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Preface

Since the mid-1990s, the labor market in Korea has experienced drastic changes. As a way of overcoming the 1997 financial crisis, the Korean economy underwent large-scale structural reforms. In line with this move, the government, employers, labor leaders and the academics have all devoted themselves to enhancing labor market flexibility and diversifying employment forms and structures. And after the crisis, with the rapidly evolving process of globalization and intensified international competition, the continued need to change and keep up with the international labor standards is widely recognized.

To this end, this book brings together systematic and comprehensive analyses of various issues related to labor in Korea, including industrial relations, tripartism, labor law, unemployment, social safety net and HRM. Five research fellows and five research associates of the Korea Labor Institute (KLI) have contributed their papers to introduce the recent developments in key aspects of labor in Korea to foreign scholars and policy makers.

I would like to take this opportunity to express a deep gratitude to the authors and sincerely hope that this book will assist in broadening the interest and understanding of labor issues in Korea.

Wonduck Lee
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Industrial Relations: Recent Changes and New Challenges

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I. Introduction

Over the past 15 years, industrial relations in Korea have changed dramatically. With the advent of democratization, globalization, and an economic crisis, this period has witnessed profound changes in the country's industrial relations and labor standards. In 1987, democratization dismantled the authoritarian regime, putting an end to the developmental state's interventionist labor policy, leading to the explosive growth of labor movements in the late 1980s. Organized labor which had strengthened its leverage in industrial relations both at the firm and the national level, pressured employers and the government to improve working conditions, including wages, and labor standards through collective bargaining and institutional reforms.

From the early 1990s, the rising tide of globalization also exerted a substantial influence over the government's labor policy as well as

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industrial relations. With growing global competition, the government and employers wanted to restrain continued increase in wages and promote flexibility of the labor market. At the same time, labor unions were demanding that Korean labor rights measure up to the international standards. Given these divergent interests, the three stakeholders - labor unions, employers, and the government –initiated a national-level tripartite dialogue in 1996 in an effort to reform the existing labor laws. The labor law reform was completed after an intense nation-wide confrontation in the early 1997.

The outbreak of the economic crisis at the end of 1997 greatly changed labor relations in Korea. In 1998, the government had no choice but to turn to the IMF and after receiving a bail-out fund, and formed a Tripartite Commission to deal with a variety of national issues, such as massive unemployment, economic restructuring, and labor reforms. The Commission produced the historic "Social Pact" in February 1998, which included labor law reforms for a more flexible labor market and improved labor rights. However, economic reforms launched by the government in mid-1998 led to a situation of serious social conflict as labor unions protested against massive layoffs in the private and public sectors. During this period, the government also instituted legislative and social programs to protect the unemployed and the female workers.

This paper aims to discuss how industrial relations in Korea have evolved since 1987, and review their present status. Chapter II gives a historical overview of industrial relations during the last 15 years. Chapter III outlines the current status of industrial relations; its three major players - labor unions, employers, and the government - and the institutionalized structures of interest representation and resolution. The concluding chapter addresses several industrial relation issues that need to be resolved in Korea.

II. Historical Evolution of Industrial Relations

Prior to 1987, the government that had dictated economic growth policies since the early 1960s exercised a tight control over industrial relations. During this period, the government's interventionist labor policy tightly constrained worker's collective actions, including the right to organize labor unions and strike. At the corporate level, while union activities were restricted by the government's policies, employers were free to exercise their managerial prerogatives when determining wages and working rules. Since labor unions were too weak to voice their members' discontent and demands, industrial relations remained, by and large, stable and static, dominated by the unchallenged authority of the government and employers.

In June 1987, the growing power of the civil movement pressured the authoritarian government into accepting the "Declaration of Democratization," paving the way for political democratization. The "Great Labor Struggle" that subsequently followed dismantled the existing industrial relations system dominated by management and the authoritarian government.

After 1987, as summarized in Table 1, industrial relations in Korea underwent the following four phases: 1) expansion of organized labor, 2) government's neo-interventionist policy, 3) tripartite approach towards labor reforms, and 4) economic restructuring.

1) Expansion of organized labor (1987-1989)

At the beginning of this phase the number of labor disputes increased dramatically, especially in the second half of 1987. As illustrated in Table 2, the number of disputes skyrocketed from 276 in 1986 to 3,749 in 1987, and continued to record more than 1,600 in the following two years (1988-1989). In addition to the sharp rise in labor disputes, the number of trade unions increased almost three-fold (from 2,742 to 7,883) between

Table 1. Historical Evolution of Industrial Relations from 1987

	1st Phase (1987. 7-1989)	2nd Phase (1990-1992)	3rd Phase (1993-1997)	4th Phase (1998-)
	Organized labor's expansion	Government's neo- intervention	Tripartite approach to labor reforms	Economic restructuring
Environment	-economic boom	-economic slump	-globalization	-economic crisis
Trade union	-explosive growth	-turn to decline	-steady decrease	-stagnant
Labor dispute	-drastic increase	-sharply decrease	-overall stabilization	-steady increase
Labor policy	-recognition of labor-management autonomy	-intervention for industrial peace & wage increase control	-tripartite efforts for labor reforms	-tripartite commi- ssion & promotion of labor market flexibility

Table 2. Changes in Major Indexes of Labor Disputes

Year	No. of Dispute cases	No. of Participated workers (1,000 persons)	Lost workdays (1,000 days)
1986	276	47	72
1987	3,749	1,262	6,947
1988	1,873	293	5,401
1989	1,616	409	6,351
1990	322	134	4,487
1991	234	175	3,271
1992	235	105	1,528
1993	144	109	1,308
1994	121	104	1,484
1995	88	50	393
1996	85	79	893
1997	78	44	445
1998	129	146	1,452
1999	198	92	1,366
2000	250	178	1,893

Source: Korea Labor Institute (2001b).

1986 and 1989. During this period, as shown in Table 3, union membership nearly doubled from 1,050,000 to 1,931,000, and union density also soared from 11.7 percent to 18.6 percent.

Facing an increasingly militant organized labor and with the advent of social democratization, the government abandoned its interventionist policy and officially recognized the autonomy of labor unions and

management in dealing with firm-level labor issues through collective bargaining. The explosive growth of the labor movement during this period transformed firm-level industrial relations, shifting the power balance between labor and management.

As a result, management began to lose its authoritarian control while labor unions in many large firms began to exercise a major influence on the shop floor. In particular, faced with the strong pressure by labor unions to increase wages, the management was forced to improve working conditions and introduce welfare programs. Between 1987 and 1989, nominal wage on average increased more than 12 percent in all industries, and 18 percent in the manufacturing sector.

Table 3. Changes in Major Indexes of Trade Unions by Year

Year	No. of Trade unions(E/A)	Union membership (1,000 persons)	Union density (%)
1987. 6	2,742	1,050	11.7
1987	4,103	1,267	13.8
1988	6,164	1,707	17.8
1989	7,883	1,932	18.6
1990	7,698	1,887	17.2
1991	7,656	1,803	15.9
1992	7,527	1,735	15.0
1993	7,147	1,667	14.2
1994	7,025	1,659	13.5
1995	6,606	1,615	12.7
1996	6,424	1,559	12.2
1997	5,733	1,484	11.2
1998	5,560	1,402	11.5
1999	5,637	1,481	11.8

Note : Union density = (number of union members / total number of employed workers) $\times 100$.

Source : Korea Labor Institute (2001a).

It should also be noted that remarkable changes took place in the composition of labor unions during this period. First, the largest unionized

sector was the textiles, consisting mainly of female workers. However, by the late 1980s, male-dominated metal and chemical industry rose to become the most heavily unionized sector. This not only indicates that the Korean economy has been experiencing structural changes, but also that the labor unions of heavy industries have been at the forefront of nation-wide labor movements in Korea since the late 1980s. In addition, the membership of white-collar labor unions in service industries such as the banking, the media, and health care grew sharply after 1987.

Secondly, many of the newly organized labor unions were critical of the Federation of Korean Trade Union's (FKTU) submissive stance toward the government's arbitrary labor policies and therefore, refused to be affiliated with the FKTU. These so-called "democratic labor unions" formed their own independent federations, which have since then espoused militant unionism.

2) Government's neo-interventionist policy (1990 - 1992)

During the second phase, Korea was hit by recession, and the government responded by intervening again in labor relations at the firm level. In 1991 and 1992, the government enforced a wage control policy to alleviate rising labor costs and deteriorating corporate competitiveness, both of which caused by spiraling wages. At the same time, the government took a hard-line stance on militant union activism and imposed heavy penalties on illegal activities. The government also urged management to follow the "no work no pay" policy, in order to deter workers from engaging in strikes.

It is worth noting that unionization rates and the number of labor disputes began to drop during this period, as shown in Table 2 and Table 3. This decrease of union activism is attributed to the economic slump, the government's neo-interventionist labor policies, noticeable improvement in working conditions, including wages, and the weakening influence of militant unionism following the collapse of the Eastern European bloc in the late 1980s. In the meantime, two independent unions established themselves as a national-level organization: the National Council of Trade Unions (NCTU), representing the manufacturing sector, and the Council of Occupational Trade Unions (COTU), representing the service sector.

During this phase, employers began to implement new human resource policies such as flexible wage plans (e.g. pay based on merit and job ability) and performance appraisal for individual workers, as a means to regain managerial control of shop floor operations. However, these new policies failed to take root in many firms because of strong opposition by the unions.

3) Tripartite approach toward labor reforms (1993 - 1997)

As pressure to improve Korea's economic competitiveness increased with globalization, the government sought to settle labor-management confrontations with a new approach. One of the key policy efforts made by the government was to introduce the "social dialogue" model, which was a national-level tripartite consultation framework involving the three major parties - labor unions, employers, and the government.¹⁾

With government support, the FKTU and the Korea Employers Federation (KEF) negotiated a national-level agreement on wage increases and economic policy issues in 1993 and 1994. The FKTU-KEF agreements were used as a guideline for wage negotiations at the enterprise level. However, these agreements came to an end in 1995 because the FKTU came under attack by its members for cooperating with the government in its wage control policy.

The Presidential Commission on Industrial Relations Reform (PCIRR), established in May 1996, further advanced the tripartite framework. The PCIRR, composed of representatives from labor unions, employers associations, the academia, and public interest groups, was formed as a presidential advisory body, with the purpose of providing an open forum for social dialogue among various stakeholders in relation to labor law reforms.²⁾ Although not yet legally

1) See Lee (1999) for the detailed analysis regarding the historical evolution of social dialogue in Korea.

2) Since the early 1990s, interest in the reform of the overall institutional framework administering labor relations and the labor market has grown among social actors. Labor unions continued to exert pressure on the government to enhance labor rights in line with the international standards, whereas employers demanded a guarantee of labor market flexibility to improve corporate

recognized, the second largest national-level union called the Korean Confederation of Trade Unions (KCTU), formed after the merger of the NCTU and the COTU in November 1995, participated in the consultation process of the PCIRR. The government did not participate directly, but was very much involved in the discussions and negotiations between the two core participating groups of labor unions and employers.

After a number of public hearings, subcommittee workshops, and lengthy discussions in plenary sessions, the PCIRR prepared a recommendation report on labor law reforms and submitted it to President Kim Young-Sam.³⁾ However, on December 26, 1996, the government and the ruling party passed their own bill, revising the existing labor laws in the absence of opposition party lawmakers and against the strong opposition from labor unions. The government's unilateral revision of the labor laws, which provided greater labor market flexibility and weakened labor rights for union activities, triggered nation-wide strikes and anti-government protests at the end of 1996 and the early 1997. Under increasing pressure by unions and the international community, the government conceded that the provisions of the revised labor laws were problematic, and finally revised them with the agreement of the opposition party in March 1997.⁴⁾

competitiveness. The government, concerned with unstable labor relations and inefficient labor market mechanisms, formed the Labor Law Review Committee (LLRC), composed of academic experts, as an advisory body to the Labor Minister in April 1992. The committee conducted extensive studies on labor law reforms. President Kim Young-Sam established the PCIRR, for he viewed labor reform to be the final task left of the national reforms and an utmost importance to the country's chances of gaining membership to the OECD.

- 3) In the PCIRR recommendation report, 107 out of 148 issues related to labor legislation were agreed upon, whilst 41 issues, including those that concern multiple labor unions, redundancy dismissal, teachers' right to organize, and replacement of workers on strike, remained unresolved between labor and management.
- 4) Although the PCIRR continued to examine policy issues and publish recom-

Not only was there a noticeable decline in labor disputes during this period, but the source of disputes also changed. As shown in Table 4, the central issue between labor and management was related to wage increase before 1994, to be subsequently overtaken by collective agreements. In addition, labor unions increasingly began to adhere to the legal procedures for solving disputes, abiding to the legal requirements for providing prior notice and allowing for a cooling-off period before actually initiating a strike. The use of legal procedures increased from 20-30 percent in the late 1980s to 70-80 percent in the mid-1990s.

Table 4. Changes in Sources of Labor Disputes

(unit: percent)					
Year	Wage increase	Collective agreement	Overdue payment	Dismissals	Others
1988	50.5	24.8	3.2	5.9	15.6
1989	45.9	27.7	3.7	5.0	17.7
1990	51.9	15.8	3.1	5.6	23.6
1991	56.4	24.8	2.1	3.0	13.7
1992	54.7	20.0	11.5	1.7	12.1
1993	45.8	36.1	7.6	0.7	9.8
1994	42.1	34.7	5.0	2.5	15.7
1995	37.5	55.7	0.0	1.1	5.7
1996	22.4	72.9	1.2	0.0	3.5
1997	23.1	65.4	3.8	0.0	7.7
1998	21.7	44.2	17.8	2.3	7.8
1999	20.2	44.9	11.1	0.0	23.7
2000	18.8	66.8	2.8	0.8	10.8

Note: Other reasons include plant closings/lock-outs, unfair labor practices, layoffs and business restructuring.

Source: Korea Labor Institute (2001a).

mendation reports to reform labor practices from March 1997 to February 1998, it drew little attention from organized labor and the media after the intense labor-state confrontation in the early 1997.

4) Economic restructuring (1998 - Present)

The financial crisis of November 1997 had a profound impact on the industrial relations. The president-elect Kim Dae-Jung established the Tripartite Commission in January 1998 to promote cooperation between the three parties - government, labor unions and employers – as a way of overcoming the economic crisis. On February 9, 1998, the Commission concluded a historic social pact covering 90 items. The social agreement covered an extensive agenda, as shown in Table 5, and helped Korea to overcome the financial crisis by improving the country's credibility, as assessed by foreign financial institutions.

However, immediately after signing the social pact, the KCTU leadership faced strong criticism from its members for agreeing to the provision that legalized layoffs for managerial reasons. As a result, the KCTU withdrew from the Commission, putting a stop to the first round of the Tripartite Commission.

The second round of the Tripartite Commission was launched in June 1998. Its main objectives were to prepare policy proposals to fulfill the social agreements made in the first round of talks, as well as to promote the participation of all three parties in policy consultations concerning economic restructuring, particularly with regard to the financial and public sectors. The second round of talks made a substantial progress by reaching tripartite agreements on detailed policy proposals, including legalization of teachers' unions and the integration of a health insurance system. However, it also faced many obstacles, namely the mutual distrust amongst the parties and the opposition to government-led economic restructuring on the part of labor, manifested in the KTCU-led general strikes. The negotiations finally came to an end when the KCTU withdrew from the Commission in early 1999. Although the Commission started its third round of talks in September 1999, its ability to promote tripartite dialogue was severely undermined by continued confrontation between the KCTU and the government.

In 1998, as shown in Table 2, the number of labor disputes, which had fallen below 100 during the previous three years (1995-1997), reversed to an increase from 129 in 1998 to 250 in 2000. Labor disputes

Table 5. The 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 a health insurance system and expanded 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 work councils for government officials, beginning January 1999
- Recognition of the unemployed workers' right to join a trans-enterprise level trade union
(7) Enhancement of labor market flexibility
- Introduction of a worker dispatch scheme
- Deregulation of dismissals for managerial reasons

Table 6. Changes in Wage Contracts in 1998–2000

	1998		1999		2000	
	Gross wages	Regular wages	Gross wages	Regular wages	Gross wages	Regular wages
All Sectors	-2.7	0.0	2.1	2.1	7.6	7.2
Private Sector	-2.6	0.1	2.3	2.2	7.7	7.2
Public Sector	-3.1	-0.7	-0.5	0.0	7.2	6.9

Note: Establishments with more than 100 employees.

Source: Ministry of Labor.

during this period erupted largely due to overdue payments and business downsizing and restructuring (categorized as “others” in Table 4). In particular, there were several serious labor disputes in large firms as unions opposed the government's economic restructuring policies pertaining to the financial and the public sectors and management-led employment adjustment plans (e.g. Hyundai Motor Co).

Labor unions made unprecedented concessions during the economic crisis, agreeing to wage freezes, the reduction of bonuses and fringe benefits. As illustrated in Table 6, the overall wage growth in 1998 decreased by 2.7 percent. But as the Korean economy recovered from the crisis in the second half of 1999, labor unions demanded to renegotiations, which resulted in more than 7 percent of wage increase in 2000. It should also be noted that labor unions began to give priority to employment security rather than employment benefits or working conditions after experiencing massive employment adjustments between 1998 and 1999.

The widespread downsizing in unionized firms decreased union membership in 1997 and 1998. However, the number of unions and membership increased slightly again in 1999 as new groups of workers such as teachers, daily construction workers, and non-regular employees began to unionize. This period also saw organizational changes in labor unions such as the mergers of industrial federations (mainly affiliated with the KCTU). More significantly, several industrial federations including the Medical & Health Industrial Union (1998), the Banking Workers Industrial Unions (2000), and the Metal Workers Industrial Union (2001) changed their organizational structures into an industrial union model.

III. Overview of Current Industrial Relations

1) Features of the major actors in industrial relations

Labor unions in Korea are predominantly enterprise-based, although industrial unions have appeared in recent years. Enterprise unions, or enterprise units, affiliated with industrial unions exercise to a

substantial autonomy in their union administration and the collective bargaining process. This enterprise unionism was able to decentralize the collective bargaining process.

The labor movement in Korea is now divided between two main organizations: the FKTU and the KCTU. As of the end of 1999, the FKTU had 27 affiliates (industrial federations or industrial unions) with 4,501 unions and 888,500 members, while the KCTU had 16 affiliates with 1,256 unions and 564,800 members.

The KCTU, which was legally recognized in November 1999, has largely inclined towards militant activism, whereas the FKTU has taken a more cooperative stance towards the government and employers. According to 1997 union statistics, the average size of KCTU-affiliated unions (458 members) was much larger than FKTU-affiliated unions (242 members). Many labor unions in large firms organized after 1987 are affiliated with the KCTU.

There are two national-level organizations that represent the interest of employers: the Korea Employers Federation (KEF) and the Federation of Korean Industries (FKI). While the FKI members are mainly the *chaebol* (conglomerate) groups and focus on industrial policy issues, the KEF represents small firms as well as the *chaebol* companies and focuses on industrial relations. The KEF, founded in 1970, is a nation-wide umbrella organization encompassing 13 regional employers' associations, 20 economic and trade associations, and approximately 4,000 major enterprises in the manufacturing, construction, transportation, banking, insurance, and service industries.

The KEF has been the official voice of Korean employers in national-level negotiations and consultations regarding industrial relations, as demonstrated by its representative roles in the PCIRR and the Tripartite Commission. In fact, the KEF has become a major player in industrial relations because of the significant growth in the labor movement in the late 1980s and government-initiated tripartite efforts in the 1990s.

The Ministry of Labor is the government organization in charge of labor policies. Within the Ministry, the Labor-Management Cooperation Office and Labor Policy Bureau are responsible for policy-making and

administrative matters regarding industrial relations. There are three divisions in the Labor Policy Bureau— the Labor Policy Division, Trade Unions Division, and Labor-Management Consultation Division.

The Ministry of Labor has 46 local offices including six Regional Administrative Offices located in major cities - Seoul, Busan, Incheon, Taegu, Taejon, and Kwangju - and 40 Regional Offices. Labor inspectors in these Regional Offices check to see whether working conditions are in line with the Labor Standards Act, and responds to labor disputes and various labor issues that take place within firms located under their jurisdiction.

2) Institutionalized structure of industrial relations

Collective bargaining in most of the unionized firms is primarily conducted at the firm level in accordance with the enterprise-based union structure. There are a few exceptions, such as the transportation (e.g., taxi and bus) and textiles industries, which conduct regional or sector-level bargaining. While the Trade Union and Labor Relations Adjustment Act, enacted in 1997, stipulates that no collective agreement shall be valid exceeding two years, collective bargaining takes place every year in most unionized firms. In practice, collective bargaining for wage contracts is conducted every year, whilst that determining working conditions takes place every two years.

Even though the collective bargaining structure is decentralized, national centers exert considerable influence over company-level bargaining. As demonstrated in Table 7, the two national centers (the FKTU and the KCTU) make nation-wide bargaining demands for wage increases and other contractual changes (e.g., the reduction of working hours and employment security) at the beginning of every year, thereby providing a *de facto* guidelines for enterprise-level collective bargaining for unions. In response to these proposals, the KEF offers its own negotiation guidelines to its member companies.

In Korea, the labor-management councils function as an institutionalized channel to promote communication and cooperation between employees and management and facilitate employee

Table 7. Proposals of Wage Negotiations by Labor Unions and Employers
(unit: percent)

	Wage contracts	KEF's proposal	FKTU's demands	KCTU's demands
1988	13.5	7.5 8.5	29.3	-
1989	17.5	10.9(8.9 12.9)	26.8	37.3
1990	9.0	7.0(KAIO)	17.3 20.5	23.3(NTUA)
1991	10.5	7.0	17.5	22.2(NTUA)
1992	6.5	5.7(4.7 6.7)	15.0	25.4(NTUA)
1993	5.2	4.7 8.9	FKTU-KEF national	18.0
1994	7.2	5.0 8.7		16.4
1995	7.7	4.4 6.4	12.4	14.8(KCTU)
1996	7.8	4.8	12.2	14.8
1997	4.2	wage freeze	11.2	10.6 ± 3
1998	0.0	20 percent labor cost reduction	4.7	5.1 9.2
1999	2.1	wage freeze	5.5	7.7
2000	7.6	5.4	13.2	15.2
2001	-	3.5	12.0	12.7

Source: Korea Labor Institute (2001a).

participation. The labor-management council was formed under the Act on Promotion of Worker Participation and Cooperation (APWPC).⁵⁾ This act stipulates that all companies with more than 30 workers should form a council and hold regular meetings on quarterly basis. As shown in Table 8, the number of firms that formed a council under the APWPC grew by 72 percent between 1996 and 1999.

The labor-management council is composed of the same number of representatives from the employees and management, usually totaling three to ten participants from each side. When a company has a labor

5) The labor-management council was introduced by the Labor-Management Council Act (LMCA) in 1980. Until 1987, LMCs numbered around 6,700. The LMCA was replaced by the APWPC in 1997.

union representing the majority of its workers, it must allow the union leaders to participate as the employees' representative. The APWPC also gives the labor-management council greater authority by stipulating obligatory issues requiring prior agreement of the council, such as workers' training and corporate welfare programs.

It is worth noting that many labor unions have used council meetings as an extension of collective bargaining. Thus, the labor management council in many organized firms has in practice become a place to carry out collective bargaining.

The Labor Relations Commission (LRC) plays a central role as an official organ to mediate labor disputes. It is composed of members representing labor unions, management, and public interest. The labor and management representatives of the Commission elect the public interest representatives. The LRC has local offices in 13 major cities, and the Central Labor Relations Commission is in charge of mediating particularly significant cases of labor disputes involving more than two cities or provinces.

