Manufacturing	21.1	27	26.2	21.4	19.1
SOC & service	46.1	49.9	59.5	67.7	71.5

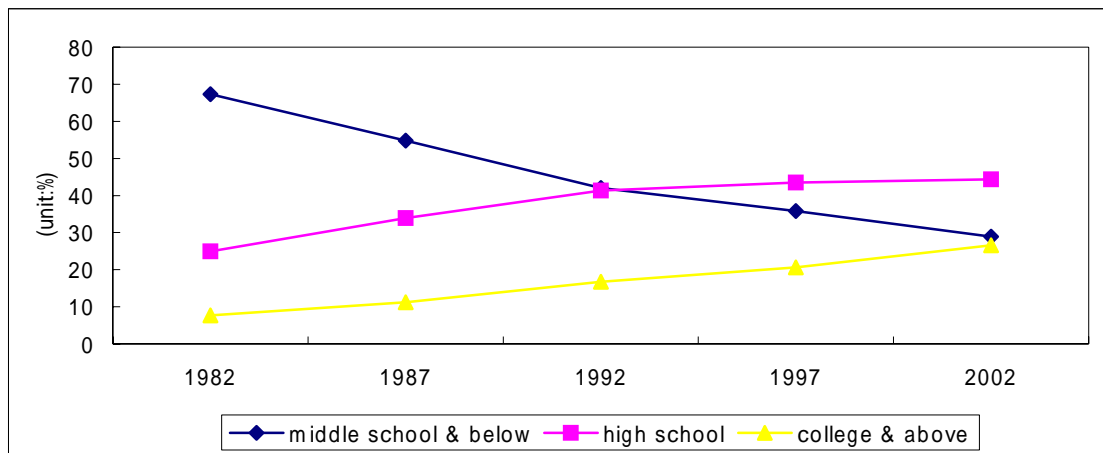
Source: Korea National Statistical Office

The number of workers in the social overhead capital (SOC) and service industries surged from 46.1 percent in 1982 to 71.5 percent in 2002. Even within these industries, the proportion of private and public service, and private enterprise has more than doubled from 11.1 percent in 1982 to 26.8 percent in 2002, underscoring the ever-growing status of these industries in the Korean economy.

### ***3) Changes in Employment Structure by Educational Background***

Compared with 20 years ago, the proportion of employed people with elementary- or middle-school education has more than halved, while the proportion of those with more than college education has continued to rise. Certainly, this is a merit, for it shows a correlation between proliferation of higher education and better performance of workers. Yet it is not without its drawbacks; a longer period of investment in higher education, an increasing age of job market entrants, and higher wage expectations.

**< Graph 1 > Changes in Employment Structure by Educational Background**



Source: Korea National Statistical Office

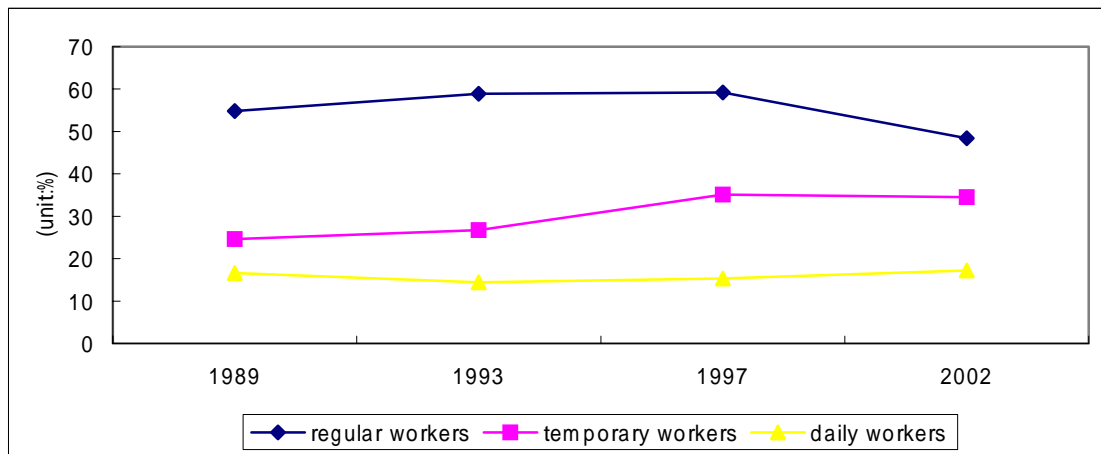
#### ***4) Changes in Employment Structure by Employment Status***

At the time of the 1997 financial crisis, the proportion of regular workers stood at 59.2 percent, before dropping to 48.4 percent in 2002. Meanwhile, the rate of temporary daily workers has risen by 6.5 percentage points.