The TULRA (Trade Union and Labor Relations Adjustment) Act is narrower in scope and provides more stringent conditions of compulsory arbitration for public services. Public services are classified into general and essential services, and only essential public services (water, electricity, gas, oil, telecommunications, railroads, and hospitals) are subject to compulsory arbitration. Compulsory arbitration can be conducted by the Labor Relations Commission only if the Special Mediation Committee composed of three public interest representatives recommends arbitration.

Table 8. Coverage of Labor-Management Councils

	1993	1994	1995	1996	1997	1998	1999
Candidate	14,583	14,661	14,961	15,243	28,735	27,453	27,643
No. of LMCs	14,490	14,606	14,782	15,197	24,411	26,249	26,172
Coverage rate	99.3per	99.6per	98.8per	99.6per	85.0per	95.6per	94.7per

Source: Ministry of Labor, *Yearbook of Labor Statistics*.

IV. Conclusion: Current Issues of Industrial Relations in Korea

The historical overview of industrial relations in Korea demonstrates that the transition from an authoritarian model of the pre-1987 period toward a new tripartite mechanism is still an on-going process. During the economic crisis Korea experienced confrontational industrial relations both at the national and the firm level in the process of economic restructuring.

In conclusion, we would like to highlight several key issues concerning industrial relations and labor standards that are particularly of concern for the three parties at present. First, the reduction in statutory working hours may be the most critical issue. Labor unions have demanded that the current 44 working hours a week be shortened to 40 hours in order to improve the workers' quality of life and curb unemployment rates. In contrast, employers have opposed the reduction because of rising labor costs. In addition, they have argued that monthly and annual paid leaves and monthly menstruation leaves for female workers are costly and should therefore be abolished or reduced. Since the labor unions and employers have failed to come to an agreement, the government has been seeking a compromise through the consultation process of the Tripartite Commission.

Second, the number of non-regular workers has been rapidly growing during the recent economic crisis, adding another contentious issue to industrial relations. Official reports reveal that the proportion of non-standard workers (i.e., temporary and daily workers) out of the total workforce rose from 45.9 percent in 1997 to 52.4 percent in 2000, exceeding the total number of regular workers. Given the sharp increase of non-regular workers, labor unions and civil activist groups have focused on their poor working conditions and unstable employment status, demanding legislative protection and improvement of their social welfare and employment conditions. Moreover, while the national labor

centers - the FKTU and the KCTU - have launched organizing campaigns, non-regular workers in some firms have organized their own labor unions and engaged in collective actions, creating another contentious issue. However, employers are opposing the legislation of social protection for the non-regular workforce, arguing that these workers are their only option since the existing employment structure for organized regular workers is so rigid. At any rate, because of the changing composition of employment, resulting from the rapid growth of the non-regular workers, current labor standards will need to be revised.

Third, labor unions of several sectors have transformed their organizational structure from an enterprise union model to an industrial union model. Along with this organizational transformation, unions such as the Metal Workers Federation, the Medical & Health Workers Union (affiliates of the KCTU) and the Banking Workers Union (an affiliate of the FKTU) are demanding a centralized industry-level collective bargaining process. Employers are still responding negatively, which is another contentious issue between unions and employers.

Finally, there remain issues concerning unionization. Most importantly, civil servants are now allowed to form work councils, but they are still prohibited from organizing labor unions. Many representatives of work councils as well as other labor unions have demanded that the government grant civil servants the right to unionize. Labor unions have also pressured the government to allow the unemployed to participate in union activities, abolish legal restrictions or penalties on multiple unions within an establishment, and sustain the practice of payment for full-time union officials.

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2

Social Dialogue and Economic Recovery in Korea*

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I. Introduction

Social dialogue in Korea was initiated in many different forms since the late 1980s, when various attempts were made to institutionalize social dialogue, although most of these efforts failed to take root. But coming to the 1990s, when the government felt the need to control spiraling wage hikes, social partners with strong government support came to the consultation table and reached a bilateral agreement on wage guidelines, marking a turning point in Korea's industrial relations. As the fear of wage hikes subsided in the mid-1990s, labor reform became a very hot issue. The government had already tried unsuccessfully to revise the labor law in the past, but this time, an attempt was made to reach a social consensus before revising the law. A tripartite advisory commission was set up for the period of 1996-1998, to build up social consensus on the revision of the labor law

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and if possible, to reach an agreement on the revision drafts.

In the late 1990s, past experiences of social dialogue, enabled Korea to pursue policy reform with the support of all the stakeholders, in the wake of the economic crisis. The International Monetary Fund (IMF) asked the Korean government to implement a series of reform programs which included a more flexible lay-off system in exchange for economic bailout. And a compromise was reached between the social partners and the government on the IMF requirements and trade unions' demands. This agreement led to Korea's first tripartite social pact in Feb. 1998, marking a turning point in the Korean economy. Finally in May 1999, social dialogue was institutionalized into the Tripartite Commission on a permanent basis. It is worth noting that it has already been 10 years since social dialogue was initiated in Korea.

II. Evolutionary Process

1. Embryonic Formulation in the 1980s

The Labor and Management Consultation Act introduced in 1980 provided the legal basis for the Central Labor and Management Commission (CLMC, 1980-1997), a high-level tripartite consultation body.¹⁾ However, the CLMC had been discredited and criticized as an institution existing only in law, because it failed to respond to the dynamic changes of industrial relations in Korea. For 17 years before the revision of the labor law in 1997, the CLMC was convened just seven times. During the many strikes that erupted between 1987-1990, it was difficult for social partners to even sit together at the same table

1) The law says, "to review the main issues of the labor policy, the Central Labor and Management Commission may be established under the Minister of Labor." It consists of 10 representatives each from labor and management and 15 experts representing public interests. The labor minister is the chair.

and much less communicate with each other.

The CLMC failed mainly because of a deep-rooted mistrust in the government and its intentions. Trade unions were somewhat skeptical on the legally binding enforcement of an enterprise-level consultation committee, fearing that the government intended to replace the unions' bargaining process with committee consultation. Even though the CLMC was completely independent from the enterprise-level committee, its image as a consultation body was tarnished. Moreover, the authoritarian government never tried to negotiate with the labor unions, never feeling the compelling need to share substantial information with other social partners. Before 1987 and the restoration of democracy in Korea, the CLMC had been partly used to unilaterally disseminate government policy guidelines to the private sector.

It should be noted that, despite its narrow scope of consultation, the Minimum Wage Council (MWC, 1987-) contributed more to building up trust necessary for successful tripartite consultation. The MWC, authorized to recommend an annual minimum wage rate, comprises of union and business leaders and experts. The labor minister can veto its recommendation but has no right to amend the recommended rate. Such a tripartite wage fixing structure, new to Korea's industrial relations helped social partners get accustomed to tripartite coordination. Both the CLMC and the MWC did not directly lead to social dialogue schemes but carried some embryonic elements of social dialogue.

2. Phase one: Incomes Policy and Bilateral Pacts

1) Wage guidelines and the national economic and social council

Workers' demand for a fair share of economic growth was increasing ever since 1987. Coming to the 1989 bargaining round, economic policymakers, afraid of becoming economically less competitive, tried to slow down the phase of wage movements.²⁾ Modeled on Singapore's

2) In 1989 the GDP growth rate of the manufacturing sector registered 4.2 percent only, while wages for manufacturing workers increased 18.3 percent on a real-

National Wage Council, the government wanted to set up a tripartite consultation body, where social dialogue to control wage hikes could be discussed. However, this initiative aroused the fierce resentment of trade unions and as an alternative, the Federation of Korea Trade Unions(FKTU) proposed to launch the National Economic and Social Council (NESC, 1990-1997). The government had no other choice but to accept the FKTU's proposal hoping that the NESC would be able to initiate social dialogue. But the FKTU insisted that the government not join the NESC and that the wage issue not be discussed at the NESC. Thus the first government attempt to build up a consensus on wage moderation failed.

In 1991, before engaging the wage bargaining process, the then-president Roh held a "national economic summit meeting", inviting all the social partners to participate. The 1991 and 1992 meetings were held to lay a common ground for the mutual understanding of cooperative industrial relations and the serious economic situation. However, the summit meetings did not lead to any follow-up action. One visible outcome of the summit meeting in 1992 was the establishment of the Labor Laws Review Committee in Apr. 1992. The summit meetings did not actually alleviate confrontation between the parties or control rising wages, but nevertheless hinted at the possibility of social dialogue, laying a stepping-stone for future developments.

2) Bilateral wage guideline pacts

As the newly elected president Kim Young-Sam took office in 1993, the government gave up its controversial guideline policy and initiated a new approach to persuade the FKTU and the Korea Employers Federation (KEF) to come to an agreement on wages.

The government tried to persuade the FKTU to accept a bilateral compromise to share the pain of economic recovery. After a month long negotiation closely followed by the government, the FKTU and the KEF successfully reached the first bilateral wage guideline agreement

wage basis.

in Apr. 1993.³⁾ Both parties also agreed on the guideline of a 5-8 percent wage increase in 1994. These two bilateral wage guideline pacts, clearly deviated from the previous pattern of somewhat hostile industrial relations, mark a turning point in the evolutionary process of social dialogue. This scheme also clearly contributed to moderating the wage movement.⁴⁾ However, it cost the FKTU a substantial number of its union members and virulent political criticism. The rank and file workers felt that the FKTU made big concessions without receiving equivalent compensation. For these workers, the pact's guideline was nothing less than a government recommendation.

Another weakness of this pact was the Korea Confederation of Trade Unions (KCTU), smaller in size but more militant, with a stronger influence over enterprise-level wage bargaining, was excluded from the negotiations. The KCTU endeavored to undermine the pact, criticizing the unfairness of the deal. At the same time, the KCTU tried to provoke the resentment of the rank and file workers, while striving to increase its membership.

As a result, the FKTU alone, had to bear the consequences of the pact. Unlike other countries, where pact participants usually expand their political and organizational basis, the FKTU found itself in a difficult position and right before the 1995 pact negotiation withdrew from the scheme. This unlucky experience left a somewhat negative impression of social dialogue in the Korean workers' mind.

3) This is not a result of central level wage bargaining. What they agreed on was a recommended guideline for a wage increase between 4.7 – 8.3 percent. Since the competing peak organization, the KCTU, was demanding an 18 percent increase in wages, this guideline was considered as quite modest.

4) The average wage increase rate for non-agricultural industries over this period was 15.2 percent in 1992, 12.2 percent in 1993, 12.7 percent in 1994, and 11.2 percent in 1995. The GDP growth rate in the corresponding years was 5.1 percent, 5.8 percent, 8.6 percent, and 8.9 percent, respectively.

3. Phase Two: Labor Law Revision and Social Dialogue Institutions

As industrial relations began to stabilize and wage issues subside in the mid-1990s, the government began to express concern about labor reform. Most people expected a more democratic amendment of the labor law in parallel with the restoration of democracy in 1987. However, labor law reforms were repeatedly delayed for almost 10 years mainly due to serious conflicts of interest. The key issue was finding a way to manage the politically volatile reform process.

1) The Labor Law Review Committee (LLRC, 1992-1996)

The presidential veto of the labor bills passed by the National Assembly put an end to the labor reform drive in 1989. There was no progress on this matter until Korea became an ILO member country at the end of 1991. And the fact that many basic labor rights in Korea violated the ILO's convention on the freedom of association, rekindled the debate over the labor reform.

An economic summit meeting in 1992 decided to launch a special committee, under which a labor law revision recommendation would be drafted and reported to the Minister of Labor. The Committee counted 10 experts along with 3 members each from the FKTU and the KEF. The LLRC is important in that the government put the issue of reforms up for social dialogue, even though it was confined to a very limited inner circle. The Committee was given the authority to propose a draft paper after sufficient consultation among participants. Preparing the draft was relatively easy for the committee experts, but reaching a compromise and coordinating conflicting interests of employers and workers was more difficult, and indeed not resolved. The representative from the FKTU refused to endorse the recommendation of the drafted bill to the government, and even its contents could not be disclosed to the public. And while there was this deadlock within the committee, the government failed to move aggressively to speed up the overall process.

2) The Industrial Relations Reform Commission (IRRC, 1996-1998)

In the evolutionary process of social dialogue in Korea, the IRRC marks the second phase of its evolution. Here, social dialogue was more complete and dealt with more balanced packages. It was more complete in the sense that the KCTU was invited to join, and more balanced since the goal of social dialogue was the full revision of the labor law.

Up to this point, the KCTU had never been invited to any of the previous negotiations, so it had no other choice but to criticize and deny the social dialogue scheme. The KCTU's participation in the IRRC was an important move to invigorate social dialogue. It also meant that for the first time, the government and business leaders had recognized the KCTU as a dialogue partner. This recognition of the KCTU as a social partner in itself was a big step forward for genuine social dialogue.

The task assigned to the IRRC was also very timely for two reasons. First the two major points of the law revision, enhancing labor market flexibility and deregulating basic labor rights, called for a more balanced political exchange between employers and workers. If the package had been balanced, a big compromise could have been made. Second, labor reform had always been at the center of policy debates since 1988. The only question was when and how. Social dialogue through the IRRC, which could minimize social costs, could provide the answer.

The IRRC received full support from all the concerned parties and the public from the very beginning. It was also given legitimate authority to engineer social consensus-building. Legally, the IRRC was a presidential commission, with a 2-year mandate, with the main function of recommending a draft paper on labor law revision to the President. Its role was very similar to that of the previous institution, the LLRC (1992-1996), but unlike the LLRC, the IRRC tried to build up broader social consensus on the pending issues and did not hesitate to open nationwide public hearings. The IRRC actively sought to reach an agreement on the whole package of the draft. Such efforts were not totally futile. An agreement was reached on most of the issues except the few but most sensitive points.

The IRRC recommendation to the government with some issues still pending, was distorted in the government draft that placed more emphasis on labor market flexibility. And the National Assembly revised the government draft again, to make it more favorable to employers. The workers who were prepared to strongly protest since the government-issued draft, responded to the National Assembly's passing of the bill with a series of strikes. The strikes were so virulent that the law had to be repealed within one month. This whole episode sent a clear message to all parties concerned that refusing to compromise and to engage in social dialogue could only lead to severe conflicts and enormous social costs.

III. Economic Crisis and Social Pact

1. Social Pact as a National Consensus

1) Background

The economic crisis in 1997 put an end to Korea's success story and the 40 years' belief that the Korean economy's rapid growth and job creation would last forever.

Before the crisis, unemployment had never been a priority issue for either wage earners or government policy makers. The unemployment rate had stayed below 3 percent during the first five years of the 1990s and 2 percent for 1995-1996. However the breakdown of the financial market swept away this misconception and forced the Korean people to accept the reality of negative economic growth rates and massive unemployment.

The IMF's policy recommendation, to improve labor market flexibility as a condition for economic bailout, doubled the fear of unemployment. Politically, the flexibility issue remained very sensitive, since organized labor had successfully waged a general strike for the repeal of the just revised labor laws in Jan. 1997. And the newly-elected

minority government was not in a position to avoid this politically volatile issue. How to manage the reform process? The government and social partners faced two choices: compromise or struggle. It is at this crossroad, after ten years of trial and error, that a decision was reached to achieve compromise through social dialogue.

Ironically it was the KCTU, who was the first to mention that a social agreement was needed in early December 1997, because it hoped to get some sort of government guarantee on employment stability and a special budget for social protection. And all three presidential candidates proposed some sort of employment stability pact in their campaigns. Right after the election, president-elect Kim Dae-Jung met union leaders to propose the establishment of an ad hoc social dialogue institution to negotiate the terms and conditions of the social pact.

2) A great compromise and the social pact

On Jan. 15 1998, a tripartite commission, was set up as a negotiating body, led by the political party that had just won the elections. After three weeks of intensive reviews and negotiations, a compromise was reached on all the pending issues of ninety items. This first tripartite Social Pact in Korea contained not only labor issues but also other economic and political reforms, some of which had already been proposed by the newly elected government and also by the IMF.

The agreement covered almost all the reforms on the national agenda and action programs for crisis management. The government, three political parties, two employers associations, and two major workers organizations participated in the discussions and therefore, the Pact was not accepted just as a tripartite agreement but as a more global pact, reflecting the interests of all the stakeholders. Sealed in the midst of a severe economic crisis, the Pact received almost unanimous political support, and most people hoped that this compromise would lead to Korea's economic recovery.

Table 1. Key Contents of the Social Pact

(1) Management transparency and corporate restructuring
- Promotion of management transparency
- Improvement of corporate financial restructuring
- Establishment of a responsible management system
- Promotion of business competitiveness
(2) Stabilization of consumer prices
(3) Employment stabilization and unemployment policy
- Improvements on the Employment Insurance System (EIS) and expansion of its coverage
- Support for unemployed workers
- Job placement service
- Expansion of vocational training
- Job creation
- Employers' efforts for employment stabilization
- Expansion of necessary financial resources for employment stabilization
(4) Extension and consolidation of social security system
(5) Wage stabilization and the promotion of labor-management cooperation
(6) Enhancement of basic labor rights
- Teachers and civil servants' right to unionize
- Trade unions' right to political activities
- Lift of restriction on union membership
(7) Enhancement of labor market flexibility
- Introduction of temporary help services(dispatched workers)
- Deregulation of dismissals for managerial reasons
(8) Increase in export and improvement of the international balance of payments
(9) Other issues to overcome the current economic crisis
(10) Agenda for social cohesion
- Political reform
- Establishment of the Tripartite Commission

When we analyze the contents of the pact from the viewpoint of industrial relations, in the political exchange between the government and organized labor, the main highlight is the workers' acceptance of labor market flexibility in return for improved basic labor rights along with some social protection measures. More specifically, the gist of the

pact lies in the fact that the Korean unions accepted a new layoff system-dismissal for managerial reasons. Legally speaking, whether the dismissal provisions of the Labor Standards Act are amended, or not, does not make a big difference. What is important here is the political ramification of the fact that the amendment was made with workers' consent. Just a year before the pact was made, pressured by nation-wide strikes, the government had to repeal the newly revised labor laws and barely managed to legalize layoffs by agreeing to give a two-year grace period before its implementation. This is why it would have been very difficult for the government to propose an amendment once again, without getting the workers' consent.

2. Social Dialogue Institution

1) Workings of the Tripartite Commission

The successful outcome of the tripartite commission enabled Korea to institutionalize social dialogue. For organized labor, it was very critical to monitor the execution of the tripartite agreement and it was in this context that the Tripartite Commission was institutionalized.

The activities of the Tripartite Commission can be divided into three different periods. In its first round (Jan.15, 1999-Feb.9, 1999) all parties agreed to a social pact after much compromise. Led by political party leaders closely followed by president-elect Kim Dae-Jung, the Commission during this period, was a temporary negotiating body without any legal basis and had not yet been institutionalized. While the Commission did not do much after reaching an agreement, the government moved swiftly to legislate the new lay-off system and use of dispatched workers (temporary help service act), as specified in the tripartite agreement.

In its second round, the Commission, newly organized in June 1998, focused mainly on monitoring and implementing the pact. Workers were now demanding the implementation of all the promises made, which required intensive consultation and coordination on many policy issues and legal matters. The Commission worked under very unstable

and volatile conditions during this period. Union leaders often had to use the strategy of absenteeism or withdraw from the Commission, protesting against government inaction and delay in the legislation of agreed items, particularly teachers' right to organize. In addition to mounting tension and mistrust, labor disputes in the wake of drastic restructuring in the banking, public, and corporate sectors aggravated the situation and crippled the Commission in the second half of 1998. A two-month-long sit-in strike at Hyundai Motors, a test case of corporate restructuring, was followed by massive mobilization of the financial industry unions during this period. In May 1999 the Seoul Subway union walked out for a week to protest against the government's public sector_restructuring programs. Although all these disputes had been peacefully resolved through time-consuming negotiations and concessions, leading to the enactment of a law giving teachers the right to organize in Jan. 1999, there was much discord within the tripartite commission at that time. Consequently, both labor Federations completely withdrew from the Commission in February.

To reactivate the Commission, the government and the ruling party came together to propose the Tripartite Commission Act on May 1999, to provide a permanent legal basis for the Commission. The Commission in its second phase (June 1998 - May 1999) had been based on a presidential decree.

Politically, this meant that the Commission would remain operative even under a new government, which in turn means the institutionalization of social dialogue. Despite this new legislative framework, the Commission maintained its prior legal status of a presidential advisory committee. But its function was not limited to that. The new law entitled the Commission to issue policy recommendations to the government and to provide consultation on economic and social policies, affecting the workers' livelihood. Thus in its third round, the Commission had a more clearly defined function of policy consultation, with the participation of five government ministers in the Commission⁵⁾,

5) The five ministers (from the Ministry of Finance and Economy, the Ministry of

while the political parties completely withdrew from the Commission.

Soon after the enactment of this legislation, the FKTU decided to return to the Commission in early September with clear expectations that the government and the ruling party would work out a solution for the payment of full-time union officers. But facing strong opposition from the KEF, the FKTU withdrew from the talks once again in Nov. 1999.

Since Apr. 2000, the Commission has been partly normalized and has recovered some credibility. This was possible because a special sub-committee on working hour reduction was set up in May and started to coordinate the conflicting interests between social partners. Moreover, in the midst of a financial industry strike in July, the Commission successfully brought strike leaders and government officials to the negotiation table and managed to reach a deal.

2) Evaluation

The Social Pact and the Tripartite Commission should be evaluated in the context of a very rapid economic recovery from a severe crisis. Undoubtedly, the pact enabled the minority government to pursue drastic reforms in a very short period of time. And these prompt actions, helped the Korean economy regain some credibility in the international financial markets and to wisely overcome an alarming situation.

For the newly elected minority government, the pact system was very useful to manage reforms. All three potential opponents: organized labor, the chaebol, and the opposition party with a majority in the National Assembly who could have opposed government-led reforms participated in the pact process.

A Compromise between the government pushing for reforms and social partners implies that all the potential anti-reformers have to change their position as pro-reform supporters, at least temporarily.

Commerce, Industry & Energy, the Ministry of Labor, the Economic Planning and Budget Commission, Financial Supervisory Commission) are present in the plenary meeting of the Commission.

Concessions made at the peak of economic turmoil effectively stabilized the financial market. Namely, organized labor's acceptance of lay-offs was very important politically. And though the social pact, an elitist agreement made by leaders at a national level, is not supported by any organizational or administrative infrastructure that is needed to implement the agreement in each region and each plant, it provided the impetus to increase labor market flexibility. At the plant level, in wage bargaining, more than eighty percent of the bargaining units accepted deep wage cuts and deduction of fringe benefits. In 1998 workers were hit by a decrease in real wages of 9.3 percent. Korean workers successfully endured economic hardships such as they had never experienced before, in compliance with labor market pressure. And, despite a few massive strikes and some increase in the number of strike participants, overall industrial relations were relatively stable prior to economic recovery.

Backed-up by improved credibility and industrial peace, the government began pursuing an expansionary macro economic policy from the second half of 1998. And in the last quarter of 1998, the Korean economy began to recover and in 1999 recorded a growth rate of 10.7 percent and a very low inflation rate of less than one percent. As its result, soaring unemployment began to decrease rapidly. From Jun. to Aug. 2000, unemployment rates stayed around 3.6 percent, compared to 8.4 percent in the quarter of 1999.

During the period of high unemployment, many new social protection measures were added in accordance with the specification of the Social Pact. The government allocated a very large special budget for unemployment protection and enacted a wage claim guarantee system for the workers of bankrupt firms. In 2000 the government introduced a comprehensive anti-poverty program, namely the National Basic Livelihood Protection Act, with the help of the Tripartite Commission. Minimum wages were raised and its entitlement covers all employees including those working for companies employing less than 5 people.

No one can deny the fact that the pact system contributed to Korea's spectacular economic recovery in a very short period of time. However

it is also true that not everything has been smooth for the Tripartite Commission and that most of the participants have not been satisfied with the results. The KCTU, in particular, has voiced its concern and there are many reasons for this.

First, the heavy burden of economic restructuring made the smooth sailing of the Commission difficult. Since economic restructuring was carried out in such a massive and drastic scale, the partners in the Commission did not have enough time to coordinate the many-sided conflicts of interests. The fragile foundation of mutual trust was unable to endure such a harsh process.

Second, the Commission was unable to meet the high expectations of the workers. The Commission was unable to take care of all the workers demands. Once a decision was reached by the Commission, workers expected it to be backed up immediately by government policy or passing of a law. Unfortunately however, many decisions made by the Commission were just shelved.

Third, the government clearly showed that it was uneasy with the activities of the Commission. Top economic policy makers thought that the empowered Commission might endanger or at least delay the imminent restructuring process. Particularly in restructuring the financial market and the public sector, the government and trade unions clashed vehemently. The Commission's second round failed mainly because of this confrontation regarding public sector reform.

Fourth, the social foundation of the Commission was not strong enough to overcome all the difficulties of the restructuring process. Government officials were not used to building up social consensus through painstaking persuasion. And union leaders and employers were not fully prepared to reach a compromise through dialogue. In particular union leaders were more dependent on collective action. In institutional arrangements there was no multi-tiered consultation mechanism on a regional or industrial level that could support the national level social dialogue. This is why the Commission has been suffering. It has been given more work than it can actually handle.

IV. Future Prospects

Is the experience of social dialogue during the economic crisis a temporary crisis management method or a step forward for institutional build-up? The institutional settings and continuation of the Tripartite Commission show some possibilities for further improvements of social dialogue in the future.

However, some are saying that it will just be a temporary institution for crisis management only. The basis of this argument can be found in structural deficiencies of industrial relations of Korea. The first weakness mentioned by many critics is the absence of progressive political parties receiving the support of working people. Most of the major political parties in Korea adopt a catch-all strategy, where there is practically no difference between parties with regard to their political agendas or ideology. The second weakness is the severely decentralized structure of trade unions and the collective bargaining process. Due to prevailing company unionism, the main organizations of employers and trade unions do not have a leadership strong enough to negotiate on behalf of their members and to persuade them to accept negotiated outcomes. Thus the peak organizations' position is very weak, especially if they pretend to be legitimately representing social interests. Moreover union density is only 11 to 12 percent.

For these critics, the social pact and the Tripartite Commission are nothing but a fragile scheme designed only for crisis management. Once the crisis is over, any institution set up for crisis management will be dismantled. The present instability of the Tripartite Commission and the mounting tension between the government and trade unions seem to support the pessimistic forecast of these critics.

There is some truth to these criticisms and structural deficiencies can hurt social dialogue in Korea. However it is noticeable that, despite such deficiencies, industrial relations in Korea have clearly have gone

through an evolutionary process of social dialogue. And it must also be noted that, despite the confrontation, even the KCTU was demanding, to what they call, “negotiate” directly with the government. When labor organizations use absenteeism or withdrawal as their strategy, they expect the government to play a more active role in mediating conflicts of interest. In this sense, frequent absenteeism and withdrawal on the part of unions, should not be interpreted as totally disapproving the Commission or rejecting social dialogue.

On the contrary, through such actions, workers are anxious to consolidate the yet fragile social dialogue structure. They still have a number of pending issues to discuss with the government. More than any other party, it is organized labor that badly needs a stable institution for social dialogue to deal with many pending issues: the reduction of legal working hours, job protection in the further restructuring of banking and public sectors, more protective measures for temporary workers, development toward industrial unionism, and the issue of employers’ payment for full-time union officers.

In such a situation, it is the government who will determine the future fate and direction of social dialogue. As unemployment rates came down, and Korea’s macro-economy recorded double-digit growth rates after the second quarter of 1999, the government did not feel any pressing need to get help from organized labor.⁶⁾ On the other hand, organized labor began to put more emphasis on firm-level wage bargaining, to share the fruits of rapid economic recovery.⁷⁾

Before the Tripartite Commission gets back on track once again, one more “great compromise” or another social pact might provide a good impetus to rejuvenate social dialogue. If not, the Commission could degenerate into another institution of social dialogue existing in name

6) The unemployment rates declined from 8.6 percent in Feb. 1999 to 3.6 percent in Jul.2000.

7) Such trade unions’ strategy turned out to be very effective, so that the bargained wage rates on average went up to 7.0 percent in 1999 and 7.9 percent as of Aug. 2000, while it was just 1 percent in 1998.

only, without any benefits, as many others did in Korea. Since July 2000, the Commission has worked on molding a new compromise on various issues from working hours reduction to revising the legal prohibition of employers' payment for union officers before it becomes effective in 2002. For the FKTU, some of the packages had to be negotiated with employers and some other with the government. But the main obstacle to this sort of a new deal was not the contents but the structure of dialogue: the absence of the KCTU from the Commission. Since early 1999, the KCTU is absent from the Commission and is demanding a separate channel of dialogue with the government. Although it is strongly demanding working hours reduction, it will not be easy for the KCTU to resume negotiations within the Commission. This unstable dialogue structure gave less room for the FKTU to negotiate with employers and the government, especially since the FKTU still remembers the unfortunate experience of the bilateral wage pacts in 1993 and 1994. As its result, the Commission was unable to come up with a new successful deal.

Although on a national level, the Tripartite Commission has not seen much progress for the past 3 years from 1999, social dialogue is expanding in local governments. At the end of 2001, more than 30 local governments, including the Metropolitan City Government of Seoul, have established a regional tripartite commission. This trend is expected to continue in the future. Trade unions are also strongly demanding social dialogue at an industry-level, while employers' organizations are hesitant.

Another way to expand the scope of social dialogue is increasing social partners' participation in policy-making and the administration of labor market policies and welfare programs. With the strengthening of partnerships and mutual trust, social partners may ask to voice their opinion on policy making and implementation in areas of vocational training, job placement services, and social welfare, etc.

However, we must bear in mind that all this will take some time. Above all, social partners will have to work very closely together, learn to trust one another, and to believe in the still fragile social dialogue system.

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Appendix 1. Major Economic Indicators

	GDP Growth rate (%)	Demand rate of change(%)		Price index(%) (1995=100)		Exchange rates of Won to U.S. Dollar ¹⁾
		Final consumption expenditure	Fixed investment	Consumer	Producer	
1991	9.1	9.3	12.6	80.9	104.7	733.6
1992	5.1	6.8	-0.8	86.0	107.0	780.8
1993	5.8	5.3	5.2	90.1	108.6	802.7
1994	8.6	7.0	11.8	95.7	111.6	803.6
1995	8.9	7.2	12.4	100.0	100.0	771.0
1996	6.8	7.2	7.3	86.4	103.2	804.8
1997	5.0	3.2	-2.2	90.2	107.2	951.1
1998	-6.7	-10.1	-21.2	97.0	120.3	1,398.9
1999	10.9	9.4	3.7	97.8	117.8	1,189.5
2000	9.3	6.7	11.4	100.0	120.2	1,130.6
2001	3.0	3.7	-1.7	104.1	122.5	1,290.8
2002p	6.2	-	-	-	-	-
2000. 1/4	13.1	10.2	22.8	99.3	119.5	1,125.7
2/4	10.2	8.3	13.2	99.1	119.4	1,116.2
3/4	10.0	5.5	10.9	100.5	120.4	1,115.3
4/4	5.0	3.4	2.0	101.1	121.4	1,164.3
2001. 1/4	3.7	1.2	-4.0	102.9	122.5	1,271.2
2/4	2.9	3.5	-4.8	104.1	123.1	1,305.9
3/4	1.9	4.3	-3.1	104.7	122.8	1,293.9
4/4	3.7	5.6	4.9	104.5	121.4	1,292.1
2002. 1/4	5.8	8.0	6.5	105.5	122.2	1,319.6
2/4	6.3	7.3	5.6	106.9	124.6	1,269.5
3/4	-	-	-	107.4	124.7	1,196.6

Notes: 1) Exchange rates refer to average basic rates.

2) Symbol 'p' denotes preliminary estimate.

Sources: Bank of Korea, *Principal Economic Indicators*.

National Statistical Office, *Monthly Statistics of Korea*.

Appendix 2. Industrial Relations

	Number of dispute cases	Workers involved in disputes (thousands)	Working days lost (thousands)	Number of union members (thousands)	Union density (%)
1990	322	134	4,487	1,887	17.2
1991	234	175	3,271	1,803	15.8
1992	235	105	1,528	1,735	14.9
1993	144	109	1,308	1,667	14.1
1994	121	104	1,484	1,659	13.5
1995	88	50	393	1,615	12.6
1996	85	79	893	1,599	12.2
1997	78	44	445	1,484	11.2
1998	129	146	1,452	1,402	11.5
1999	198	92	1,366	1,481	11.8
2000	250	178	1,894	1,527	11.6
2001	235	89	1,083	1,569	11.8

Source : Ministry of Labor.

Appendix 3. Major Employment Indicators

(Unit : thousands, %)

	Labor force	Number of employed	Number of unemployed	Participation rate	Unemployment rate
1991	19,115	18,677	438	60.6	2.3
1992	19,499	19,033	466	60.9	2.4
1993	19,879	19,328	551	61.1	2.8
1994	20,396	19,905	490	61.7	2.4
1995	20,853	20,432	420	62.0	2.0
1996	21,243	20,817	426	62.0	2.0
1997	21,662	21,106	556	62.2	2.6
1998	21,456	19,994	1,461	60.7	6.8
1999	21,634	20,281	1,353	60.5	6.3
2000	21,950	21,068	889	60.7	4.1
2001	22,181	21,362	819	60.8	3.7
2000. 1/4	21,405	20,313	1,092	59.5	5.1
2/4	22,108	21,268	840	61.3	3.8
3/4	22,204	21,395	809	61.3	3.6
4/4	22,082	21,266	817	60.8	3.7
2001. 1/4	21,432	20,403	1,029	58.9	4.8
2/4	22,468	21,677	791	61.7	3.5
3/4	22,426	21,694	732	61.4	3.3
4/4	22,399	21,673	725	61.2	3.2
2002. 1/4	22,013	21,216	797	60.0	3.6
2/4	22,804	22,186	660	62.1	2.9
3/4	22,753	22,134	619	61.7	2.7

Source: National Statistical Office, *Monthly Report on the Economically Active Population Survey*.

Appendix 4. Wages and Working Time

(Unit : thousand won/month, hour/month)

	Total wage	Regular payment	Overtime payment	Special payment	Total working hours	Regular	Overtime
1990	642	444	70	128	209.5	181.4	28.1
1991	755	522	78	155	208.2	181.3	26.9
1992	869	597	86	186	206.5	180.4	26.1
1993	975	670	91	214	206.4	181.3	25.1
1994	1,110	746	99	254	205.9	180.8	25.0
1995	1,222	828	111	283	207.0	181.0	26.0
1996	1,368	925	117	326	205.5	180.9	24.6
1997	1,463	1,012	118	333	203.0	179.6	23.4
1998	1,427	1,050	100	276	199.2	179.2	20.0
1999	1,544	1,102	117	325	206.6	184.0	22.6
2000	1,668	1,182	113	352	204.8	181.4	23.4
2001	1,752	1,257	131	365	202.4	182.0	20.4
2000. 1/4	1,594	1,140	121	333	205.1	182.0	23.1
2/4	1,610	1,170	135	304	203.9	179.8	24.1
3/4	1,721	1,199	139	383	201.7	179.5	23.2
4/4	1,744	1,217	138	389	208.4	185.1	23.3
2001. 1/4	1,718	1,225	127	365	198.8	177.4	21.4
2/4	1,675	1,246	130	299	203.7	183.3	20.4
3/4	1,793	1,268	132	394	204.2	184.2	20.0
4/4	1,825	1,289	135	401	203.3	183.5	19.8
2002. 1/4	1,862	1,371	117	374	193.6	176.3	17.3
2/4	1,860	1,396	127	338	202.2	173.9	18.3

Source: Ministry of Labor, *Monthly Labor Survey*.

3

Globalization and Labor Rights*

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I. Introduction

Since 1994 the linkage of labor and trade, frequently referred as the ‘social clause’, has been an issue in Asia and Europe. The International Labour Organization (ILO) uses the term ‘social dimension of the liberalization of trade’, and its concerns on the issue have recently focused on the social dimension of ‘globalization.’ Globalization includes not only the liberalization of trade but also the free flows of international investment. Nevertheless, social clause discussions have paid more attention to the linkage of trade and labor, while relatively downplaying the linkage between investment and labor. As the capital flows have been rapid and basically transnational, capital investments between countries have increasingly deterministically shaped the economic developments of countries.

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The industrial relations (IR) implications of globalization are many and varied. Some examples include employment, wages, union density, bargaining power of IR actors, labor rights, working conditions, and skill formation. Globalization does not necessarily create positive conditions for IR outcomes. The reverse would be also true. One hypothesis attributes the current Asian economic crisis to the 'globalized' nature of the Asian economies (Erickson and Kuruvilla, 1998). With the recent outbreak of the Asian financial crisis, globalization of the economy, including both trade and investment, has frequently been regarded as one of the fundamental factors affecting basic labor rights. In some countries, unionization rate has rapidly fallen and the bargaining power of trade unions has contracted.

This paper aims to examine the linkage between globalization and labor rights focusing on the case of Korea. To tackle this issue, one must take the fundamental change of the global economy into account on the one hand, and also understand the process that certain national policies and institutions have evolved under the constraints basically determined by the impact of globalization, on the other. The moral commitment of international societies on protecting basic labor rights plays an important role in this regard.

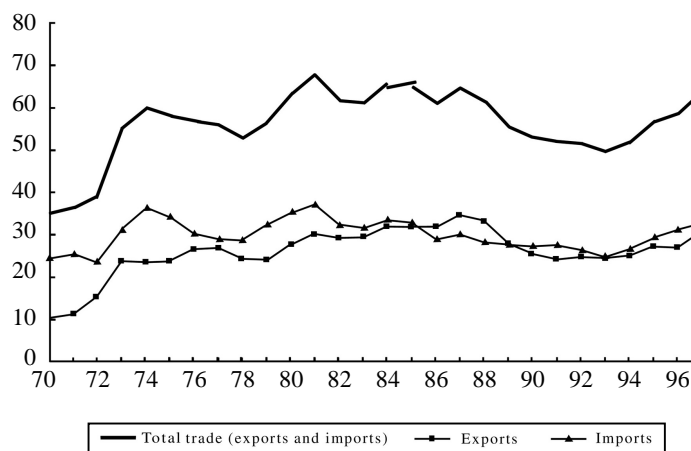
The purpose of the present work is to provide an account that draws attention to the tradition of Korean IR and recent challenges under the global financial and economic system. It focuses especially on the experience of Korean IR after International Monetary Fund (IMF) rescue package of November 1997. First, we delineate the globalization of Korean economy, followed by general backgrounds of IR in Korea. Then current IR issues under globalization trends are discussed.

II. Globalization of the Korean Economy

The economic success of Korea during the past few decades could be attributable to its export-oriented development. The export-oriented

strategy, combined with the gradual import liberalization process has been accompanied by an steady increase in trade flows (see Figures 1 and 2). Since 1970, the volume of trade has been multiplied by a factor of five, with exports increasing much faster than imports. The ratio of trade to gross domestic product (GDP) soared from below 20 percent in the 1960s to over 60 percent in the early 1980s, and has broadly stabilized since then. Korea's presence in world markets has risen substantially.

Figure 1. Evolution of Trade Flows(percent of GDP)

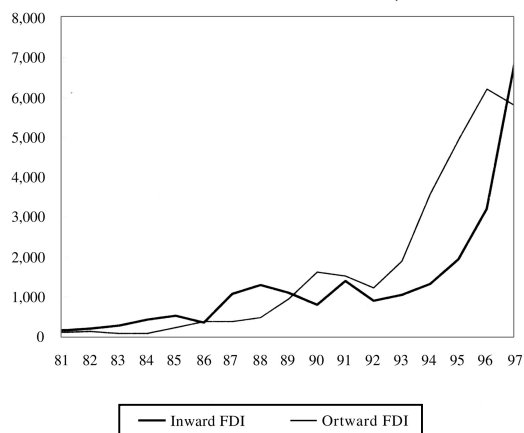


Source: Bank of Korea and IMF, *International Financial Statistics Yearbook*, 1996.

However, foreign direct investment (FDI) flows had been small until the mid-1980s, as shown in Figure 2. Following a somewhat more liberal attitude towards foreign investment, both inflows and outflows have increased since then. Thus, in 1997, there were 636 projects of FDI in Korea, representing a record high of seven billion \$US, while the 1,561 projects of outward investment amounted to \$US 5.8 billion. Even so, FDI continued to perform a less significant role compared with other countries. However, the Korean government and firms realized that the Korean economy needed more foreign investment after the Korean economy experienced severe dollar liquidity problems. Koreans have realized that now it could be

difficult to separate one country's economy from others.

Figure 2. Trends of FDI Inflows and Outflows(US\$, million)



Note: The figures indicate the amount of officially-accepted FDI flows.

Source: Ministry of Finance and Economy, *Trends in International Investment and Technology Inducement*, 1998.

III. Overview of Korean Industrial Relations

1. The Economy and Labor Market in Korea

Korea, with a population of approximately 47 million, has shown the most remarkable economic growth among newly developed countries. Growth rates, in terms of real GDP, of the Korean economy have averaged nearly eight percent per year since the 1970s (see Table 1). Real wages, defined as nominal wages deflated by consumer price increases, had grown at an annual rate of 9.3 percent during the period 1985-1994, which exceeded even wage increases in Japan in the 1960s and 1970s (Park and Lee, 1995). The real wage growth was most outstanding during the second half of the 1970s and also of the 1980s, recording an average annual growth rate of 10.3 percent and 8.3 percent,

respectively. Despite its slowdown, even during the first half of the 1990s, the real wage growth rate of Korea was much higher than those observed in most industrialized countries and higher than in any other newly industrialized economy (NIE) in Asia, such as Taiwan, Singapore and Hong Kong. The current economic crisis of Korea, however, is expected to lower the real wage growth rate to below zero.

Table 1. Economic Indicators and Labor Statistics in Korea

Years	Growth rates of real GDP ¹⁾	Per capita GNP ²⁾	Trade balances ³⁾	Unemployment rates ¹⁾	Hourly labor costs ²⁾⁴⁾	Unionization rates ¹⁾	Number of labor disputes
1970	7.6	252	-623	4.4	---	12.6	4
1975	6.6	594	-1,887	4.1	0.32	15.8	52
1980	2.7	1,592	-5,321	5.2	0.96	14.7	206
1985	6.5	2,242	-887	4.0	1.23	12.4	265
1986	11.6	2,568	4,617	3.8	1.31	12.3	276
1987	11.5	3,218	9,854	3.1	1.59	13.8	3,749
1988	11.3	4,295	14,161	2.5	2.20	17.8	1,873
1989	6.4	5,210	5,055	2.6	3.17	17.2	322
1990	9.5	5,883	-2,179	2.4	3.71	17.2	322
1991	9.1	6,757	-8,728	2.3	4.61	15.9	234
1992	5.1	7,007	-4,529	2.4	5.22	15.0	235
1993	5.8	7,513	385	2.8	5.64	14.2	144
1994	8.6	8,508	-4,531	2.4	6.40	13.5	121
1995	9.0	10,076	-8,948	2.0	7.40	12.7	88
1996	7.1	10,543	-23,005	2.0	8.22	11.2	85
1997	5.5	9,511	-8,618	2.6	-	-	78

Notes: 1) Percent.

2) US dollars.

3) Millions of US dollars.

4) Production workers in the manufacturing sector.

Source: Korea Labor Institute (1994, 1996, 1997, 1998).

The remarkable economic growth has been associated with rapid urbanization and growth of the manufacturing workforce. The number of workers in the manufacturing sector increased from 601,000 in 1963

to 4,475,000 in 1997. In the 1990s the labor force participation rate has been approximately 62 percent (Korea Labor Institute, 1994 and 1996). The unemployment rate dropped from 8.2 percent in 1963 to 4.4 percent in 1970, and since 1980 it has remained lower than three percent (see Table 1). In the early stages of industrialization, the Korean economy faced the challenge of creating enough jobs to reduce a relatively high unemployment rate (of some seven percent in the mid-1960s) and, more importantly, to absorb large cohorts of new labor market entrants. Since then, the high growth process had translated into the creation of over ten million jobs. This achievement allowed absorption of not only the overall rise in the labor force, but also the expanding labor force participation of female workers. Since 1970 the participation rate of women had been raised by ten percentage points to 49.5 percent in 1997. Taken together, the total unemployment rate for both males and females declined to around four percent in the 1970s and two-three percent between the early 1980s and 1997.

One feature captured in the growth process of the Korean economy lies in its growth-cum-equity development path that holds true until the mid-1990s. During the 1975-1995 period, the Gini coefficient of concentration declined from 0.39 to 0.28, which was at the low end compared with other Asian countries. Such improvement in income distribution, achieved through the sustained economic growth process, is often ascribed to human capital accumulation among other factors (Jung, 1992).

Despite the remarkable economic growth, long working hours and the high incidence of industrial accidents showed the dark side of the Korean labor market. Although working hours in Korea have decreased substantially since the mid-1980s (Kim, 1993), they are still longer than most countries for which relevant data are reported in the *ILO Yearbook* (46.7 hours per week in the non-agricultural sector in 1997). In addition, the injury rate in Korea's manufacturing sector (4,283 workdays lost per 1,000 employees due to occupational injuries in 1994) is also higher than that of any other major economy (Korea Labor Institute, 1996 and 1998; Park and Lee, 1995).

Since the early 1990s the labor market has responded to the slowdown of the economy. Mid-career employees even in large corporations have been forced to accept 'honorary' early retirement, and private firms and public employers have reduced substantially the number of job openings for new college graduates. After the 1997 IMF rescue package, several economic indexes changed rapidly. For example, the foreign exchange rate (Won/\$) changed from 921.85 in October 1997 through 1706.8 in January 1998 to 1213.65 in December 1998. Just for a month after November 19, 1997, when Korea decided to approach the IMF, the value of the Korean Won fell by about 50 percent against the US dollar, and the stock market followed by dropping some 60 percent (for more details on the Korean crisis, see, *inter alia*, Cathie, 1998; Rowley and Bae, 1998a). The unemployment rate, although it declined a little for three consecutive months (from August to October of 1998), went up, to reach 8.5 percent in January 1999, equaling some 1,762,000 people (see Table 2). Among the unemployed,

Table 2. Labor and Economic Statistics of Recent Months

Year	Months	Stock price index	Average exchange rate (Won/\$)	No. of Unemployed (1,000)	Unemployment rate (%)	Growth rate of real GDP
1997	10	584.1	921.85	452	2.1	3.9
	11	494.1	1,025.58	574	2.6	
	12	390.3	1,484.08	658	3.1	
1998	1	475.2	1,706.80	934	4.5	-3.6
	2	525.2	1,623.06	1,235	5.9	
	3	523.0	1,505.28	1,378	6.5	
	4	444.2	1,391.97	1,434	6.7	-7.2
	5	356.3	1,394.62	1,492	6.9	
	6	313.3	1,397.18	1,529	7.0	
	7	327.8	1,300.77	1,651	7.6	-7.5
	8	312.8	1,303.22	1,578	7.4	
	9	312.2	1,370.80	1,572	7.3	
	10	358.8	1,336.72	1,536	7.1	-5.3
	11	429.2	1,294.13	1,557	7.3	
	12	524.7	1,213.65	1,665	7.9	

1,263,000 had lost their jobs within a year of being hired. In fact, the world's 11th largest economy suddenly became an economy surviving on overnight loans from international financial institutions (Park, 1998).