Such an employment status captures—to a large extent, though not fully—the concept of irregular workers. Temporary daily workers in Korea are a different concept from the OECD's temporary workers. Thus, the two cannot be compared on an equal basis.

The rate of non-wage workers is within 10 percent in many developed countries such as the US and Germany, with Japan being the exception—20 percent. In Korea, though, the rate is close to 40 percent, meaning that non-wage workers such as the self-employed and those who help their family businesses make up a significant portion of the entire labor force. This is due in large part to the characteristics of the local economy.

**< Graph 2 > Changes in Employment Structure by Employment Status**



Source: Korea National Statistical Office

### ***5) Changes in Employment Structure by Company Size***

The employment rate of conglomerates with more than 500 employees has continued to fall for the last 20 years, and in 2002, is lower than the half the rate of 20 years ago. This can be explained by constant wage raises at such firms and the resultant financial pressure. Not surprisingly, with the hope of offsetting loss of competitiveness resulting from higher wages, these companies have pursued restructuring, for example, by hiring less people. This also explains why the average age of those entering local conglomerates is rising (the average age of those who work at major manufacturers is 39~40). It is also for this reason that young people find it increasingly difficult to find a job.

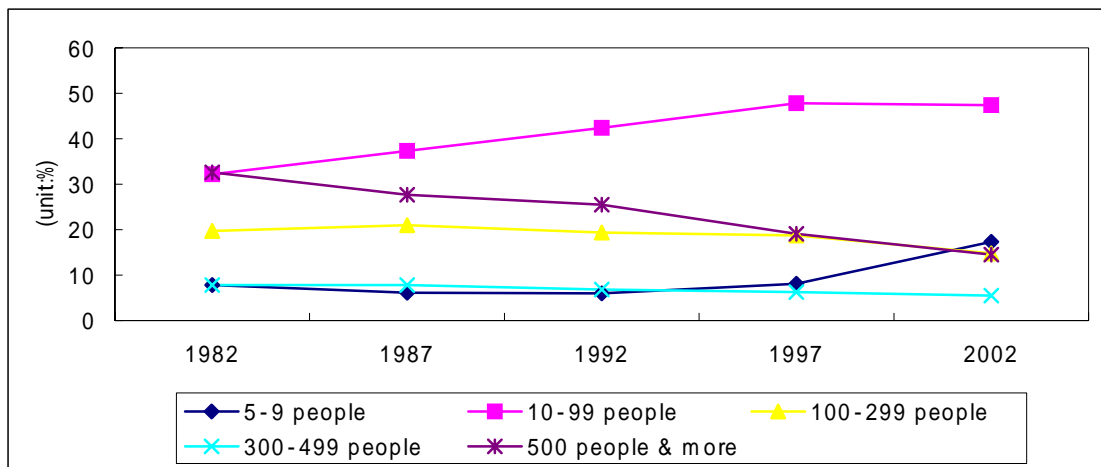
**< Table 3 > Changes in Employment Structure by Company Size**

(Unit: percent)

No. of employees		1982	1987	1992	1997	2001
Company size	5~9	7.8	6.1	6.0	8.1	17.3
	10~99	32.2	37.3	42.4	47.8	47.7
	100-299	19.7	21.0	19.4	18.7	14.8
	300-499	7.8	7.8	6.8	6.3	5.5
	over 500	32.6	27.7	25.5	19.1	14.5

Source: Korea National Statistical Office, Ministry of Labor

### < Graph 3 > Changes in Employment Structure by Company Size



Source: Korea National Statistical Office

### 6) Wage Gap among Companies of Different Size

The wage gap between conglomerates and small- and medium-sized enterprises (SME) is widening. The average wage of conglomerates, which was 1.7 times larger than that of SMEs in 1999, has grown 1.9 times larger in 2003.

This ever-yawning wage gap can be blamed not only on the disparity in productivity and financial stability, but also on the militant labor movement led by trade unions of conglomerates, and performance-based pay

schemes. To be sure, given their relatively higher productivity and financial stability, there is nothing wrong with conglomerates paying more than their smaller counterparts do. Still, it is troubling that this gap is widening excessively. Worse yet, wage increases at conglomerates often exceed productivity growth, thereby taking a toll on the overall economy.