2. Government Policy on Employment and IR

Throughout the period of rapid economic growth, the Korean government exercised a dominant role in determining employment and IR practices. In the early stages of industrial development, Korea, being a country with few natural resources, achieved economic competitiveness in the international market through abundant and cheap labor. The major goal of employment policy was to provide labor market and labor relations conditions, which best promoted rapid economic growth (Kim, 1993; Rodgers, 1990).

Korean economic growth was accompanied by extensive investment in human resources, and the ratio of government expenditure on education to the total government budget reached 14.8 percent in 1992. The ratio was greater than those of most major countries except Japan (e.g., 12.3 percent in the US; 8.6 percent in Germany; 14.1 percent in Australia; 11.5 percent in Singapore; 16.5 percent in Japan) (Korea Labor Institute, 1996). The cultural value placed on education, influenced by Confucianism, was also instrumental in building a relatively high-quality labor force during the early period of economic growth. In the 1970s, emphasis shifted to developing vocational and technical skills for the newly emerging heavy and chemical industries. In the early 1980s, government efforts were increasingly directed at improving the quality of technical education at both the vocational and the college levels to create a labor force with more sophisticated skills (Park and Lee, 1995). Hence, 'lack of natural resources has been turned into a blessing' in building capable human capitals (L. Kim, 1997: 60).

During the period of rapid economic growth, the Korean government acted as a 'benevolent dictator' through comprehensive and detailed legal frameworks and direct state intervention in the labor market. The rights of Korean workers were protected by detailed protective

legislative measures. Korean laws and regulations covering individual workers' rights were more extensive in some respects than those of Western countries (S. Kim, 1995). For example, establishments with five or more employees could not lay off workers without just cause, and the court recognized lay-offs only if there was no other way of solving business problems. Furthermore, fair criteria would have to be used for selecting the workers to be laid off.

On the other hand, the government suppressed any independent labor movement. While American-style labor laws were enacted in 1953 and guaranteed full-fledged trade union rights, throughout the 1960s and 1970s labor law was frequently revised to put substantial restrictions on union activities. For example, labor legislation was amended in 1972 to suppress unions, and strikes were prohibited until 1980. Since the late 1980s, there have been revisions of labor laws in the direction of providing some freedom for the labor movement. However, the current labor law, revised in March 1997, still contains some restrictions on the labor movement, such as a prohibition of union activities by public employees and teachers, and emergency adjustment of labor disputes in some industries by the Ministry of Labor.

The process of political democratization since the late 1980s has been accompanied by a surge of workforce militancy and violent labor disputes. Since the labor movement was suppressed by successive governments during the post-war period, political democratization was perceived by workers as an opportunity to remove the vestiges of past labor suppression. Workers' demands did not stop with improved wages and working conditions. They sought political liberalization, the right to form and control their own unions, and intervention in certain management prerogatives (Kim, 1993). Confronting unprecedented workforce militancy, the state has increasingly lost control over the labor market as well as trade unions since the late 1980s.

3. Employers and Employment Practices

Economic growth in Korea was led by large indigenous private

organizations with close guidance and various supports (e.g., low-interest, long-term bank loans) from the state. Unlike Singapore and Taiwan, FDI did not play the central role in economic development. The Korean economy had been heavily dependent upon *chaebols*, such as Hyundai, Samsung, LG, Daewoo, Sunkyung, and Ssangyong. The top 50 *chaebols* generally accounted for nearly 20 percent of gross national product (GNP) and employment, and 40 percent of sales in manufacturing (Wilkinson, 1994).

Most private companies in Korea are still dominated by the founding father or his family members. The style of management is generally considered as authoritarian or paternalistic. Tayloristic management systems have been a dominant method of production, especially in manufacturing facilities, although a few progressive employers (e.g., Samsung, LG, Ssangyong) have made experiments with team production, flexible production, employee involvement, multi-skills training, and job rotation (T. Kim, 1995; Park and Lee, 1995). The responses of employers to the newly emerging militant unionism have been varied. However, the main response since 1987 has been adopting hard-line methods (e.g., dismissal of union activists and blacklisting), rather than using more accommodative means (Wilkinson, 1994).

It is well known that the essence of Japanese IR is summarized by the term, 'three pillars' - seniority-based wages, lifetime employment and enterprise unions. A less known fact is that the Japanese system of IR bequeathed the same characteristics to Korea. Under the lifetime employment system both in Korea and Japan, a company usually hired recent school graduates. After being hired, workers receive training within the company and perform various jobs through rotations and transfers. Once hired, employees usually complete their careers at the same company. Their employment is, in principle, guaranteed until a certain age. Although this age varies in each company and industry, it is generally between 50 and 60.

Traditionally there is no formal layoff system in Japan or Korea comparable to that of the US or European countries, and companies generally do not dismiss permanent employees. Even when certain

departments are over-staffed (because of business downturns), companies try not to dismiss affected workers against their will. Employers try to retain them as long as possible through the reallocation of employees, reduction in overtime, and paid off-the-job training sessions. Although lifetime employment systems are limited mainly to regular, particularly male, workers in large companies, there is little doubt that they are the norm in Japanese and Korean management practices. Furthermore, the normative influence of these practices extends to smaller companies and even peripheral groups, such as part-time workers.

Since the 1997 economic crisis in Korea, however, the lifetime employment principle has been more frequently violated in Korea than in Japan. Despite the recent economic difficulties, Japanese employers have been more conservative than Korean counterparts in conducting massive layoffs by utilizing various substitutes. This is one of the reasons why the unemployment rate in Japan is still under five percent, although the rate has steadily increased from about three percent in 1997. However, Korean employers were more eager to adopt the alternative employment principle under the economic crisis. Korean government officials believed that securing labor market flexibility is one promising approach to improving the economic competitiveness of Korean firms, and encouraged private firms to implement bold restructuring programs, including massive layoffs. When there were business downturns, there have been many incidents of dismissals of workers against their will, through the use of honorary retirement plans. Since the IMF bailout program in 1997, downsizing has become a major social issue. Consequently, the number of permanent workers in establishments with ten or more employees has been decreasing, reflecting the slowdown of the economy and firms' efforts to reduce the number of permanent workers by relying more on part-time or temporary workers (Park and Lee, 1995). The unemployment rate in Korea has sharply increased from 2.1 percent in October 1997 to almost nine percent in the early part of 1999 (see Table 2).

While the seniority-based pay system is still a dominant form of

remuneration in Korea, a wage system emphasizing individual ability (called 'annual pay', a type of merit-pay system) has gained its popularity in recent years (Kim and Park, 1997). Studies surveying the pay practices in Korean firms showed that about 15-20 percent of Korean firms had already implemented an annual pay system, and more than 30 percent of them were considering its implementation within two to three years (Yu and Park, 1999).

4. Trade Unionism in Korea

After the breakdown by force of the Communist labor movement in 1949, the government recognized the Federation of Korean Trade Unions (FKTU) as the only legal national-level union federation. The FKTU, established in 1960, has received financial support from the government, and its policies and activities have been generally subordinate to the government. Economic success, substantial wage increases, and the military threat from North Korea justified the state's authoritarian IR policy. However, the fast industrial growth, the emergence of a middle-class population, and the rising level of education contributed to strengthening the potential political basis of workers.

Since the late 1970s, a strong labor movement has emerged separate from the formal union organization. This movement was characterized by a proliferation of wildcat strikes in the late 1970s and early 1980s, and disputes over management-controlled company unions. The late 1980s witnessed a turning point. Initiated by the 'Democratization Declaration' in June 1987, the union movement has undergone an unprecedented expansion. Union membership almost doubled during 1985-1989, with union density rising from 12.4 to 18.6 percent. This, however, led to labor turmoil and indeed there were nearly 4,000 disputes for the single year 1987 (see Table 1). In 1990, a militant and illegal national federation, the Korea Trade Union Congress (KTUC) was organized. After the biggest general strike in Korean history in early 1997, the Trade Union Law was revised to allow the possibility

that KTUC become a legitimate union federation.

The labor law amendment in 1987 took a step forward to guarantee workers' collective rights. Workers could exercise their basic rights more freely, to organize, to bargain collectively, and to strike. Nevertheless, there remained some restrictions on freedom of association and collective bargaining, inclusive of the prohibition of multiple unions, political activities of trade unions, and the like.

Most Korean unions are organized at the level of the individual enterprise. Members of enterprise unions include only full-time, blue-collar, and some white-collar workers (excluding temporary or part-time employees). While collective bargaining was circumscribed severely by the government until the late 1980s, it has become an increasingly important method of wage determination since the 'Great Labor Struggle' in 1987. In the unionized sector, wages and working hours are determined by collective bargaining between enterprise unions and individual employers, while multi-employer bargaining practices exist in transportation, mining, and textile industries. As in Japan, each enterprise union negotiates with its own management on wages and working conditions every spring.

IV. Globalization and Labor Rights

Globalization has two contrasting effects on labor rights. There is the positive side of globalization in terms of worker rights, but also a negative side in terms of working conditions and employment practices.

1. The Positive Impact of Globalization on Labor Rights

Basic labor rights in Korea had increasingly expanded as the economy grew. Although there was an imbalance in speed between the economic growth and the expansion of workers rights, the gap had been reduced after the late 1980s. It is a common understanding that full

employment or labor shortage (the unemployment rate was lower than three percent until December 1997) since the mid-1980s had played an important role in inducing the improvement of workers' rights.

Economic- and labor-related international organizations also have influenced Korean worker rights. Korea joined the ILO in December 1991. Since 1992 Korea ratified seven ILO Conventions. In addition, Korea made a solemn commitment to 'reform existing laws and regulations on industrial relations in line with internationally accepted standards, including those concerning basic human rights, such as freedom of association and collective bargaining', when it became the 29th member of the OECD in December 1996.

Another example is the report of the 'Overseas Private Investment Corporation' (OPIC). All the actors in the IR system in Korea paid attention to the OPIC report on 'internationally recognized worker rights in Korea'. In July 1991 OPIC, an independent US government agency that sells investment services to assist US companies investing in some 140 emerging economies around the world, suspended its

Table 3. The Major Steps Taken by Korea Since 1991

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- Joining the ILO and ratification of some ILO conventions
 - Legalization and *de facto* recognition of multiple unions at the national and industrial levels
 - Elimination of the prohibition on third party intervention in industrial disputes and its replacement with a notification provision for non-affiliated third parties
 - Establishment of Works Consultative Committees for government workers as a prelude to full unionization
 - Progressive reduction in the list of 'essential' public services ineligible to strike
 - Temporary removal of the prohibition on union involvement in political activity
 - Full extension of worker rights to workers in Export Processing Zones
 - Amnesty for workers previously convicted or arrested for Legitimate union activity
 - Reduction in the legal maximum weekly working hours
-

Source: From OPIC (1998).

programs in Korea as Korea had failed to take steps to adopt and implement internationally recognized worker rights. In June 1998, OPIC determined that Korea now met the worker rights eligibility criteria applicable to its programs. The major steps taken by Korea since 1991 are shown in Table 3. All these international organizations have prompted Korea to take actions to confirm global standardization of labor rights.

Table 4. Recent Labor Law Changes in Basic Worker Rights

Freedom of Association	Strengthened Right to Bargain Collectively
<ol style="list-style-type: none"> Enhanced Right to Organize <ul style="list-style-type: none"> -By granting union pluralism, multiple trade unions at the national and industrial level are immediately permitted. -At the enterprise level, multiple trade unions will be allowed starting in the year 2002 to prepare for complementary measures in collective bargaining, such as single representation system. Expanded Assistance from Third Parties <ul style="list-style-type: none"> -Eliminating the provision prohibiting intervention of third parties allows a broadened range of professional assistance in collective bargaining. -Enhanced autonomy in financial management of trade unions. -By removing the upper limit (2%) on union membership dues, and autonomous fiscal operation and financial self-reliance of trade unions are founded. 	<ol style="list-style-type: none"> The scope of parties entrusted with the right to bargain collectively is extended. By authorizing representatives of labor and management to conclude a collective agreement, the new laws guarantee that collective bargaining is carried out under the autonomy and responsibility of the representatives concerned. Should the representatives agree, the terms of validity of wage agreement may be extended in order to heighten autonomy of employees and employers in determining working conditions, including wages. Punishment of employers committing unfair labor practices is enforced.

In early 1996, the tripartite actors in the IR system began to arrange a new institutional arena in which most labor issues could be discussed in a formal way. The Presidential Commission on IR Reform was launched based on the agreement. One purpose of the Commission was to improve Korean labor standards up to the level required by international organizations, such as the ILO and the OECD. The Commission, comprising the representatives of labor, management and public, held a series of public hearings and panels of experts for six months in order to reach a consensus on the labor issues in question. In 1997, after experiencing some conflicts among the tripartite actors, the revision of labor law was completed. Among the major contents of revision, there was a significant development in basic labor rights, as shown in Table 4.

The 1997 revision of labor laws aimed at improving workers well-being by strengthening basic labor rights, while strengthening firm competitiveness by enhancing labor market flexibility. In return for the legalization of multiple unions, the legalization of layoffs (with a two-year reservation for implementation) and flexible working hours systems have also been adopted.

2. The Negative Impact of Globalization on Labor Rights

However, the favorable progress in labor rights has encountered a challenge of globalization in 1990s. While some labor rights have additionally been legalized as a result of national efforts to meet global labor standards, labor markets and other environments for workers and trade unions have seriously eroded under intense global competition. As the Korean economy has entered the advanced world economy, IR in Korea also became exposed to the world-wide changes in IR. In particular, because of the globalization-oriented economic policy of the government in the 1990s, both labor and management have experienced direct pressures from the world economy.

What are the driving forces behind the global standards? With the growing necessity of labor market flexibility, employment instability

stemming from collective dismissals, layoffs, outsourcing, part-time work, and the like, has been evident (Bae *et al.*, 1997; Bridges, 1994; Frank and Cook, 1995; Heckscher, 1995; ILO, 1996). This trend has weakened the position of unions as collective actors ensuring employment security. Moreover, union members have often been in the minority within the company because of the increasing use of non-standard workers. As a result, workers' interests have been less represented through union activities than before, while broader representative bodies, such as worker councils, play a similar but more cooperative role within companies. This trend would jeopardize even an enterprise union system as well as an industry union system, because the diversified characters of workers within a company may prevent them from organizing their interests. With rapid technological innovations and shortened cycles of technological applications to production, massive unemployment due industrial changes based on technological innovations have occurred in advanced countries (Craver, 1993).

Downsizing has been common in almost all sectors of the Korean economy. As a consequence, collective bargaining aiming at wage increases has been displaced by ones focusing more on employment security. Accordingly, wage levels for most workers have stagnated or deteriorated in recent years. As shown in Table 5, both nominal and real wage rates have been decreased recently. The real wage increase rate of 1998 is -9.3 percent.

Table 5. Major Indicators in Wage Changes

Items	1995	1996	1997	1998	1997				1998				1999	
					1/4	2/4	3/4	4/4	1/4	2/4	3/4	4/4	1/4	1/4
Nominal wage Increase rate (%) ¹⁾	11.2	11.9	7.0	-2.5	11.6	9.8	6.8	0.9	0.1	-1.2	-8.1	-0.4	5.6	
Consumer price Index change (%)	4.5	4.9	4.5	7.5	4.7	4.0	4.0	5.1	8.9	8.2	7.0	6.0	0.7	
Real wage Increase rate (%) ¹⁾	6.4	6.7	2.4	-9.3	6.7	0.8	2.7	-4.0	-8.1	-8.6	-14.2	-6.0	4.9	

Note: 1) All industries.

Source: Korea Ministry of Labor, *Monthly Labor Statistics* (various issues).

With the financial crisis in 1997, a great number of workers in Korea have lost their basis for keeping basic labor rights. Korea had increased people's welfare by enlarging the size of employment and raising income level and corporate welfare. However, with the sudden economic crisis, the existing socio-economic safety net has been proved weak. The decline in employment has been dramatic since the outbreak of the crisis. The unemployment rate reached 8.5 percent as of January 1999, a four percent point increase from the previous year (see Table 2).

The sudden decline in employment was attributable mostly to the bankruptcy of small and medium size firms who suffered more from the credit crunch arising from a tightened control of loans among highly scrutinized banking sectors, where most banks have been struggling to meet the Bank for International Settlements (BIS) standard. Moreover, as large firms begin to start their employment adjustment programs, the unemployment rate is forecast to be higher than 7.6 percent on average next year.

More drastic changes in Korean IR have resulted from restructuring programs. As a result, IR has become unstable and struggles and conflicts around the issue of comprehensive economic reform have increased among the actors. Economic adjustment programs (e.g., downsizing, restructuring, so-called 'big deals' among *chaebols*, mergers and acquisitions, and intra- & inter-firm ventures) have been pursued by firms under the initiative of the new government prompted by IMF monitoring. These have been painful for unions and workers.

On January 20 1998, all parties of the Tripartite Commission announced the first Tripartite Joint Statement identifying the goal of economic reform and the principle of fair burden-sharing. On February 9 1998 the Tripartite Commission agreed upon some major agenda and declared its Social Agreement to the public. The major agreed-upon issues of the Social Agreement were enormous in terms of their impacts on the society and their relations to the other fields. In particular, in return for accepting the immediate implementation of legal redundancy dismissals, unions and workers gained additional legalization of basic labor rights. This point has been regarded as the main content of the

Social Agreement. Tripartite representatives, with regard to basic labor rights, have agreed:

- To allow the establishment of workplace association for government officials from January 1999;
- To guarantee the right to organize trade unions of teachers from July 1999 (to revise the related laws at the regular session of the National Assembly in 1998);
- To guarantee political activities of trade unions by revising the Elections Act and the Political Funds Act during the first half of 1998;
- To recognize the unemployed workers' right to join trade union organized on trans-enterprise level from 1999 (to revise the related laws in February 1998);
- The mandatory advance notice given should be six months before the unilateral termination of collective agreements (to revise the related laws in February 1998);
- To devise measures to provide tax benefits to trade unions at the earliest moment possible to facilitate the financial independence of trade unions.

Despite these nominal enhancements in labor rights, it needs to be remembered that unions and workers in Korea have experienced substantial setbacks since the beginning of the financial crisis. Unions in Korea have lost about 50,000, or three percent, of their members during the first nine months since the IMF intervention. The pattern of concession bargaining is evident in 1998. A decline in real wages is common among the large establishments. Thus, the power basis of unions has rapidly eroded (apart from their formally expanded labor rights). Thus, in sum, the social impact for workers of globalization in Korea has been both positive and negative, yet with much more weight on the latter.

V. Concluding Remarks

In this paper we reviewed the backgrounds of Korean IR and examined recent changes with special focus on globalization issues. We argued that globalization has both negative and positive effects on labor rights in Korea. However the relationship between globalization and IR outcomes can be moderated by IR actors. Although there are some benefits of globalization, the benefits are not always fully realized in every country. It would be dependent upon the dynamic reciprocal interactions among IR actors. The Korean case clearly shows that global environments affect labor rights and conditions, but also that there is room for strategic choice among the IR actors.

First of all, the government may need to take a more progressive, rather than retrospective, economic policy (Kim, 1997). The progressive approach includes such policy options as a radical up-grading of the economic structure by enhancing productivity through greater investment in human resources, improving the flexibility of human resource utilization, and developing advanced technology and high value-added products; while the retrospective strategy is to undertake a series of measures that would maintain the advantages of the previous stages and includes such policies as wage controls and subordination and/or suppression of unions and collective bargaining. The latter strategy may be attractive to the state and employers in the short run, but may be untenable in the long run. However, recent Korean government policy seems to be a mixed one containing both progressive and retrospective approaches by emphasizing higher value-added production and, at the same time, export-oriented policy with lower prices (Cho, 1999). Verma (1998) argued that IR systems could play an important mediating role between foreign investment and desirable outcomes (e.g., sustainable growth). More specifically, he argued that more effective skill formation and greater ‘voice’ would be necessary

conditions in converting FDI flow into sustainable growth. This implies that the government need to make progressive policies to achieve the 'virtuous circle'.

The employers also have, at the risk of oversimplification, two strategies: cost minimization and value maximization. It would be easier to take the first route to competition, but critically, it is almost impossible for Korean firms to gain competitive advantage through the cost minimization approach. Although globalization requires Korean firms to enhance organizational and international management capability by investing more in R&D, training and education, many firms have unfortunately reduced, postponed, or cancelled their investments (Park, 1998; Rowley and Bae, 1998b). Labor can also take either a traditional militant confrontation strategy or a more cooperative and participative approach under a new order (i.e., changing environmental forces). Yet, labor and social unrest will prevent further FDI.

The IR actors may need to formulate policies that can enhance national economic competitiveness, and at the same time that can also protect worker rights, which seems to be very difficult task under the current economic conditions in Asia. Here are some inherent dilemmas (Rowley and Bae, 1998b). When the IR actors take their own approaches without considering other partners, the Korean economy can be easily locked in to a vicious circle. This problem can be partly resolved through institutions such as the Tripartite Commission, although its longer-term viability is uncertain (Erickson and Kuruvilla, 1998).

In the 1990s the Korean economy faced a new social environment basically determined by the globalization of the world economy. Workers' basic rights have been improved by both internal and external pressures. However, Koreans also have witnessed the negative influences of the integrated world in terms of finance and information. Major changes in capital gains and the well-being of workers in a certain country may be determined by financial flows and information gaps, as well as by trade, with other countries.

The critical role during the economic development process of Korea brought 'the political subordination of workers' and labor suppression (Deyo, 1989). Now the critical role of the global economic system could bring 'the global subordination of workers' and labor suppression. Freeman's (1994) hypothesis, that repression of labor would ultimately create genuine unionism in Asia, would be inaccurate when the fundamental underpinnings of labor movements are shaking, as in Korea after the IMF rescue package. Since many firms have already been bankrupted, and many firms plan to lay off more and more unionized employees, unions and workers have gradually lost their bargaining power. In this context, it would be desirable to pursue international cooperation and to make some moral efforts to remedy possible global unfair labor practices imposed by globalized economic and financial systems.

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4

Unemployment Schemes during the Financial Crisis in Korea: Achievements and Evaluations

*Insoo Jeong**

I. Introduction

Since 1980, Korea recorded an average annual economic growth of 7.9 percent for 17 years. The 1997 financial crisis, however, reduced the growth rate to a record low -5.8 percent in 1998. This led to a rapid increase in the unemployment rate from an average annual rate of 3.2 percent prior to the crisis to 6.8 percent in 1998. Peaking at 8.4 percent during the first quarter of 1999, the unemployment rate declined to 3.5 percent in the second quarter of 2001 and even further to 2.9 percent in the second quarter of 2002.¹⁾

The financial crisis dramatically changed Korean society. The revision of the labor law made it easier to layoff employees. This in turn led to a change in the concept of employment. People began to realize that being employed throughout life by changing jobs is more important than life-time employment in one workplace. Economic

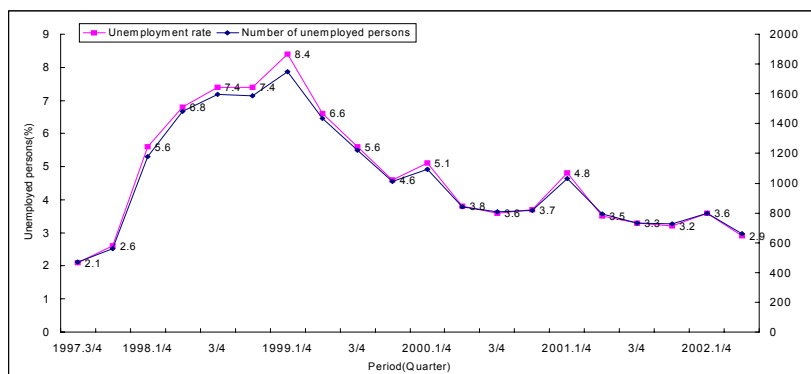
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1) A total of 3 years from 1998 to 2000 shall be considered as the period affected by the financial crisis as indicated by the unemployment rate and the economic growth rate.

restructuring and massive unemployment following the financial crisis triggered the economic recession, forcing the government to implement an unemployment scheme for the first time in its history.

The unemployment schemes that have been implemented in Korea are mainly active labor market policies. They focus more on helping the unemployed return to the job market, rather than providing simple relief measures. This study aims to examine the basic framework of unemployment schemes in Korea and evaluate their major achievements in order to provide policy recommendations for the future.

Figure 1. Trends in Unemployment During the Financial Crisis



Source: National Statistical Office, Economically Active Population Survey, for each year.

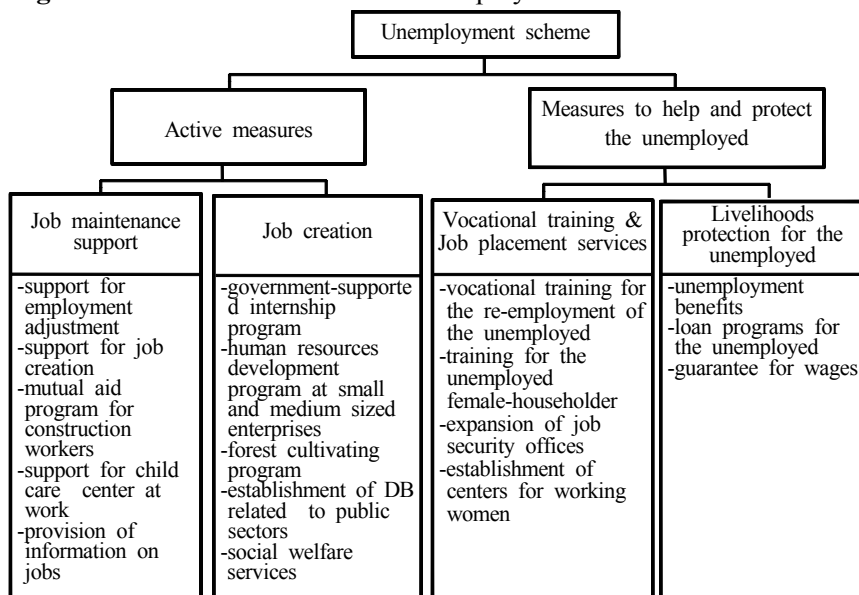
II. Basic Framework of Unemployment Schemes

1. Basic Direction

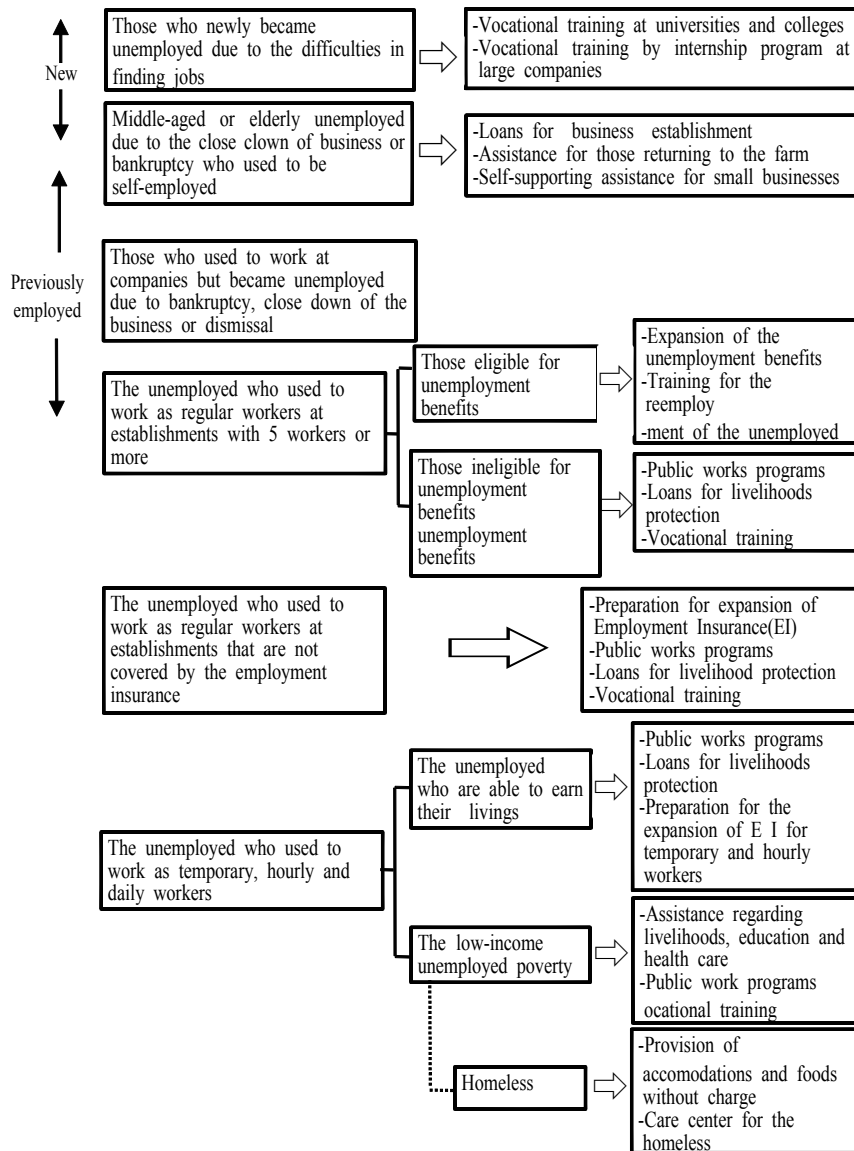
The unemployment schemes that have been implemented until now can be summarized as follows:

First, the rapid and consistent restructuring in the financial, corporate, public and labor sectors have helped enhance the competitiveness of enterprises and created jobs .

Figure 2. Basic Framework of Unemployment Scheme



Second, the education and training system was improved to meet the needs of the information and knowledge-based society and thus to enhance the employability of people. Various education and training programs were implemented to help the involuntarily unemployed who had lost their jobs due to economic restructuring, to help them return to work. These programs aimed at enhancing the nation's competitiveness as well as reducing unemployment. Third, the coverage of Korea's social safety net for the unemployed was expanded. This expansion based on the development of an Employment Insurance(EI) and a social security system provided security to the unemployed and reduced social instability. On the one hand, the social safety net was expanded through a top-down approach by developing an EI system. On the other, the coverage of

Figure 3. Unemployment Measures by the Type of the Unemployed

public assistance was expanded for the low income unemployed through a bottom-up approach, to reduce the number of people

unprotected by the social safety net. Fourth, efforts were made to enhance the efficiency of unemployment schemes by constantly checking and assessing the performance of unemployment measures, and by promoting participation of social groups.

Unemployment measures were designed according to the type of unemployed worker and divided into two groups: the recently unemployed and the long-term unemployed. For the recently unemployed, due to few employment opportunities, various training programs were implemented by universities, colleges, and large companies. For those whose businesses had closed down or gone bankrupt or the middle-aged self-employed, measures such as business loans, financial assistance for those returning to rural areas, and self-supporting assistance for small businesses were implemented. For workers who used to work in regular jobs in establishments with 5 workers or more, eligible for unemployment benefits, the benefit coverage was expanded and training programs to help them return to work implemented. For workers ineligible for unemployment benefits, opportunities to participate in public works programs, loans for livelihood protection and job training programs were provided. For regular workers in establishments with less than 5 workers, the coverage of EI was expanded gradually, with supportive measures provided through the public works program, loans for livelihoods protection and vocational training programs. For those who used to work as temporary, hourly or daily workers and able to work, public works program, loans for livelihood protection and vocational training programs were implemented. Moreover, the coverage of EI was expanded to cover temporary and hourly workers. For the low-income unemployed, assistance was provided to ensure their basic livelihood, education and health care support was also strengthened while Public works programs and vocational training programs were also implemented for them. For the homeless whose number increased dramatically following the recent financial crisis, protective measures were provided by relevant facilities.

III. Main Achievements of Unemployment Schemes

With an annual budget of ₩5,332.1 billion, 4,302 thousand people benefited from the unemployment scheme in 1998. 438 thousand benefited from public works programs, 781 thousand from the job maintenance support, 386 thousand from vocational training programs, 441 thousand from unemployment benefits and 109 thousand from loans for the unemployed.

As the number of unemployed workers continued to rise in 1999, the government implemented a much more comprehensive unemployment scheme. The government spent a budget of ₩7,453.6 billion in that year, focusing on job creation and maintenance, enhancement of employability, social safety net expansion, and ways to improve the delivery system of the unemployment scheme. 5,740 thousand people have benefited from the scheme including: 1,525 thousand from the public works programs, 667 thousand from the job maintenance support, 399 thousand from vocational training, 463 thousand from unemployment benefits and 99 thousand from the loans for the unemployed.

In 2000, several improvements were made. New measures include; continuous implementation of measures designed to create short-term as well as long-term jobs, establishment of education and training system that meet the needs of the knowledge-based society, improvements in the delivery system of unemployment schemes, expansion of the coverage of EI, early consolidation of the national basic livelihood security system, and more active implementation of unemployment measures. In particular, there has been a special focus on active labor market policies such as measures to enhance the employability of workers through job skills development. In addition, unemployment measures were designed according to the unemployment type: temporary workers, young workers and the long-term unemployed. Characteristics

of the different unemployed groups were taken into account in designing the measures. A substantial decline in unemployment in 2000 can be attributed to economic recovery and the successful implementation of the unemployment scheme. With a budget of ₩5,023.7 billion, the unemployment scheme has benefited about 3,280 thousand unemployed workers. 340 thousand benefited from the job maintenance support, 740 thousand from the creation of short-term jobs, 195 thousand from vocational training and 2,000 thousand from the loans for livelihood protection.

In 2001, a budget of ₩2,906 billion was allocated for the comprehensive unemployment scheme which aimed at keeping the unemployment rate at 3 percent. In an effort to create jobs, supportive

Table 1. Main Achievements of Unemployment Schemes
(₩100 million, In thousands)

Classification	1998			1999			2000			2001	
	Budget	Spending	Beneficiaries	Budget	Spending	Beneficiaries	Budget	Spending	Beneficiaries	Budget	Beneficiaries
Total	56,672	53,321	4,302	92,400	74,536	5,744	59,220	45,176	3,284	30,866	2,258
Job maintenance support	1,224	1,125	781	4,832	2,028	667	3,663	1,016	339	3,665	1,076
Provision of short-term jobs	10,444	9,252	438	26,218	23,272	1,525	11,000	12,680	742	6,750	549
Vocational training & Job placement services	9,011	7,765	386	6,868	6,260	399	4,305	3,731	195	4,797	224
· Vocational training for the unemployed	8,351	7,151	386	5,935	5,563	399	3,509	3,090	195	4,007	224
· Job placement services	660	614	-	933	697	-	796	641	-	790	-
Livelihood protection for the unemployed	35,993	35,179	2,697	54,482	42,976	3,153	40,252	27,749	2,008	13,468	337
· Unemployment benefits	8,500	8,050	441	15,012	9,362	463	10,109	3,511	250	8,737	279
· Loans for the unemployed	7,500	7,153	109	11,382	6,078	99	5,092	796	10	3,559	31
· Livelihood protection	13,791	13,791	1,160	14,531	14,531	1,175	17,090	15,943	893	-	-
· Temporary livelihood protection	2,558	2,558	599	8,616	8,741	893	6,046	5,601	652	-	-
· Others	3,644	3,627	388	4,941	4,264	523	1,915	1,898	203	1,172	27

Note: Figures for 2001 are targeted estimates.

Source: Ministry of Labor.

measures were provided to IT · BT industries and SOC investment increased. In addition, 200 thousand unemployed workers participated in vocational training programs set up to meet both the labor market demands and individual needs of the unemployed. Moreover, the expansion of labor market infrastructure to stabilize employment and improvements in vocational counseling services helped to improve job placement services.

IV. Evaluation

1. General Evaluation

The active implementation of unemployment schemes helped Korea overcome its unemployment crisis, in which 1,789 thousand workers lost their jobs, bringing Korea's unemployment rate to 8.6 percent after the financial crisis. The unemployment rate and the number of unemployed people in the third quarter of 2001 dropped to 3.4 percent and 730 thousand, respectively. The scheme can be evaluated as a success, given that it was the first unemployment scheme implemented in the nation's history. Factors underlying the success include: active policy measures to help the unemployed return to work; an emphasis on job creation; expanding the unemployment benefits to more people despite the short history of employment insurance which was introduced in 1995.

However, there are several issues worth noting: First, a rise in the number of non-standard workers²⁾ such as temporary and daily workers, and the widening gap between regular and non-standard workers in terms of employment security and pay level; Second, the establishment of a labor market structure unfavorable for younger

2) Problems of the labor market will be discussed later in detail (see page 12 of this paper.).

workers;³⁾ Third, the underdeveloped public job safety net. With respect to the employment insurance, the small number of beneficiaries and the low benefit level, compared to other OECD countries, needed to be resolved; Fourth, the lack of funds, the small number of beneficiaries and the low benefit level raise the question of whether the Law on National Basic Livelihood Security can play its intended role of enhancing social security and productive welfare; Fifth, the widening gap of income distribution. It should be noted that the income of 20 percent of low-wage workers has decreased by 8 percent, while the average income of 20 percent of high-wage workers has increased.

2. Evaluation of Korea's Unemployment Budget Compared with that of Developed Countries

When we compare Korea's unemployment budget during the nation's financial crisis (1998 - 2000) with that of developed countries, the ratio of unemployment budget relative to GDP in 1999, when the budget reached its peak, is somewhere in the middle of all the industrialized countries (see Table 2).

In 1998, the ratio was 0.64 percent in Korea, four times higher than 0.15 percent in 1997, the year preceding the financial crisis. Even then, the figure was still lower than Germany (3.54 percent), France (3.18 percent), the U.K. (1.18 percent), and Japan (0.74 percent), but higher than that of the US (0.42 percent).

In 1999, the rate in Korea was 0.88 percent. Compared to Germany (3.42 percent), France (3.11 percent), the U.K. (0.98 percent), Japan (0.75 percent), and the US (0.42 percent), (this figure is similar to that of the U.K., and is at the median level of OECD countries.) The rate dropped to 0.55 percent in 2000 as a direct result of the decline in the unemployment rate.

3) Problems of the labor market will be discussed later in detail (see page 12 of this paper.).

Table 2. The Ratio of Unemployment Budget to GDP in Developed Countries

(in percent)

Year	Item	Korea	U.K. ²⁾	France	Germany	Japan	U.S.
1997	Unemployment rate	2.6	7.0	12.3	9.9	3.5	4.9
	Unemp.budget/GDP	0.15	1.19	3.19	3.76	0.52	0.42
	Active	87	31	42	66	17	40
	Passive	13	69	46	67	83	60
	GDP at current price	453,267	794	8,225	3,667	507,552	8,636
1998	Unemployment rate	6.8	6.3	11.8	9.3	4.1	4.5
	Unemp.budget/GDP	0.64	1.18	3.18	3.54	0.74	0.42
	Active	72	33	42	36	45	40
	Passive	28	68	46	64	55	60
	GDP at current price	443,367	787	8,207	3,784	519,936	8,666
1999	Unemployment rate	6.3	6.1	11.2	8.6	4.7	4.2
	Unemp.budget/GDP	0.88	0.98	3.11	3.42	0.75	0.42
	Active	78	35	42	38	33	40
	Passive	22	65	59	62	67	60
	GDP at current price	483,778	832	8,536	3,877	514,639	9,153
2000	Unemployment rate	4.1	5.5	9.5	8.1	4.7	4.0
	Unemp.budget/GDP	0.55	0.94	3.12	3.13	0.82	0.38
	Active	84	39	44	39	34	39
	Passive	16	61	56	60	66	61
	GDP at current price	518,302	871	8,819	3,976	514,227	9,824

Notes: 1) Figures in parentheses are the share of active and passive measures in the unemployment budget.

2) Figures for the U.K. are from 1996 data.

3) The average rate of active budget of developed countries in 1999 was 39 percent of (all) the total unemployment budget, and 40 percent in 2000.

Source: OECD, *Employment Outlook*, June 2001, June 2000, pp. 245-252.

Meanwhile, concerning the proportion of active and passive measures in the unemployment budget, 1) Korea has a considerably higher rate of active budget than advanced countries, with 78 percent in 1999 and 84 percent in 2000. In addition, the ratio of unemployment budget to GDP, which is standardized by the unemployment rate (see Table 3), is 9.41 percent in 1998, 13.97 percent in 1999, and 13.41 percent in 2000, which is higher than that of the U.S., but lower compared to Germany, France, Britain, and Japan. This shows that the ranking remains the same regardless of

whether the ratio was standardized by the unemployment rate or not as shown in Table 2.

When we compare the budget for active measures in Korea with those of developed countries (see Table 4), one can find that 60-70 percent of the total budget is concentrated in employment subsidies; Little is allocated for measures for the disabled.

Table 3. Percentage of Standardized Unemployment Budget to GDP
(in percentage)

	Korea	U.K.	Germany	France	U.S.	Japan	Average*
1997	16.62	17.00	37.98	25.93	8.57	14.86	16.62
1998	9.41	18.73	38.06	26.95	9.33	18.05	20.09
1999	13.97	16.07	39.77	27.77	10.0	15.96	20.59
2000	13.41	17.10	38.64	32.84	9.50	17.45	21.49

Note: The Standardized Unemployment Rate Index is the result of standardizing the unemployment budget/GDP ratio with the unemployment rate. More specifically, the index is calculated as follows:

$$\begin{aligned} & (\text{Unemployment budget/GDP}) \times 100 \div (\text{Unemployment rate} \div 100) = \\ & (\text{Unemployment budget/GDP}) \times 100 \div (\text{number of unemployed} \div \text{number of economically active}) \end{aligned}$$

* is average of five countries, excluding Korea.

Source: OECD, *Employment Outlook*, June 2001, June 2000

Table 4. Comparison of Items of Active Unemployment Budget (2000)
(in percent)

	Korea	Britain	Germany	France	U.S.	Japan	Average ¹⁾
Recruitment support	8.7	35.1	18.7	12.5	26.7	39.3	26.46
Vocational training	19.6	13.5	27.6	20.6	26.7	10.7	19.82
Youth employment	2.2	40.5	6.5	30.1	20.0	-	24.28
unemployment/disability	2.2	10.8	5.7	15.4	20.0	-	12.98
Vocational training	-	29.7	0.8	14.0	-	-	14.83
Employment subsidy	67.4	2.7	25.2	30.1	6.7	46.4	22.22
Employment of the disabled	2.2	5.4	22.0	6.6	20.0	3.6	11.52
Total	100	100	100	100	100	100	

Note: 1) Average of 5 countries, not including Korea.

Source: OECD, *Employment Outlook*, June 2001.

Employment subsidy in Korea is particularly higher because the public works budget is included in the employment subsidy, whereas it is not in other developed countries, where public works are led by the state government. If the public works budget is excluded, the proportion would go down to 40 percent and be roughly the same as those of advanced nations.

Even excluding the public works budget, the budget allocated to job placement services, measures for young workers, investment in the public job security network, career counseling and employment support for young workers are lower than in developed countries.

3. Changes in the Labor Market Structure

1) A rise in the number of temporary and part time workers

During the period of economic restructuring, the employment structure has weakened partly due to the increase of temporary and part time workers. In addition, the problem of structural unemployment has attracted special attention with respect to the long-term unemployed, the disabled and the elderly. The proportion of temporary and part time workers has increased from 47 percent in 1997 to 51 percent in the third quarter of 2001.

Table 5. Changes in the Proportion of Regular Workers in All Wage Workers

	(unit: 1,000, %)				
	1997	1998	1999	2000	2001 3/4
The employed	21,106	19,994	20,281	21,061	21,362
Wage workers	13,225 (100.0)	12,190 (100.0)	12,522 (100.0)	13,141 (100.0)	13,410 (100.0)
Regular	7,151 (54.1)	6,457 (53.0)	6,050 (48.3)	5,252 (47.6)	6,519 (48.6)
Temporary	4,182 (31.6)	3,998 (32.8)	4,183 (33.4)	4,511 (34.3)	4,599 (34.3)
Daily	1,892 (14.3)	1,735 (14.2)	2,289 (18.3)	2,378 (18.1)	2,292 (17.1)

Source: National Statistical Office, *Economically Active Population Survey*, each year.

2) *Longer job search periods for young workers*

Over the past three years, the number of unemployed workers has decreased after reaching its peak in the first quarter of 1999 and the employment situation has remained roughly unchanged throughout the year. However, it is worth noting that the financial crisis changed companies' hiring strategies, decreasing the number of job opportunities for younger people. Enterprises expressed preference for workers with job experience over first-time job seekers. In particular, it is getting even more difficult for those with less than high school education to get jobs. This has reduced employment opportunities for the straight-out-of-school graduates, and at the same time is lengthening the duration of job search. Some of the underlying factors are: significant increases in the number of university graduates (see Appendix 1.); a significant reduction in job opportunities in the so called 'decent jobs' at the end of each year; and insufficient information on small and medium-sized enterprises.

With respect to changes in the recruiting practice of enterprises, it should be noted that the preference for people with job experience has increased significantly since the financial crisis. The development of the internet is another factor that has contributed to this change (see Appendix 3).

Table 6. Youth Unemployment by Educational Level

(Unit: 1,000, %)

	1997	1998	1999	2000	2001	2002.1/4	2002.2/4
Total	556(2.6)	1461(6.8)	1353(6.3)	889(4.1)	725(3.2)	797(3.6)	660(2.9)
Youth(15-29)	314(5.7)	612(12.2)	538(11.0)	375(7.7)	342(7.3)	380(8.0)	298(6.4)
High school or lower	226(5.8)	454(13.2)	398(12.1)	262(8.3)	240(8.1)	263(8.6)	182(6.6)
College or Higher	88(5.7)	158(9.9)	140(8.7)	112(6.5)	102(6.0)	117(6.7)	116(6.2)
Growth rate	5.0	-6.7	10.9	9.3	3.0	5.7	-

Source: National Statistical Office, Economically Active Population Survey, for each year.

New recruits: $\frac{65\%}{1996} \rightarrow \frac{26\%}{2000}$

Experienced: $\frac{35\%}{1996} \rightarrow \frac{74\%}{2000}$

The reduction in the number of so-called 'decent jobs' has contributed to the increase of the effective rate of unemployment for university graduates. Over the past four years, 'decent jobs' in Korea's 30 largest corporations, public corporations and financial intermediaries have been reduced by 280 thousand. In addition, the proportion of younger workers employed in those 'decent jobs' has dropped 13 percent from 35.9 percent in October 1997 to 22.6 percent in 2001. The proportion of university graduates employed in these jobs has dropped from 9.6 percent to 5.8 percent. This comparison shows the difficulties faced by younger workers in finding a job (see Table 7).