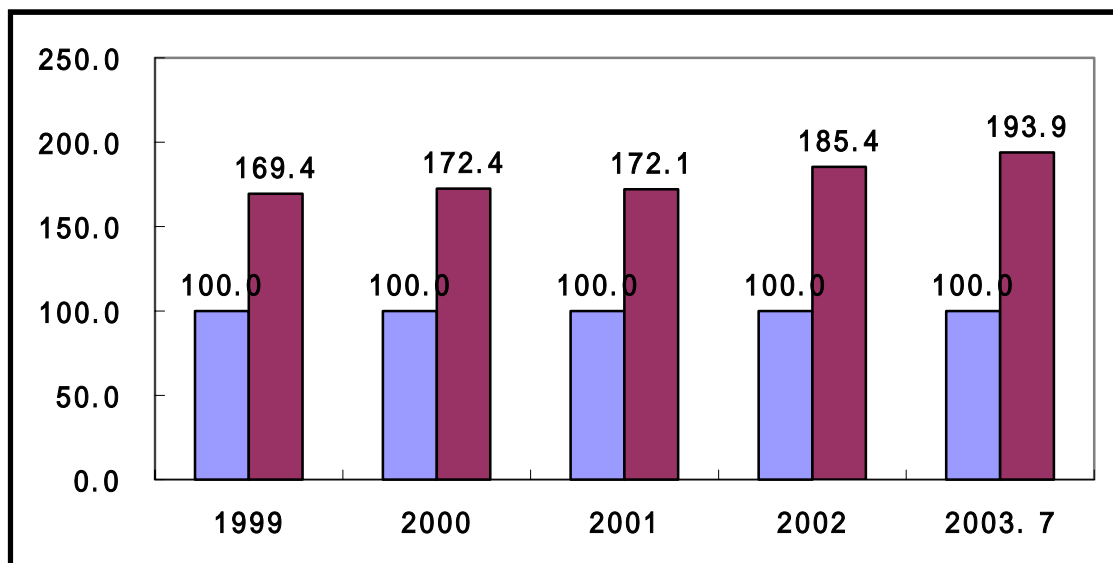
**< Table 4 > Changes in Average Wage by Company Size**

(Unit : percent)

No. of employees	1999	2000	2001	2002	2003.7
5~9	100	100	100	100	100
10~29	115.4	117.5	119.5	116.3	117.0
30~99	120.7	123.1	125.0	126.6	129.2
100~299	130.9	134.5	132.8	140.9	143.1
300~499	150.5	154.9	158.8	160.7	158.2
Over 500	169.4	172.4	172.1	185.4	193.9
Overall	129.5	130.9	130.4	132.8	136.7

Source: Ministry of Labor

**< Graph 4 > Changes in Average Wage by Company Size**



Source: Ministry of Labor

## 7) Youth Unemployment

After the 1997 financial crisis, unemployment among young people became a major social issue, with their jobless rate being twice higher than the overall rate. In Korea, due to compulsory military service, the age standard used for measuring youth unemployment is 15~29, not 15~24 of the OECD. Not surprisingly, when calculated in accordance with the OECD's standard, the unemployment rate of young Koreans should be higher. Youth unemployment is a grave challenge indeed as it can erode the country's economic competitiveness by delaying the replacement of aging workforce.

Youth unemployment in Korea can be blamed primarily on the labor market inflexibility resulting from the overprotection of regular workers. In addition, there is a disparity between supply and demand of labor; most job seekers eschew physically demanding jobs at shorthanded SMEs, while crowding into already overstaffed conglomerates.

**< Graph 5 > Overall Jobless Rate and Youth Jobless Rate**



Source: Korea National Statistical Office



## **2. Challenges**

Characterized by the weakening of manufacturing industries and the growth of service industries, changes in industrial structures created new types of work, and new working environments. This in turn led to incompatibility between the existing Labor Standards Act and the reality, thereby causing conflicts in the workplace.

Since the eruption of the financial crisis, enterprises in the corporate, financial and public sectors have undertaken sweeping overhaul, notably in the form of employment adjustment. In the process, trade unions have raised job security as the key issue at the bargaining table. Unions, mostly those in the automobile industry, have recently succeeded in including in their collective agreements provisions that employers must consult unions in almost every aspect of the management process, such as employment adjustment, subcontracting, and new investment. Such provisions are rapidly becoming popular, and in the long term, will likely threaten the competitiveness of the automobile industry.