Table 7. Trends in Employment by Major Company Group (regular workers)

	Oct. 1997	Oct. 1998	Oct. 1999	Oct. 2000	Oct. 2001
30 'chabuls' ¹⁾	903,668	771,234	717,611	712,092	702,075
Public corporation	175,227	167,676	153,662	152,668	154,104
Financial intermediaries	447,906	416,893	387,489	388,631	381,287
Venture capitals	160,003	164,763	212,958	300,966	304,921
Total	1,603,585	1,447,512	1,403,380	1,486,283	1,473,393

Note: The overlapping conglomerates, public corporations and financial intermediaries are excluded from the total.

1) 'Chabuls' are family-owned conglomerates.

Source: DB on Employment Insurance.

4. Evaluation of Specific Measures of Unemployment Schemes

1) Job creation

The deregulation of financial and monetary policies, industrial policies such as SOC investment, early purchase of products made by small and medium sized enterprises have helped reduce unemployment. However, several problems worth noting include: the redundancy of similar programs and inappropriate support for certain

enterprises. With respect to supportive measures for venture capitals, similar measures were provided to small and medium sized enterprises and venture capital companies, without a clear distinction between the two. As for measures designed to support the establishment of business for small-scale traders, the focus has been on what can be generally regarded as 'hardware', such as construction of buildings and facilities. As a result, 'soft' measures such as the provision of information and consulting, were rather limited.

2) Job maintenance support

With respect to the supportive measures for job maintenance, eligibility conditions were relaxed and the benefit level raised to reflect changes in the labor market. Faced with the threat of soaring unemployment, new measures were designed and implemented to meet urgent policy needs. Measures for employment adjustment, unemployment prevention and the creation of more job opportunities all helped to stabilize employment. However, the outcome of job maintenance support, in particular, subsidies for the reduction in working hours, did not achieve the expected results. This was partly due to the reduced demand and complicated application process.

3) Public works

The public works program helped to reduce unemployment namely by providing more flexibility in the labor market in deciding the amount of labor input. Because most of the participants in the public works program were the elderly, women and workers with low education levels, the provision of short-term work has provided security to the most vulnerable groups. In particular, the public works program in the fields of information industry and forestry have proven to be productive. However, because the programs were put in place so rapidly several problems have been noted such as ineffective management, low productivity, and the movement of workers from small and medium sized enterprises and rural areas to the public works programs.

4) Vocational training

Vocational training programs contributed to protecting the livelihood of the unemployed by providing a training program to 200-400 thousand unemployed people. The beneficiaries tried to use the training to find new jobs. Furthermore, the provision of a training allowance was also useful in protecting the livelihood of the unemployed. However, despite the increase in the number of vocational training programs, an underdeveloped system for counseling and selecting applicants, the lack of a system to assess training institutions, and the incompatibility with industrial demands led to low employment rates and a large number of dropouts (20-30 percent of the participants).

Table 8. Employment Rate of the Unemployed Who have Participated in Vocational Training

(%)	1998	1999	2000	2001
Employment rate of the unemployed who have participated in vocational training	19.8	30.6	35.5	35.4

Sources: Wansik Yoo, *Unemployment Schemes between 1998 and 2000*, Korea Labor Institute.
Ministry of Labor, unpublished paper, 2002.2.

5) Delivery system of the unemployment scheme

The expansion of infrastructures for employment security, the opening and strengthening of employment security information networks, the establishment of a DB related to unemployment schemes have all contributed to enhancing the effectiveness of unemployment schemes. There has been a substantial increase in the number of Public Employment Services(PES) since the financial crisis. It also helped to reduce unemployment by delivering unemployment measures such as job placement services, vocational counseling, unemployment benefits and vocational training.

However, it should be noted that the quality of services has not changed despite the rapid increase in the number of public

employment offices. In addition, unsystematic links between employment service, employment insurance, and job-skills development have prevented these offices from functioning as a comprehensive employment-related information center.

6) Expansion of social safety net

In October 1998, the Employment Insurance(EI) expanded its coverage to all firms with at least one employee. The Unemployment Insurance(UI) also expanded its benefit coverage in April 1999. By raising the number of insured employees and extending the duration of benefits, unemployment benefits played a crucial role in protecting the livelihood of the unemployed. However, despite the expansion of the coverage of EI, the recipients of unemployment benefits account for only 10 percent of aggregate unemployment. This is because the self-employed and unpaid-family workers are ineligible for unemployment benefits.

V. Policy Recommendations

1. A Long-term Plan is Needed to Improve the Quality of the Labor Market

Unemployment policies implemented over the past four years can be seen as an emergency treatment to the threat of soaring unemployment. Those policies focused on reducing the number of unemployed people. However, more efforts should be made to enhance the quality of the labor force through the establishment of labor market infrastructures. This requires a long-term plan that can address the problem of structural changes in the labor market. High premium should be placed on investments in vocational training and labor market information. The increase in the number of non-standard workers and the problem of youth unemployment were, in part,

caused by insufficient information on jobs and vocational training programs that failed to meet the needs of enterprises. Therefore, particular attention should be given to the development of 'worknet' as well as to the training of professionals at the Employment Security Centre. In addition to the development of training programs, incentive measures related to wages and promotion need to be developed.

2. Regional Labor Markets should play a More Important Role

One of the basic assumptions in economic theory, the perfect competitive market, is hard to create in reality. Problems related to residence, transportation and family make it hard to achieve a free movement of labor. Regional differences in terms of industrial structure, workers, and conditions of labor supply and demand call for labor market policies adapted to regional labor markets. The roles and responsibilities needed to implement unemployment policies should also be shared with regional labor markets. Over the past several years, developed countries have placed more emphasis on sharing the roles and responsibilities with regional labor markets. In addition, there should be more detailed analysis of regional labour markets. In particular, unemployment rate by region should be disclosed to the public in order to encourage detailed analysis of regional labor markets. Above all, the unemployment rate should be classified by region. Because the statistics on regional unemployment are not submitted to the National Statistical Office, it is impossible to analyze the situation of labor markets by region. A consultation committee for business, academia, and government should also be established and operated focusing on 'governance' rather than 'government'. The UK's experience of local authority unit suggests that committees will be more effective if set up in areas where the Employment Security Center is already established.

3. Policies Targeted at Improving the Structure of the Labor Market to Help the Younger Unemployed Workers

Younger workers found it more difficult to find a job because of the changes in the labour market structure⁴⁾. The rapid increase in the number of university graduates, the preference for workers with job experience, and the new practice of employing experienced workers when necessary all resulted in reduced employment opportunities for those leaving school. These younger workers also had to wait longer before finding a job. Policies that focus on structural problems of the labor market are therefore urgently needed to resolve this problem. Policies that ensure a smooth transition from school to the job market need to be set up, and job opportunities should be created by region to offer jobs to those graduating from local universities. In order to cope with structural changes in labor demand such as preference for experienced workers, particular attention should be given to the expansion of job placement services, development of curriculums and vocational training programs that meet the needs of the labor market, and provision of information on small and medium sized enterprises. In addition, long-term measures need to be designed to address the problem of long-term unemployment of younger workers with high school education or less. In particular, employment rates should be published by university departments, and a more flexible semester system should be introduced. The students should be better informed of employment rates, which would be useful in calculating the costs and benefits of choosing universities. And the disclosure of all information related to the applicants' educational background will help the labor market operate more effectively. Disclosing such information will help schools and vocational training institutions develop curriculums that respond to market demands.

4) Insoo Jeong, "Changes in the Structure of the Youth Labour Market and Policy Directions," Korea Labor Institute, November 2001.

4. The Role of Public Works Program as a Social Safety Net Measure

The public works programs play an important role by providing supplementary measures to the social safety net. A study reveals that 30 percent of all the participants in the public works programs used to work as daily workers. Critics have often argued that these programs have wasted money. However, it is also widely acknowledged that the public works programs have played an important role as a source of income for the long-term unemployed and female workers. It is worth noting that unemployed workers who are insured and social welfare recipients are ineligible for the public works programs. Moreover, considering the relatively short duration of unemployment benefits (mostly less than 6 months) and the limited coverage of social welfare benefits as stipulated by the Law on National Basic Livelihood Security, some people are currently excluded from social protection. Opportunities to participate in public works programs should be provided to these people. Public works programs in the fields of information and technology should be provided to the younger out-of-job workers. Whereas, for the long-term unemployed over 40, simple work such as cultivating the forest, and mending broken roads should be offered.

5. Improvements in Working Conditions for Non-standard Workers

In terms of labor demand, the preference for non-standard workers is inevitable during economic recessions. In terms of labor supply, however, it should be noted that non-standard work does play an important role in helping workers enter the labor market. In particular, for young people seeking their first jobs or the long-term unemployed older workers, non-standard work provide opportunities to transfer to full-time regular jobs. Currently, there are various forms of

non-standard work. Although different policy recommendations can be suggested depending on the type of non-standard work, priority should be focused on improving working conditions with a realistic approach. Such approaches include the application of social insurance and regulations on leave, improvements in administration and supervision, and equal pay for comparable work. In particular, non-standard jobs should be examined in detail in order to identify which jobs have the highest potential to transfer to regular jobs. And the relationship between the low level of social stability and the increase in the number of non-standard workers should also be examined. In addition, by adopting the concept of short-term work as defined in France, we could create a large number of short-term jobs. Also, the development of vocational training programs for non-standard workers will help them to transfer to regular jobs.

6. The Evaluation of Unemployment Schemes

Unemployment schemes and labor market policies should be implemented more efficiently. Since a welfare society is based on the efficiency of the labor market, more efforts should be placed on evaluating the efficiency of the labor market policies such as vocational training, job placement services, unemployment benefits and public works programs. Besides, the independence of the organization evaluating the efficiency of the labor market policies is also crucial. In developed countries, evaluation centers⁵⁾ are usually run as private organizations with public funds. In Canada, for instance, the independence of the center is guaranteed by special law.

5) IFAU in Sweden (Institutet för Arbetsmarknadspolitisk Utvärdering; Labor Market Policy Evaluation Centre), EDD in Canada (Evaluation & Data Development), CLS in Denmark (The Center for Labour Market and Social Research in Aarhus), IAB in Germany (Institut für Arbeitsmarkt und Berufsforschung; Labor Market and Vocational Research Institute), W.E. Upjohn Institute for Employment Research of U.S.A., EPI (Economic Policy Institute) of U.S.A., IES (Institute for Employment Studies) of U.K., Fafo of Norway (English name: The Institute of Applied Social Science).

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Appendix 1. Preference for those With Job Experience by Major Company Group

(In thousands, %)

	Company with 30 workers or more		Major companies		Major companies & Venture capitals	
	Newly graduated	Experienced	Newly graduated	Experienced	Newly graduated	Experienced
Proportion						
1995.10.~1996.9.	34.6	65.4	65.2	34.8	59.4	40.6
1997.10.~1998.9.	26.2	73.8	45.3	54.7	38.0	62.0
1999.10.~2000.9.	13.1	86.9	21.7	78.3	15.6	84.4
2000.10.~2001.4.	14.5	85.5	25.8	74.2	18.0	82.0
Number of the new employed						
1995.10.~1996.9.	417	789	134	72	151	103
1997.10.~1998.9.	178	499	48	59	62	101
1999.10.~2000.9.	133	885	45	161	66	356
2000.10.~2001.4.	48	283	17	48	25	112

Note: Major companies include 'chaebol'(conglomerates), public corporations and financial intermediaries.

Source: Employment Insurance DB.

Appendix 2. Examples of Unemployment Measures, 2002

(Unit: ₩100 million, 1,000)

Project	2001		2002	
	Budget	No. of Recipients	Budget	No. of Recipients
Total	30,866	2,258	26,971	2,270
Support job maintenance	3,665	1,076	3,169	1,198
Provide short-term jobs	6,750	549	5,819	461
Vocational training, employment assistance	4,797	224	4,396	213
- Vocational training	4,007	224	3,174	150
- Employment asst	790	-	526	-
Livelihood support	13,468	337	11,454	338
- Unemployment benefits	8,737	279	9,456	303
- Loans	3,559	31	920	8
- Existing Livelihood Support	-	-	-	-
- Temp. livelihood support	-	-	-	-
- Others	1,172	27	1,078	27

5

Employment Insurance and Work Injury Insurance As a Social Safety Net*

*Jai-Joon Hur***

*Hokyung Kim***

I. Introduction

On July 1, 1995, before the financial crisis, Korea introduced an ambitious Employment Insurance System (EIS) as the fourth pillar of Korea's social insurance system. The Korean EIS consists of three components: unemployment benefits, job training, and employment maintenance/promotion subsidies (See Yoo (2000) for more details on the structure of the Korean EIS). Prior to the introduction of the EIS, Korea had established a Work Injury Insurance (WII) in 1964 as the nation's first type of social insurance. WII offers seven benefit programs to compensate workers for injury, disability and death caused by work-related accidents. Both the Korean EIS and WII are compulsory social insurances.

In November 1997, the Korean economy was hit by a devastating financial crisis. The following year, declining macroeconomic

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conditions caused major disruptions in the labor market. Soaring unemployment severely hit non-regular and low-educated workers. Remaining jobs became unstable and the most vulnerable group in the Korean labor market experienced recurrent unemployment. The wage gap between low-end workers and others widened while the income distribution gap deepened.

The existing welfare system, including the EIS and WII, was unable to cover all types of workers. In light of such shortcomings, the Korean welfare system, including its social insurance system, went through major revisions. The scope of application was extended so that all employees could receive appropriate protection from unemployment or potential hazards of work-related injuries throughout their life. In addition to extending its application, EIS introduced other meaningful measures during the crisis to provide protection against the risk of income loss following unemployment, such as extended benefits and lengthening the duration of benefits.

The objective of this paper is to assess the role of the Korean EIS and WII as social safety net components of Korea's productive welfare policy and to set forth a list of complementary tasks to be carried out for these two social insurance schemes. Section 2 evaluates the provisions implemented by the Korean EIS to cope with the labor market turmoil. Section 3 looks at the role of Korean WII as a social safety net and presents some policy alternatives to improve the system. Section 4 presents a summary as well as a commentary on remaining policy initiatives.

II. Role of the Employment Insurance System as a Social Safety Net

The Korean labor market was severely hit by the crisis and unemployment rates continued to rise to alarming levels. The Korean EIS contained many intensive measures to alleviate the adverse impacts of the crisis on the labor market. Services of the EIS can be classified

into four categories: 1) unemployment benefits as a means of income support, 2) job training for reemployment, 3) employment subsidies for job maintenance and employment promotion for disadvantaged workers, and 4) public employment service (PES) and labor market information (LMI) system.

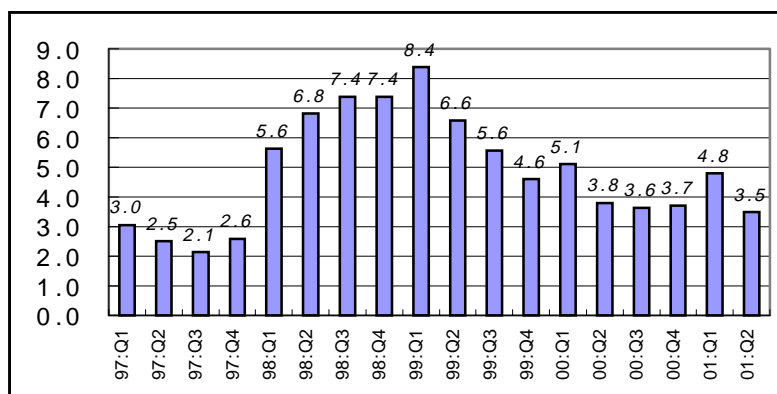
1. The Korean Labor Market (Context)

Before assessing the role of the EIS, let us take a brief look at the evolution of the Korean labor market since the financial crisis.

The unemployment rate in Korea was as low as 2-3 percent before the crisis, but jumped dramatically up to 5.6 percent in the first quarter of 1998 and continued to rise until it reached 8.4 percent in the first quarter of 1999 (Figure 1). It has since then dropped down to 3.5 percent in the second quarter of 2001, the lowest level since the financial crisis in 1997.

Figure 1. Trends in the Unemployment Rate

(Unit: %)



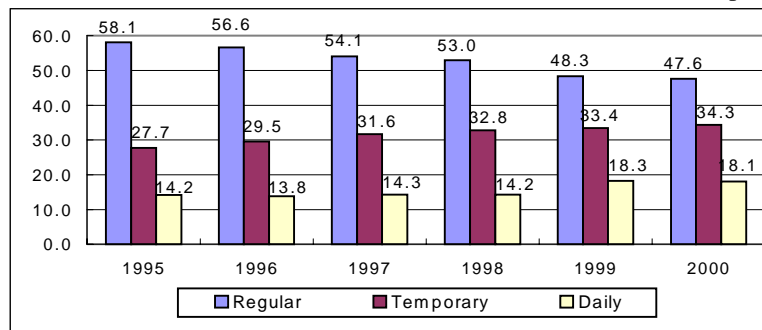
Source: National Statistical Office, *Monthly Report on the Economically Active Population Survey*, various issues.

The proportion of regular employees was 54.1 percent in 1997 and continued to fall, reaching 47.6 percent in 2000. During the same period,

the proportion of temporary and daily workers rose correspondingly (Figure 2). This increase in the number of non-regular workers was observed even before the crisis, although the crisis seems to have accentuated the trend.

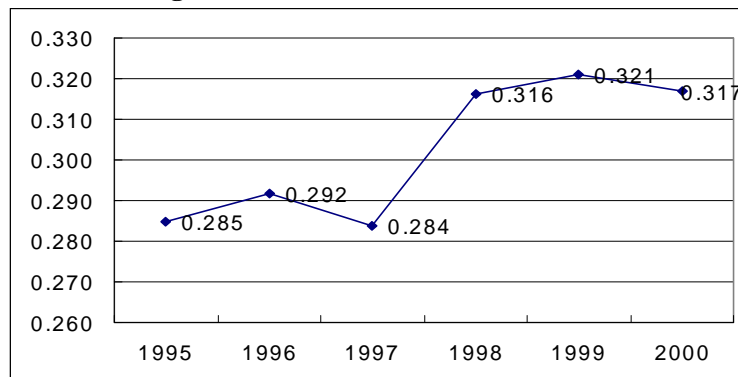
After the financial crisis, the Gini coefficient drastically increased to 0.316 in 1998 and has not fallen below that mark since (Figure 3). A recent study by Jeong and Choi (2001) confirms that the widening income disparity is caused by the fall of low-income wages rather than from that of median-income wages.

Figure 2. Trends in the Proportion of Employees by Employment Type
(Unit: % of total employees)



Source: National Statistical Office, *Annual Report on the Economically Active Population Survey*, various issues.

Figure 3. Trends in the Gini Coefficient



Source: National Statistical Office, *Family Income and Expenditure Survey* database.

During the crisis, non-regular workers and low-educated workers suffered much more than others. Jobs were precarious and the most vulnerable group in the Korean labor market experienced recurrent unemployment, even if they did not suffer from long-term unemployment. The wage gap between low-end workers and others widened and income disparity also widened. Given the labor market situation, non-regular workers were the ones who mostly needed a social safety net, but most of them were not covered by the EIS. This situation clearly demonstrated that Korea needed a more refined social safety net and the government decided to expand Korea's social safety net.

2. Unemployment Benefits

The severe economic recession led to massive unemployment and poverty among the jobless and low-income families emerged as a critical social issue that needed to be addressed immediately. Income support programs were implemented in two directions. First, to cover as many people as possible, the EIS extended its scope of application. Qualification requirements were relaxed, and UB beneficiaries were given up to 60 additional benefit days. Second, money or credit support such as loans for living expenses (including family medical and educational expenses) and other public aid benefits were given to the low-income out-of-job workers.

When the EIS was first introduced, only those working in firms with 30 or more employees could benefit from the insurance. But as unemployment increased, and low-wage earners in smaller firms became more vulnerable, extending the scope of UB application was deemed critical to provide adequate social protection to more workers who had lost their jobs. Thus the Korean government extended the scope of Unemployment Benefits in January 1998 to firms with 10 or more employees, and further extended to firms with 5 or more employees in March 1998. Finally, in October 1998, EIS coverage was

extended to all firms with at least one employee (Table 1). After these three consecutive amendments of the Employment Insurance Law in 1998, only part-time employees working for less than 80 hours a month and daily workers employed for less than a month were ‘legally’ excluded from the EIS.

Expanding EIS application did not really effectively protect the unemployed, simply because being insured did not automatically ensure UB eligibility. Under the old rules, a worker had to be involuntarily laid off after paying insurance premiums for more than 12 out of the last 18 months to qualify for UB. Such requirements made it difficult for temporary workers and other unstably employed workers in small firms to qualify for UB. In order to better protect those marginal workers and newly covered employees, the government relaxed eligibility conditions, namely by easing the minimum contribution requirement from 12 out of the last 18 months to 180 days out of the last 12 months.

Table 1. Scope of EIS Application

Date	Unemployment benefit component	Employment maintenance/Promotion subsidies & job training component
July 1, 1995	≥ 30 employees	≥ 70 employees
January 1, 1998	≥ 10 employees	≥ 50 employees
March 1, 1998	≥ 5 employees	≥ 50 employees
July 1, 1998	≥ 5 employees	≥ 5 employees
October 1, 1998	≥ 1 employee	≥ 1 employee

Source: Ministry of Labor (2001a), *White Paper on Employment Insurance*, Seoul.

The payment period of UB varies depending on the claimant’s employment period and age. The range was from a minimum of 60 days to a maximum of 210 days before the financial crisis. However, since Korea’s EIS was implemented only on July 1, 1995, the insured period of employees could not exceed five years and thus the actual duration of

UB could not exceed 150 days until June 30, 2000.

Given the limited benefit duration and the unprecedented difficulties in the labor market, the extended benefit rule was put into operation from July 1998 so that those who qualified could receive up to 60 days more than the period designated by the benefit duration matrix. Furthermore, the UB duration matrix of 60 to 210 days, was modified to 90 to 240 days, effective as of January 2000 (Table 2). In essence, the average duration of UB increased to 126 days in 1999 up from 85 days in 1997 and 91 days in 1998.

Table 2. Benefit Duration Matrix

(Unit: days)

		Insured employment period				
		Less than 1 year	1-3 years	3-5 years	5-10 years	Over 10 years
Age of claimant	Below 30	90	90	120	150	180
	30-50	90	120	150	180	210
	Over 50 and handicapped	90	150	180	210	240

Source: Ministry of Labor.

Despite government efforts, such as the extension of application, relaxation of eligibility criteria and lengthening the benefit period, the beneficiaries of the UB represented only a small number of unemployed workers, and therefore could not be used as a primary safety net against unemployment. In 1999, the beneficiary ratio was 10.7 percent, which is significantly lower than that of any other OECD country (Table 3).

Five reasons can be attributed to the low beneficiary ratio. First, only 62.4 percent of the total employment are wage earners, while UB, in essence, does not cover non-wage workers (the difference between A and B in Table 4).

Second, the compliance rate is low because of two reasons. Daily workers who work for less than a month in a firm are legally excluded from the EIS compensation scheme (which explains the difference between B and C in Table 4). Also, all legally insurable employees are

Table 3. Ratio of UB Beneficiaries relative to Total Unemployment
(Unit: thousands, %)

Country	Unemployment (A)	Beneficiaries (B)	B/A ×100
Germany (1990)	1,971	858	43.5
Japan (1992)	1,420	395	27.8
Korea (1999)	1,353	145	10.7
U.S.A. (1990)	6,874	2,475	36.0
U.K. (1993)	2,900	870	30.0

Sources: National Statistical Office (2000), *Annual Report on the Economically Active Population Survey*; Central Employment Information Office, *Monthly Statistics of Employment Insurance*, various issues. Phang (1999).

not actually insured because of the frequent turnover of non-regular employees, a cumbersome declaration process and filing of administrative forms, limited administrative capacity, and informal characteristics of economic agents in the labor market (Hur, 2001a; Hur and Yoo, 2001). As of December 2000, the compliance rate was only 73.4 percent, which means that there is still a large gap between the *de jure* application and the *de facto* application (the difference between C and D in Table 4). Many temporary and daily employees are still excluded from UB and remain unprotected.

Third, actual duration of benefit is limited because the benefit duration matrix depends on the insured employment period and the EIS has only been in existence for 6 years. Fourth, the eligibility criteria for unemployment benefits are stringent, particularly the criteria judging whether or not a claimant is involuntarily unemployed or not. Workers who quit their jobs without justifiable reasons are generally categorized as being voluntary unemployed and are not eligible for benefits even though they remain unemployed. This requirement is much stricter than most countries with the exception of a few countries such as the U.S., the Czech Republic, and Spain (OECD, 2000). Fifth, many white-collar workers who have lost their jobs feel ashamed or are embarrassed to go

Table 4. Compliance rate of EIS (December 2000)

(Unit: thousand persons, %)

Employment (A)	Employees (B)	Legally insured employees (C)	Actually insured employees (D)	(D/A) × 100	(D/B) × 100	(D/C) × 100
20,857	13,265	9,190	6,747	32.3	50.9	73.4

Sources: Authors' calculations based on the *Economically Active Population Survey* database and *Employment Insurance* database.

to the Employment Security Center to receive unemployment benefits.

3. Job Training for Reemployment

The EIS Job training component's goal is to give the unemployed a chance to enhance their job skills and increase their employability by providing them with retraining.

Since the outbreak of the economic crisis, the EIS has expanded training programs for the unemployed. In 1998, about 163 thousand unemployed workers participated in and benefited from EIS job training programs for the unemployed, eight times the number of participants in the preceding year. 191 billion won was spent on the training programs. In 1999, the EIS provided training to 171 thousand jobless workers with a budget of 307 billion won. In 2000, 132 thousand unemployed workers participated in training programs for approximately 216 billion won. On average, 48.6 percent of job trainees for reemployment benefited from the EIS job training program (Table 5).

The unemployed workers who had worked for companies covered by the EIS, could apply for reemployment training programs and receive training allowances from one month to a year, up to a total of three times, until they found a new job. Training allowances were cut in half if participants continued to the second training course and were reduced to zero for the third training course.

Training allowances ranged from 200,000 to 300,000 won (equivalent

to 60-90 percent of the minimum wage). Trainees learning skills for unpopular jobs, where there was a labor shortage despite the deep recession, received additional bonuses. Similar training opportunities, financed by the government budget, were given to the unemployed who had not been insured by the EIS. In fact, substantial opportunities for vocational training were provided to all of the unemployed.

Table 5. Job Training for Reemployment

(Unit: billion won, thousand persons)

	1998		1999		2000	
	Expend- iture	Benefi- ciaries	Expend- iture	Benefi- ciaries	Expend- iture	Benefi- ciaries
Training for reemployment by the EIS	191.0	163	306.7	171	215.5	132
Training for reemployment, Total	656.8	363	514.4	371	440.3	222

Sources: Central Employment Information Office, *Employment Insurance* database. Ministry of Labor (2001b), *White Paper on Policy Against Unemployment*.

Job training programs for the unemployed offered opportunities for retraining to enhance future employment possibilities, while training allowances helped alleviate immediate economic difficulties. That is, apart from the formal purpose of job training, such programs operated as a type of social safety net – those who were unable to receive cash benefits participated in job training programs and received training allowances.

However, there were also many training programs that were loosely regulated poorly monitored and inspected, and this led to the moral hazard of some of the training institutions and trainees. Some unqualified training institutions took advantage of the training programs and provided time-killing courses in order to receive reimbursement from the government, thus limiting the effectiveness of the training

programs. Also, some of the trainees were only interested in receiving the training allowances instead of acquiring actual skills.

Furthermore, an underdeveloped labor market information system and lack of experts to manage the training programs undermined the effectiveness of the training programs. Training institutions and programs were authorized purely on preexisting conditions such as available equipment, facilities, etc. Little consideration was given either to changing demand in the labor market or to the needs of the potential participants. Training institutions tended to routinely provide the same training programs that they had provided in the past. As a result, some training programs did not even help the trainees get new jobs. As of October 2000, the reemployment rate of training program participants stood at 32.5 percent, which is lower than in other countries.

Lee and Kang (1999) identify factors linked with the low reemployment rate. First, the number of trainees increased rapidly while labor demand was still low during the economic crisis. Second, the number of training programs also increased, but failed to meet the qualitative demands.. Third, the contents of training programs did not reflect the changing demands in the labor market. And fourth, the PES did not have the capacity to reintegrate the participants into the labor market.

4. Employment Subsidies

Subsidy programs were implemented via the employment maintenance/promotion component of the EIS. Employment maintenance subsidies were established to minimize employment adjustment through dismissals, by providing wage subsidies to firms that made efforts to avoid laying-off redundant workers.

To be subsidized, firms needed to be in a situation in which employment reduction was inevitable for managerial reasons and had to adopt practices such as: 1) temporary shut-down, 2) reduction of working hours, 3) train redundant workers, 4) provision of paid/unpaid leave, and 5) dispatch or reassign workers. Subsidies equivalent to one-

half to two-thirds (depending on the size of the firm) of the workers wages or allowances (paid to their workers) were refunded for a maximum of 6 months.

The requirements of employment maintenance subsidies were relaxed during the crisis and the assistance level increased to provide more incentives and coverage to more firms and workers. In 1998, a total of 74.2 billion won was paid for the employment maintenance of about 0.7 million workers while, in 1999, 79.2 billion won was spent for a total of 0.4 million workers. With the improving labor market situation in 2000, the employment maintenance expenditure decreased to 29.3 billion won covering 0.15 million beneficiaries (Table 6).

Table 6. EIS Employment Subsidies

	(Unit: million won, persons)					
	1998		1999		2000	
	Expen- diture	Benefi- ciaries	Expen- diture	Benefi- ciaries	Expen- diture	Benefi- ciaries
Employment maintenance subsidies	74,223	654,375	79,197	369,591	29,297	148,246
Hiring subsidies	5,878	169	75,888	101,550	42,204	63,407
Employment promotion subsidies	16,186	120,721	29,149	198,783	42,148	233,426
Total	96,287	775,265	184,234	669,924	113,649	445,079

Source: Central Employment Information Office, *Monthly Statistics of Employment Insurance*, various issues.

Some economists initially criticized subsidy programs on the grounds that they might hamper or delay structural adjustment of the economy by subsidizing marginal firms that were no longer competitive in the market. However, subsidized firms were not all necessarily insolvent firms doomed to become bankrupt. Some firms could face temporary cash flow difficulties in the midst of a financial crisis because financial institutions were not functioning properly. In addition, since firms were free to choose whether to benefit from subsidy programs or lay off

redundant workers, there were no *a priori* reasons to believe that the subsidy programs prevented firms from restructuring. Thus, subsidy programs were advocated and maintained as an important element of labor market policy. In fact, according to Hwang (1999), firms with good human resources tended to utilize the employment maintenance subsidies.

However, we must recognize that employment subsidies made only a modest contribution to bringing down unemployment. The number of workers that benefited from the program was, on average, around 25,000 per month in 1998-99. Kim et al. (1999) analyzed the employment maintenance effects of employment subsidy programs using employer surveys as well as case studies. The estimated effect was 22.3 percent on average, which implied that deadweight loss was in the 70 percent range. According to the assessment of PES staff and monitoring reports, deadweight loss and substitution effects of the 'grants to promote employment of displaced workers' have been serious (Hwang, 1999; Kim et al., 1999).

The other two subsidy programs in the employment maintenance/promotion component of the EIS are hiring subsidies and employment promotion subsidies, introduced to assist disadvantaged workers such as those who have been involuntarily laid off, elderly workers, female workers, female household heads, and the long-term unemployed.

5. Public Employment Services and Labor Market Information System

With the surge in unemployment benefit claimants, the number of public employment service staff was insufficient to administer even the unemployment benefit payment service. Immediate expansion of PES capacity to meet the demand for both benefit payment and administration of other active labor market programs was deemed urgent.

In 1998, to improve the quality of employment services and to promote a user-friendly environment, the government merged the employment insurance division and the job information service division

of local labor offices into PES centers called “Employment Security Centers” (Table 7). These centers provided a “one-stop service” to job seekers informing them of job vacancies, vocational training information, and unemployment benefit payment services all in one place. The government also eased regulations on job brokerage by private agencies and strengthened its support of free job placement services to trade unions and employers’ organizations.

Table 7. Composition of Employment Service Agencies and Staff
(Unit: agencies, persons)

	1997	2000
Local Labor Office	46	-
Employment Security Center	3	126
Manpower Bank	3	7
Employment Service Center for Daily Workers	-	16
Total PES Agencies	52	149
No. of Staff	141	2,436

Notes: 1) PES agencies and staff of the central government only.

2) Manpower Bank is a PES agency co-invested and co-managed by the Ministry of Labor and local government. It specializes in job matching and job counseling, but does not deal with UB payment service.

Source: Ministry of Labor.

Although one may marvel at the progress made by the Korean PES during the three consecutive years following the economic crisis, the Korean PES is still unable to meet labor market needs, and the government is beginning to realize future policy tasks are required to effectively meet the demands of job searchers via the PES. For example, strengthening ‘counseling’ services by improving the counselor’s expertise, development of a new occupational classification system that will provide more effective job matching, collaboration with private sector employment service agencies, etc. are some of the areas that need to be addressed.

One way to evaluate PES capacity is to look at the worker to PES staff ratio. For example, Germany’s PES has a ratio of 450 workers per

PES staff, while that of Sweden and the United Kingdom are 403 and 882, respectively, which means that these countries' PES capacity level is relatively high. In contrast, an average Korean PES staff has to deliver service to 9,011 workers (Table 8).

As for the labor market information system, the government launched an electronic system in May 1999, called "Work-Net," benchmarked on Canada's "WorkInfoNet." Work-Net, accessible on the Internet, provides information on job vacancies, vocational training programs, career guidance, employment policies, employment insurance services, labor market statistics, and labor laws. Almost all job vacancies registered by public employment agencies can be found on Work-Net unless employers refuse to allow the information to be uploaded. In order to make the system more effective and easier to use, the government plans to introduce a number of improvements including faster access speed and a more user-friendly interface; development of job vacancy information based on new occupational classification; provision of detailed information on labor market trends, employment outlook and wages; etc.

Table 8. Number of Public Employment Service Agencies and Staff
(Unit: agencies, persons)

Country	No. Agencies	No. of PES staff	No. of Labor force per PES staff	No. of Employees per PES staff
Germany	841	87,570	450	364
Japan	666	15,290	4,388	3,445
Korea	149	2,436	9,011	5,395
Sweden	570	11,000	403	339
United Kingdom	1,159	33,000	882	711
USA	2,538	71,378	1,953	1,717

Sources: Authors' calculations based on internal document of the Ministry of Labor and KLI Foreign Labor Statistics.

6. Evaluation and Policy Directions

As of December 2000, there were 13.2 million wage workers in the

Korean labor market. Of these, only 6.7 million employees (50.9 percent of wage workers) were insured. Thus, one of the major problems with Korea's unemployment insurance is that even if the scope of EIS application has been extended to all firms, the compliance rate is still quite low. The main obstacle to providing EIS to temporary and daily workers is the lack of a mechanism that can certify their careers. EIS should refine its employment record-keeping system and cover daily workers in order to overcome this shortcoming.

Enhancing the efficacy of the training system is another important issue to be addressed. Training allowances helped alleviate economic difficulties for trainees who were unable to receive other cash benefits or participate in public works programs. But job-training programs should place more emphasis on enhancing the employability of the unemployed rather than just providing income support.

The capacity of the PES has been expanded quantitatively during the economic crisis. But the counseling services and the labor market information system still need to be improved. Instead of providing more in-depth counseling, counselors currently spend their time registering workers' records, recording job vacancies, and processing workers' unemployment benefit claims and subsidy claims of firms. Now that the labor market has been stabilized, counseling should play a greater role and the quality of counseling services need to be improved. The labor market information system should also be improved by developing an occupational classification system adapted to the labor market.

III. Role of Work Injury Insurance as a Social Safety Net

1. Key Features of Work Injury Insurance

Like other social insurance programs, WII was designed to provide protection against economic insecurity and catastrophic losses. WII benefits include medical treatment benefits for work-related injuries or

illnesses and wage-replacement benefits for the loss of earnings during injury or illness. It also covers a substantial amount of the disabled workers proportion of income loss.

In Korea, WII differs from other social insurance programs in the following way.

First, employers contribute to WII through payment of premiums to government insurance funds. There is no direct employee contribution, although much of the cost may be shifted to employees in the form of lower wages. A large part (about 85 percent) of the premium is experience-rated, and thus, is different for each firm based on its own past experience of severity of accidents. The other part (about 15 percent) of the premium is set at a fixed-rate and is evenly spread among all the firms in the industry.

Second, WII is a “no-fault” system. Employers are liable regardless of fault, and employees qualify as recipients only if the injury or disease is work-related. Employers’ liability is limited to the benefits in the program. And employees can receive benefits regardless of the employers’ ability to pay.

WII coverage is mainly financed by the premiums paid by employers and the returns on asset management, while a part of the operation costs is financed by the government budget. With the help of the Korea Labor Institute, the Ministry of Labor is in charge of estimating the approximate figures of payments for the following year, and consequently the rough estimate of total premiums to be collected from the owners of firms. The Ministry of Labor also determines the premium rate for each type of business based on the experience rate of the past three years. Once the premium rates for the different types of businesses are determined, each firm has to submit its own premium, which is adjusted by the variation rate according to the individual firm’s experience rate.

2. Classifications and Contents of WII Payments

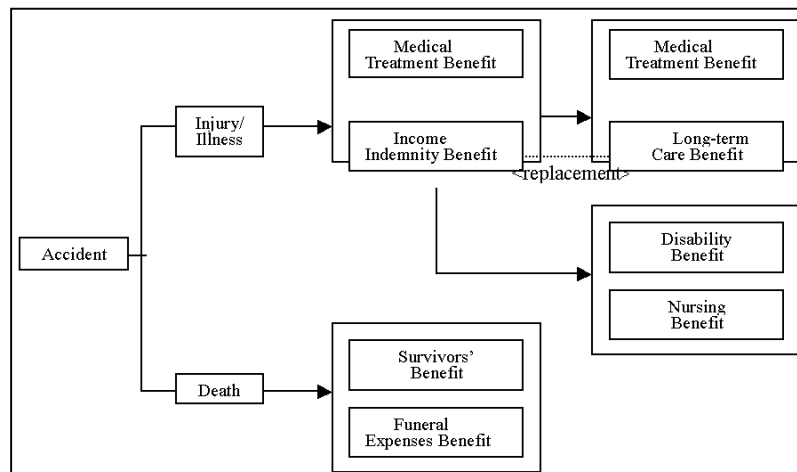
WII benefits are classified into seven groups according to the different conditions of work-related injury or illness: medical treatment

benefit, income indemnity benefit, disability benefit, nursing benefit, survivors' benefit, funeral expense benefit, and long-term indemnity pension benefit. Most of these are cash benefits with the exception of medical treatment. Medical treatment is provided when the injury requires more than three days of treatment.

If the injury requires up to three days of treatment, employers have to pay for the medical expenses in accordance with the Labor Standards Act. Income indemnity benefits cover 70 percent of income loss when a worker is not able to resume his/her job within three days due to injury or illness. Disability benefits are paid either in the form of a lump sum or pension: a lump sum payment is provided for those who fall in the class of degree 8-14 of impediment, and pension payment for degree 1-3 of impediment. Those who fall in the class of degree 4-7 of impediment can choose between a lump sum or pension payment.

Survivors' benefits are also paid either in the form of a lump sum or pension: if paid as a lump sum, the average income for 1,300 days is paid; if paid as a pension, 47 percent of the average annual income plus 5 percent for each additional recipient is paid. The maximum annual pension payment should not exceed 67 percent of the average annual income.

Figure 4. Benefits of WII



Source: Kim, Hokyung, et al., (2000), p. 9.

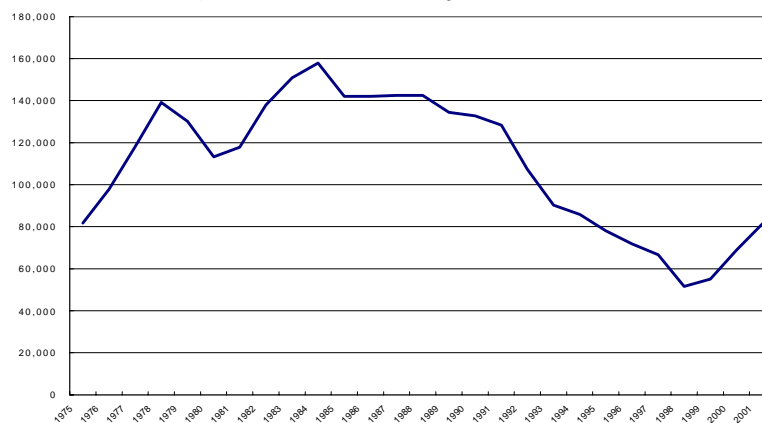
An amount of 120 days of average income is paid for funeral expenses. Long-term indemnity pension benefits are payments for those injured workers who do not recover after 2 years of medical treatment and fall in the incurable disease classification of degree 1-3.

For the recipients of long-term indemnity pension, income indemnity benefits are not applied. Long-term indemnity pension benefits are paid in the form of a pension, the amount of which differs according to the severity of the disease: As for degree 1, the average income for 329 days will be paid; for degree 2-291 days; and for degree 3-257 days. The amounts of these payments are the same as those for disability benefits.

3. Trends in Work-related Injury

As illustrated in Figure 5, the number of injured workers has generally been in decline for the last decade. The sharper drop in 1998 is due to the recent economic recession. From 1999 however, the number climbs back as the economy recovers and more employees get hired with manufacturing industry increasing its operation ratio. Manufacturing firms in general face a higher risk of work-related injuries.

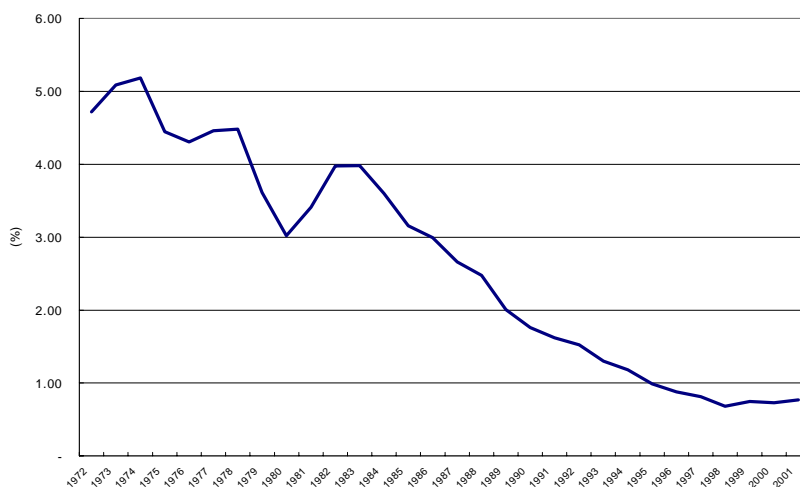
Figure 5. Number of Injured Workers



Source: Ministry of Labor, *Korea Labor Welfare Corporation* database.

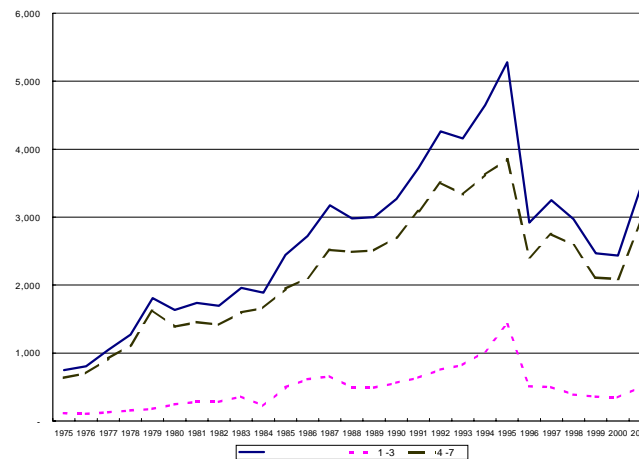
In terms of accident ratio, it is seen to have fallen rapidly. <Figure 6> below shows that accident ratio also dropped sharply in 1998. However, 1999 does not experience a significant increase in accident ratio as with the number of injured workers. It is due to an expansion of WII scope; in 1998, financial institutions including insurance companies were included in WII program; in 2000, all businesses with one or more employees were also incorporated into the scheme. In other words, the denominator in the accident ratio increased.

Figure 6. Number of Injured Workers



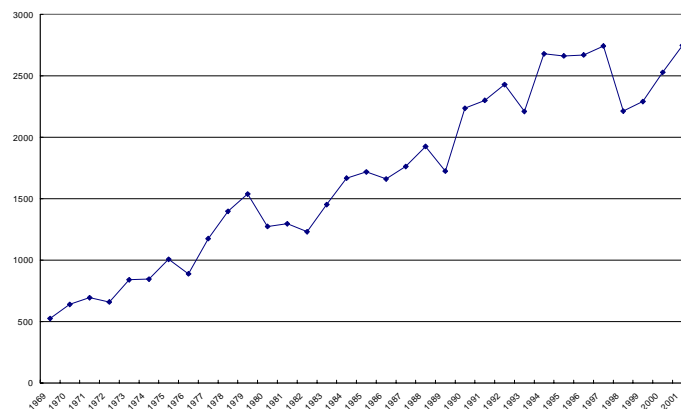
The trend in accident ratio shown above may lead one to believe that occupational injuries or diseases have diminished sharply. However, a study of more detailed data will prove otherwise.

Indeed the below chart illustrates that the number of seriously injured and deceased workers has rather increased on a continuous basis. Even if we exclude the records of the unusual gain in the number of severely injured workers possibly due to the major accident in 1995, the number has been generally on the rise up until then. For several years recently, the number has significantly dropped and then made quite a jump in 2001.

Figure 7. Number of Seriously Injured Workers

Source : Ministry of Labor, *Occupational Injury Analysis*, each year

The number of the deceased, which had been rising, takes a nosedive in 1998 due to economic recession. It bounces back in 1999 as the economy recovers, particularly in those industries with higher risk of work-related injury such as construction, manufacturing, etc (Figure 8).

Figure 8. Number of the Deceased

Source: Ministry of Labor, *Korea Labor Welfare Corporation* database.

As seen in the historic data, despite the general decrease in the number of injured workers and the accident ratio for the past twenty years, the number of the seriously injured has steadily escalated or at least maintained a similar level as that of ten years ago. Moreover, the number of the deceased has been in a constant rise up to now. Both trends prove that while the industries have been growing through large-scale construction projects equipped with heavy machinery, safety management of their workplaces has been very poor.