Most of local SMEs are subcontractors that provide parts to conglomerates. Against this backdrop, militant labor movement at these conglomerates often leads to wage raises. Worse, as the conglomerates seek to offset such increases by reducing costs, the subcontractors feel the pinch. Consequently, the disparity between conglomerates and SMEs in terms of working conditions has been worsening, and not surprisingly, job seekers' preference for conglomerates has been deepening.

Furthermore, the labor movement, which has grown more belligerent at conglomerates since the financial crisis, discouraged these companies from hiring new employees, and this trend is exacerbating in the midst of the ongoing economic downturn.

As from 2007, multiple unions at the enterprise level will be allowed unconditionally in Korea. Under the current law, there are no restrictions whatsoever on forming a new trade union, and whichever union comes into existence first has an exclusive bargaining right. Yet the nation's union organization rate is a meager 12 percent. This results not only from public opinion against unions, but also from the weakening of the manufacturing industry, which was traditionally the hotbed of labor activism. A similar trend already occurred in the US in the 1970s and 1980s.

To no one's surprise, local unions are bent on expanding their membership by focusing on the issue of irregular workers. Certainly, in Korea, the term "non-standard worker" encompasses part-time workers, dispatched workers, contract workers, as well as those whose status defies clear definition. Workers whose status cannot be clearly defined are grouped under the category of a "special form of employment." They include truck drivers who carry freight with self-owned trucks, insurance planners, home tutors and caddies (Note: these people are similar to independent contractors in the West).

In the first half of 2003, some of these people formed unions of their own, and resorted extreme means to be recognized as workers within employment relationship (in other words, to gain a bargaining right). For instance, truck drivers who drive self-owned trucks refused to carry freight, wreaking havoc on the country's logistics.

In the era of globalization, conventional practices and international standards clash in the workplace of Korea, but harmony and balanced solutions remain scarce. Most worryingly, militant unionists are unwilling to accept any solutions, hindering foreign direct investment (FDI). This forces local businesses to move their operations overseas, thus threatening job security and lowering the quality of employment.

**< Table 5 > Number and Volume of FDI**

(Unit : case, one billion dollars)

	1999	2000	2001	2002
Number	1,501	3,149	2,308	1,584
Volume	15.5	15.2	11.3	9.1

Source: Ministry of Commerce, Industry and Energy

Regarding overseas investment, in the Incheon area, which is close to China, more than 700 firms have thus far moved their operations to China. Yet, those that did so in 2001 and 2002 alone accounted for 30 percent of these 700.

### **3. Increase in Irregular Workers**

A rise in contingent workers is a global trend, which has become more pronounced in Korea since the 1997 financial crisis. Unions allege that in most developed nations, due to the relatively high jobless rate that persisted for a long time, irregular workers have been protected by well-established social safety nets and enjoying working conditions almost equal to those of regular ones. As a result, they argue, there is little disapproval of irregular jobs. Yet, they insist, the opposite has been true in Korea, where irregular workers account for nearly 57 percent of the entire workforce.

It is widely known that the government, employers and unions in Korea differ in their view of the definition and scope of the term “irregular (contingent) worker,” and how to solve this issue. Still, according to Ministry of Labor data, the relatively objective size of these workers—the size local employers can accept—is estimated at 27 percent of the entire workforce.

**< Table 6 > Data on Regular and Irregular Workers**

(unit: 1,000 people, percent)

Status	Irregular	Regular	Total
Overall	3,602(27.3)	9,614(72.7)	13,216
Regular	614(9.5)	5,874(90.5)	6,488
Temporary	1.358(30.2)	3,134(69.8)	4,492
Daily	1.631(73.0)	606(27.0)	2,236

Source: Ministry of Labor

Trade unions aside, scholars insist that in order to prevent the abusive use of contingent workers, limits be placed on the hiring of such workers, existing irregular workers be converted to regular ones, and discrimination against irregular workers in terms of working conditions be ended.

**< Table 7 > Demands of Unions**

Contract workers	After the end of a certain period (one year), the contract should be regarded as effective for an indefinite period
Dispatched workers	Limits should be put on the types of work one is dispatched for, and on the renewal of dispatch contracts
Independent contractors	Independent contractors should be recognized as workers under the Labor Standards Act and the Trade Union Act
Part-time workers	Those who work 30 percent shorter than full-time workers should be defined as part-time workers. Their working conditions should be in proportion to those of their full-time counterparts

Local employers have the following positions on these demands.

***First***, in view of the local situation, irregular workers are a means to curb unemployment. Unions wrongly insist that the prohibition of the use of irregular workers will lead to the increase in regular workers. As is widely known, companies tend to fill their key posts with regular workers,

while putting irregular workers in peripheral positions. Thus, regular and irregular workers do not substitute one another in the first place.

*Second*, the process of recruiting regular workers is bound to be complicated as it is undertaken by top managers, while the opposite is true with irregular workers. In Korea, once hired, regular workers are very difficult to dismiss. It is no wonder that firms are quite careful in hiring them from the outset. In this respect, irregular jobs are capable of creating themselves.

*Third*, unlike in the past, more and more people become irregular workers by choice. Such merits as flexible working hours attract women, students, housewives, and inexperienced workers to these jobs.

*Fourth*, for those who have difficulty getting regular jobs, working as an irregular worker can serve as a transitional period during which they can be better prepared to get the jobs they really want afterwards.

In sum, where labor market instability persists, or labor supply exceeds demand, irregular jobs are needed as an alternative to regular ones. Yet if the economy turns around and demand overtakes supply, people would increasingly turn to regular jobs. Irregular jobs will then gradually disappear, leaving only voluntary irregular workers in the labor market. Hence, any artificial effort to shrink irregular workforce is doomed to hurt the labor market, as it is against market principles.

## **4. Solutions**

Local trade unions are seeking to solve major labor issues by forming industry-level unions. Certainly, this is a choice best left to the unions themselves. Still, given that local unions lack basic ingredients of a successful industry-level structure, such as unions' capacity and leadership

that can steer unionists without alienating the general public, the union's ongoing efforts will likely prove futile (Note: local union leaders find it extremely difficult to lead their members without promoting extremism).

Local employers believe that the following efforts are needed to make the local labor market more stable.

***First***, high employment flexibility is a must for a competitive society. Companies were once able to generate enough profits to offset employment inflexibility, as price and technological competitiveness drove their growth. Yet today, with production and information being shared across national borders, employment inflexibility is inevitably having a big impact on competitiveness. Efforts should therefore be undertaken to ensure that the private sector plays a more active role in enhancing employment security. To this end, such professional services as outplacement should become more popular in the labor market.

***Second***, the system for employing and protecting workers needs overhaul. Traditional labor standards, which focus on the manufacturing industry, should be changed. Despite the emergence of entirely new types of work—teleworking, flexible night work and part-time work—the current labor law is based on the conventional type of work (40 hours a week, eight hours a day). Specifically, the Labor Standards Act stipulates that working conditions cannot be changed in a way that lowers the quality of such conditions. Such inflexibility prompts many firms in such traditional areas as the manufacturing sector to choose outsourcing and subcontracting over hiring new employees.

***Third***, the traditional seniority-based pay systems should be replaced by performance-based schemes. Under the traditional systems, those who have long years of service feel pressure to retire against their will. Thus, pay systems should be overhauled in a way that reflects individuals' productivity. Recently in Korea, there has been heated debate over

introducing annual salary systems, performance-based bonuses, and “wage peak” systems. Without revising the Labor Standards Act, however, introducing such systems will remain elusive.

Removing regulatory shackles is crucial to enhancing the flexibility of the local labor market. Excessive regulations do not serve their original purpose; they merely cause additional costs, and more importantly, hamper job creation.

## **5. Conclusions**

Due to a myriad of regulations, the labor market is bound to go through more conflicts with the current law than any other market. It is also in the labor market where many market- and efficiency-oriented economic theories do not hold true. The major culprits are the staunch opposition from trade unions, and the government’s indecisiveness.

Against this backdrop, the local business community has consistently demanded excessive regulations be lifted from the labor market, such as overprotection of workers and mandatory hiring. Yet thus far, the red tape has been removed merely in such relatively secondary areas as procedures. Restrictions in key areas remain mostly intact.

Such regulatory shackles include the difficulty of layoffs, the limits on the use of irregular workers, and the mandatory hiring of the disabled and the children of patriots. These regulations must be eliminated in order to create a better business environment.

Faced with belligerent trade unions and populist politicians, the Korean economy is in trouble. If this continues, sustainable economic growth will remain elusive, leaving only a small number of competitive companies holding the bag.

How global, market-oriented ideas will be accepted by local workers who are obsessed with conventional values in the laboratory of Korea, will prove crucial indeed to the future of the Korean economy.