4. Scope of the WII Application

In 1964, WII was initiated for a total of 64 firms and 80,000 employees in the mining and manufacturing industries. In order to apply for WII, a firm had to employ at least 500 workers. Thereafter, as represented in Table 9, the target industries for WII have been expanded, and the minimum number of employees required per firm has been alleviated up to now. From 1998, WII was extended to student apprentices and students in vocational schools, and from July 1st, finance and insurance firms with more than 4 employees are covered by the WII system. From July 1, 2000, the minimum number of employees required was reduced to 1 and thus virtually any firm can apply for WII. Moreover, employers with no more than 50 employees are able to join WII since most of them actually participate themselves as workers.

Even with these extensive application of WII, certain types of businesses including self employees are still excluded due to the difficulties in administration and confirmation of employment relationship. Such type of business includes construction firms with less than 20,000,000 won of total expense; private construction companies with total project areas of less than 330m²; farming, fishing, hunting, and home care service firms with less than 5 employees; other types of business or industry in which work injuries are covered by different laws; and firms with no more than one regular employee that use part time workers on a irregular basis.

Table 9. Minimum Number of Employees Required for WII

Year	Required number of employees in a firm	Industry
1964	≥ 500	Mining, manufacturing only
1965	≥ 200	Addition of electrical, gas, transportation, and warehouse industries
1966	≥ 150	All existing industries
1967	≥ 100	All existing industries except brassware, which requires at least 25,000 employees annually.
1969	≥ 50	Addition of construction, service, water service, sanitary equipment, telecommunication
1974	≥ 16	All existing industries
1976	≥ 16 (5)	All existing industries except mining, chemical, petroleum, coal, rubber goods, and plastic, which require at least 5 employees.
1982	≥ 10	Addition of logging industry
1983	≥ 10	Addition of agricultural goods brokerage business
1986	≥ 5	14 industries only including veneer plywood
1987	≥ (5)	20 industries, including timber, which require at least 5 employees
1988	≥ 5	16 industries, including electronics appliance manufacturing
1991	≥ 10	Addition of mining, forestry, fishery, hunting, retail/wholesale business, real estate brokerage
1992	≥ 5	Mining, forestry, fishery, hunting, retail/wholesale business, real estate brokerage industries
1996	-	Addition of education, health, and social work services
1998	-	Addition of financial, insurance, and overseas dispatch industries
2000	≥ 1	All existing industries, including owners of firms with at most 50 employees

Sources: Kim, Hokyung, et al., (2000), p. 13; Ministry of Labor.

These are the types of businesses not legally covered by WII. Additionally, there are certain groups of workers technically excluded from the scheme based on the fact that their form of work makes it difficult to define them as ‘workers’. Some contingent low-income workers and temporary workers are still uncovered by the social safety net, which raises a serious concern. Insurance solicitors, home-visiting

salespeople selling children's test-kits, and golf caddies belong to this category. Since these workers are paid with commissions rather than salaries, their employers tend not to recognize them as employees. It is an issue still under a heated debate. On the one hand, it is argued that since these workers maintain some kind of continuous employment relationship with their respective business owners, they must be considered as employees in the event of work-related injury. On the other hand, some point out that in many cases it is hard to prove that they work for specific companies, and moreover, it is hard to determine whether their injuries are actually work-related.

5. Coverage of WII

When WII was first introduced in 1964, medical treatment was provided only for those injuries or illnesses that required more than 9 days of treatment (Table 10). However, the required number of days was reduced in 1971 to more than 7, and in 1982 to more than 3 days.

Income indemnity benefits, which paid only 60 percent of average income in 1964 was increased to 70 percent in 1989. Disability benefits paid according to 10 different degrees of disability in 1964 were subdivided into 14 degrees in 1971, and the payment level was increased as well for each of the different degrees. In 1989, those in the category of degrees 1-3 were mandated to receive benefit in the form of a pension while those in degrees 4-7 were given the choice of receiving the payment in lump sum or pension. However, from 2000 they were also made to receive 50 percent of the benefit in the form of a pension.

Survivors' benefits, which were provided in the form of lump sum payments in 1964 and paid in the amount of 1,000 days of average income, were increased to 1,300 days of average income. In 1970, pension type payment was introduced and the amount of payment increased in the years 1971, 1977, and 1982. Payment in the form of pension was basically mandatory, however in 1999, recipients were given the option of receiving half the benefit amount as a lump sum.

As for funeral expenses, the benefit was increased in 1989 from the

original 90 days of average income to 120 days. However, in 1999, the maximum and minimum limits were fixed in order to reduce the difference between low and high benefit recipients. Long-term indemnity pension benefits had been paid in the form of lump sums since 1964, but a pension type form of payment was introduced in 1982.

A major revision was made to workers' compensation in July 2000, the content of which is as follows.

First, when it is difficult to calculate the total income of the employee to determine the premium and coverage, 'standard income' is applied. Standard income is typically applied to those firms that have gone bankrupt, have closed down, or when employers file the total income, gathering the reports of workers. The standard income in this case is the same as that of unemployment insurance – monthly payments are 723,000 won and hourly payments are 3,200 won.

Second, nursing benefits were newly introduced to cover the cost of care for the severely disabled workers. This benefit is restricted to those who fall into the disability classification of degree 1-2. Full-time care benefits are 24,775 won/day and part-time benefits are 16,516 won/day.

Third, the indemnity payment for elderly workers over 65 is decreased from the existing level of 70 percent to 65 percent.

Fourth, a maximum compensation standard, 28 times higher than the low benefit recipients, was set to alleviate the difference between low and high benefit recipients.

Fifth, in order to determine the total income for those who work in the construction business and whose working days are typically far less than other workers, the "coefficient of usual working period" will be applied.

In addition, in order to enhance services for the rehabilitation of disabled workers, WII will extend its service range for the side-effects of an injury/illness to include respiratory diseases. Moreover, the WII (plans to strengthen the financial support for the) will provide more funds at low interest rates for the disabled to help them open a small business, and accordingly the number of recipients will be increased from the current 80 to 500 in 2005. It will also run vocational adjustment programs for the disabled.

Table 10. Expansion of WII Coverage

Date of implementation	Medical treatment benefit	Income indemnity benefit / Long-term care benefit	Disability benefit	Survivors' benefit	Funeral expense benefit
1964.7.1	Lapse period: more than 10 days	60% of average of income Lapse period: more than 10 days	Lump sum: Maximum (Grade 1: 1000 days) Minimum (Grade 10: 50 days) Lump sum amount: 1000 days of average income in case of incomplete recovery after 1 year of progress	Lump sum: 1000 days of average income	90 days of average income
1971.1.1	Lapse period: more than 7 days	Lapse period: more than 7 days	Subdivision of grade: Maximum (Grade 1: 1340 days) Minimum (Grade 14: 50 days) Pension benefit introduced Target: Grade 1-3 Annual benefit: Grade 1 (240 days of average income) Grade 2 (213 days) Grade 3 (188 days) Lump sum amount: 1340 days of average income in case of incomplete recovery after 2 years of progress	Introduced pension benefit Amount of benefit according to the number of survivors: 1 survivor: 30% of annual income 2 survivors: 35% of annual income 3 survivors: 40% of annual income 4 survivors: 45% of annual income	
1977.12.19			Increase annual pension benefit: Grade 1 (279 days of average income) Grade 2 (248 days of average income) Grade 3 (219 days of average income)	Increase annual pension benefit: 1 survivor: 45% of annual income 2 survivors: 50% 3 survivors: 55% 4 survivors: 60%	
1982.1.1	Lapse period: more than 3 days	Lapse period: more than 3 days	Increase annual pension benefit: Grade 1 (313 days of average income) Grade 2 (277 days) Grade 3 (245 days) Grade 4 (213 days) Grade 5 (184 days) Grade 6 (156 days) Grade 7 (131 days)	Increase annual pension benefit: 1 survivor: 52% of annual income 2 survivors: 57% 3 survivors: 62% 4 survivors: 67%	
1983.7.1		Long-term card benefit Amount of payment	Discontinuance of lump-sum benefit payment		

		established Grade 1 (313 days of average income) Grade 2 (277 days of average income) Grade 3 (245 days of average income)			
1989.4.1		Level of income indemnity increased 70% of average income Level of long-term benefit increased: Grade 1: 329days of average income Grade 2: 291days of average income Grade 3: 257days of average income	Mandatory pension payment introduced Amount of lump sum benefit increased: Grade 1: 1474 days Grade 2: 1309 days Grade 3: 1155 days Grade 4: 1012 days Grade 5: 869 days Grade 6: 737 days Grade 7: 616 days Grade 8: 495 days Grade 9: 385 days Grade 10: 297 days Grade 11: 220 days Grade 12: 154 days Grade 13: 99 days Grade 14: 55 days The amount of pension benefit Increased. : Grade 1: 329 days Grade 2: 291 days Grade 3: 257 days Grade 4: 224 days Grade 5: 193 days Grade 6: 164 days Grade 7: 138 days	The amount of lump sum benefit increased: 1300 days of average income	Amount of benefit increased: 120 days of average income
2000.7.1	Treatment for after-effects introduced		Pension payment of the 50% of the lump sum amount for grade 4-7 became mandatory Nursing benefit newly established: Full-time: 24,775 won/day Part-time: 16,516 won/day	Pension payment became mandatory: either 100% in pension, or 50% in pension and 50% in lump sum	Maximum / minimum level of payment established

Source: Kim, Hokyung, et al., (2000), pp. 17-18.

6. Evaluation and Policy Directions

In retrospect, (the) Korea's WII system has greatly improved, yet there are several major issues remaining.

First, although the application of WII has been continuously extended

since its establishment in 1964 to include virtually all kinds of firms, the actual number of firms benefiting from the WII is around 65.2 percent of the total industry as of Jun 30 2001. Many employers, typically small businesses, have been unwilling to join WII, even though they are required to pay 50 percent of the coverage and the premium for 3 years after a work-related injury has occurred and is reported. Thus, in order to extend the WII benefits to include as many workers as possible, specific measures are needed to help firms automatically join WII as they establish or continue their businesses.

Another issue that needs to be addressed is to find ways to reduce the rate of accidents (i.e., work injuries). The Korea Occupational Safety & Health Agency (KOSHA) implements risk management programs in the workplace such as the KOSHA 2000 program, which is designed to reduce work injuries and is operated on a voluntary basis. However, since the application of the program is not compulsory, it has generally been applied to large firms that maintain relatively good safety conditions and can afford the program fee. Thus, in order to effectively reduce work injuries, policy devices are needed not only to enhance the efficiency and credibility of the safety check, but also to implement a compulsory safety check program on the work place. Moreover, in order to encourage firm owners to reduce injuries in the work place, a rate discount system that takes into account the degree of workplace safety when rating WII premiums may be necessary.

On the other hand, in the face of increasing number of pension receivers and the expected rise in benefit payments in the future, the WII program needs to be applied more carefully to be financially viable. In order to accomplish this, an extensive information system including a well-maintained database as well as more rigorous research and study on the financing methodology, the rating system and the effectiveness of work-injury insurance policies and related programs are needed.

In summary, if we recognize that every worker faces the risk of injury, even if the probability is very small, the role of WII is very important to ensure economic stability of employees. In light of this, WII has extended its scope of application and increased its coverage since 1964

in order to strengthen its role as a social safety net and reduce the potential hazards that workers face in their lifetime.

However, regardless of the extension of the application of WII, there are still some contingent workers unprotected by the existing safety net because of their status as non-regular workers and the difficulty in proving work-related injury. For some of these low-income workers, it may be necessary to consider a separate WII plan. In order to maintain a stable social insurance system and to reduce the problem of moral hazard and/or reverse selection in the system, different programs may have to be considered for different groups of workers according to their varying needs.

IV. Conclusion

The protection of workers from various risks such as illness, work injury, disability, unemployment, and retirement, without deteriorating work incentives, while ensuring improved welfare and productivity of workers, is the core philosophy of productive welfare. Hence, it seems evident that expanding the coverage of EIS and WII will improve workplace safety and productivity of small firms as well as the welfare of workers

Every worker faces the risk of being injured or unemployed. In this sense, the WII and EIS must play an important role to provide economic stability for employees. The WII and EIS provide more coverage to more workers since their introduction and have strengthened their role as a social safety net and reduced the potential hazards that workers face throughout their life.

The WII and EIS have actually extended their application to include workers of small firms with less than 5 employees in 2000 and 1998. However, despite these extensions, a considerable number of contingent workers are not appropriately covered by the existing insurance programs.

The remaining issues that need to be addressed can be summarized as follows. First, for those who are legally eligible for WII and EIS coverage but are actually uninsured, active policy measures need to be implemented to help raise the participation rate. Second, for those who are currently legally uninsured, the WII and EIS should extend their coverage to cover more non-regular workers.

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6

Transformation and New Patterns of HRM*

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I. Introduction

Recently, HRM practices in Korean firms have undergone an important change, under rapidly changing environment. The first-order motive of change has come from the economic crisis taken place at the end of 1997. The shock given by the so-called “IMF crisis” was beyond imagination. The deep-rooted myth that bank and big companies-group (“Chaebol”), symbol of Korean economic success, never go bankrupt was gone away. And financial difficulties made Korean firms to draw doubt on the traditional Korean management style and HRM model. They began to reexamine the growth-driven strategy to adopt the profitability-driven strategy (Cho, 2000a). This reorientation in business of strategy have made the Korean firms to be very cost-conscious, and to pursue actively innovative changes in HRM practices, such as new compensation system based on performance.

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The economic crisis and downsizing has given a profound impact in HRM in Korean firms. After the economic crisis, many Korean firms have been forced to reduce their workforce: 66 percent of listed companies are reported to lay-off their workforce¹⁾ (Korea Labor Institute, 2000). And they learned an important lesson to secure the flexibility in managing their workforce, which was not a consideration in the growth era before. On the employees' side, this lay-off experience has changed their attitude vis-à-vis the company: the tie between company and employees become loose and employees actively search an opportunity in external labor market. These changes in both sides have given a strong shock to the traditional HRM system, based on long-time employment and seniority-based compensation. At the same time Korean companies are faced with the task to find a way to develop and motivate core workforce under the generalized job insecurity and distrust among employees.

Another important factor changing HRM picture in Korean firms is digital revolution and the rapid growth of ventures. Venture firms using intensively the information technology and internet are not adhered to the traditional Korean HRM model: they don't guarantee job security and they prefer recruiting the workforce from external labor market in offering attractive compensation including stock option. Many young employees with high potential quitted the large companies to find a job in venture companies. High turnover in managerial and R&D employees is a new serious problem in Korean traditional firms. This makes Korean firms to change their traditional HRM practices: they are now trying to introduce various incentive systems and to increase the autonomous and creative work environment

The rapid growth of foreign direct investment in Korea also plays an important role in reshaping the management style and HRM in Korean firms. Being about 1 billion dollars in yearly average till to the middle of 1990s, FDI soared up to 8.8 billion dollars in 1999. And the sum of FDI in 1998 and 1999 is three and half times larger than the total amount of FDI

1) Includes early retirement and honorary retirement.

from 1980 to 1996 (Korea Bank, 2000). HRM systems different from the Korean are introduced in wholly owned foreign subsidiaries, and, more importantly, their HRM systems are benchmarked by many Korean firms as global standard. Recent diffusion of job and performance based HRM system can be explained by this active FDI in Korea.

As pointed out above, Korean firms are now facing an important environmental change in multiple levels. It is interesting to examine the recent changes in HRM the environmental pressure have produced in Korean firms. Firstly, we will try to identify the important changes in HRM practices after the economic crisis. Secondly, we will discuss if these changes in practices mean the transformation of HRM paradigm in Korean firms. And we will describe the emerging new patterns of HRM model. Lastly, we will examine the changing role of HRM toward strategic human resource management.

For these purposes, we will use mainly the results of survey conducted in 1998 and in 2000 respectively by Korea Labor Institute. It is not easy to identify the changes in HRM after the economic crisis, because reliable surveys are rare, and because they are focused only particular areas of HRM, such as compensation, employee participation etc. The two surveys are very important sources of information in that they cover almost every part of HRM, and they are done twice maintaining the similar contents of questionnaire, which allows us a comparison during recent two years.

The sample of two surveys consists of the listed companies on Korea stock market. At the time of survey, the total number of listed companies is 744 in 1998 and 712 in 2000. Their number is a little reduced in two years because some companies are dropped out from the list, mainly due to M&A and bad performance. The number of response is 417 and 376, representing 56 percent and 53 percent response rates respectively. The distribution of industry and employee size has shown very similar distribution. The sample is mainly composed of large firms: for example, the average number of employees in respondent firms is 2,180 in 2000 and 76.5 percent of respondent are employing more than 300 persons.

II. Changes of HRM Practices

According to the KLI survey 2000, Korean firms have undergone important changes in their HRM practices. More than 80 percent of respondents reported there have been changes in almost every area of HRM practices after the economic crisis. This shows that the changes in HRM practices are very extensive and general in Korean firms. In particular, more than 50 percent of firms are reported to have important changes in their compensation and evaluation system, which may be explained by the rapid diffusion of merit pay in Korean firms as we will show later. We will examine below the major changes in HRM practices.

1. Staffing

The results of surveys show no significant change in selection criteria but important change in recruitment source and use of contingent workers. Korean firms begin to search more actively external resource pool, and to use more intensively the contingent workers. The principal motive of this change is the flexibility in managing workforce, badly in need to cope with rapidly changing environment.

Selection criteria

In regarding to the selection criteria, it seems that there is not significant change in Korean firms. In 1998 survey, the important selection criteria are reported to be creativity and challenge, integrity, cooperation, and technical competence in their order of importance. These criteria and their order have not changed in survey 2000. And another study done in 1994 reported similar results in selection criteria (Park, 1995). We can conclude that the selection criteria are unchanged through economic crisis.

More interesting is the relative importance between cooperation and

technical competence. Cooperation represents a selection criterion based on long-term perspective, related to a long-term employment practice, while technical competence can be considered as a short-term selection criterion, related to job-based management. Two surveys forced respondents to choose between two extreme choices: a candidate with good technical competence but not cooperative and a candidate with good cooperation but low technical competence. In two surveys, more than 70 percent of respondents showed their intention to select a second type candidate. This implies that Korean firms still maintain long-term relationship in their employment policy, and that they consider the technical competence as being developed in the firm after selection.

1) Source of recruitment

An important change in staffing of Korean firms is that they begin to use external labor market as source of recruitment. The KLI survey 2000 shows that 25 percent of respondents have the policy to get the necessary workforce by staffing it from external labor market. It also indicates that 78.5 percent of respondents have experience of recruitment from outside the firm in two years, and this percentage is very high in distribution and finance industry. There is no survey data exactly matching to this number, but the promotion-within is long time taken for granted in Korean firms except some R&D jobs. A survey in 1997 gives some evidence to this general rule in demonstrating that less than 10 percent of managerial jobs are recruited from outside the firm (Park and Ahn, 1998). The internal recruitment, often synonym of the promotion is one of the cornerstone of the HRM system in Korean large firms, based on internal labor market (Park, 1995).

2) Utilization of contingent workers

Another important change in management of workforce in Korean firms is active utilization of contingent workers. The economic crisis and changing environment make the Korean firms to actively pursue the flexibility in managing workforce. On the one hand, they downsized their workforce through lay-off: two of three firms responding the KLI

Table 1. Increase of Contingent Workers

	Number of employees in average (person)	Portion of contingent workers (%)
1997	2,230	5.5
1998	1,940	7.0
1999	2,181	8.6

Source: KLI survey 2000 (KLI, 2000)

survey of 2000 are reported to have the experience of lay-off their employees after economic crisis. On the other hand, they hired new workforce as contingent workers. This resulted in a rapid increase of contingent workforce in Korean firms. As the table below indicates, the average number of employees was reduced by 13 percent from 1997 to 1998, and increased by 12.4 percent with economic recovery. However, the portion of contingent workers in total employees is rapidly increasing in a row from 1997: it is 5.5 percent in 1997 but represents 8.6 percent in 1999. The contingent workers are increasing in almost every industry but the increase is particularly important in beverage and food, whole sale and retailing, transportation, and finance industry. Especially, the portion of contingent workers in finance industry has more than doubled, increasing from 8 percent in 1997 to 20 percent in 1999.

2. Employee Development

1) Career development

Developing career is an important element of employee development. Career development is not a one-shot training program. Rather, it is an ongoing organized and formalized effort that recognize people as a vital organizational resource (Leibowitz, 1987). Recent surveys don't show any significant change in career development in Korean firms. In 1995, career development is implemented in 23.4 percent of Korean firms employing more than 300 persons (Ahn, 1996). In KLI survey of 1998, it is reported to 23 percent and there is no change in this rate in the

survey of 2000. The limited use of career development seems to be related to the weakening long-term employment practice and internal labor market.

2) Evaluation and employee development

In contrast to the organized career development, individual development based on the result of evaluation is rapidly progressing in Korean firms. Traditionally, the evaluation is mainly used for the promotion decision making. However, Korean firms begin to apply its results to employee development recently. In the KLI survey of 2000, we can find that the principal purpose of evaluation is still to use as criteria of promotion, but its application is widened to employee development: more than 50 percent of firms actually make use of the evaluation to develop employee and help their career development.

3) Management by objective (MBO)

Management by objective (MBO) is used not only to evaluate individual performance but also to individual development in Korean firms: in the KLI survey of 1998, 63 percent of firms are reported to use MBO for the two purposes at the same time. MBO has been introduced by many Korean firms in recent years. As the table below shows, MBO is implemented in 24.4 percent of Korean large firms in 1995, but the rate of implementation has increased to 35 percent in 1998, and reached to 49 percent in 2000.

Table 2. Implementation of MBO

	Percentage of firms implementing MBO
1995 ¹⁾	24.4%
1998 ²⁾	35.0%
2000 ²⁾	49.0%

Sources: 1) Ahn (1996).

2) Korea Labor Institute (1998; 2000).

3. Compensation

The compensation is the area in which the most important change has been taking place in Korean firms after economic crisis. Traditionally, Korean pay system is in large part based on seniority. In Korean firms, seniority has been an important element in determining base salary. This system has long been the object of critics in that it doesn't reflect the performance of employees. This system is now rapidly changing towards performance based system: on the one hand, Korean firms begin to introduce merit pay determining pay increase according to the personal performance, and on the other hand, they actively introduce the group incentive system.

1) Merit pay

The table summarizes the rapid diffusion of merit pay system (so called "Yeon-bong Je") in Korean firms. The merit pay being introduced in only 3.6 percent of the Korean firms employing more than 100 persons in 1997, has more than tripled during two years, reaching 12.7 percent in 1999. In listed companies, it is now implemented in 45.2 percent of them, and 22.6 percent of them are planning to adopt it in one year. Therefore, we can consider the merit pay as a dominant

Table 3. Diffusion of merit pay

	Percentage of firms having merit pay system
Ministry of Labor ¹⁾	
1999	1.6%
1997	3.6%
1999	12.7%
Korea Labor Institute ²⁾	
1998	35.0%
2000	45.2%

Sources: 1) Ministry of Labor (2000).

2) Korea Labor Institute (1998; 2000).

practice, at least in Korean listed companies. The merit pay is intensively adopted in 1998 and 1999, representing 56 percent of the firms implementing merit pay. The economic crisis and environmental pressure seems to play an accelerating role in changing the pay system for merit pay in Korean firms. The majority of the firms having introduced merit pay did away with the seniority based increase in pay, while 35 percent of them maintain still it to avoid the abrupt change in pay system.

2) *Group incentives*

Change in pay toward the performance-based system can be verified in the diffusion of various group incentives in Korean firms. According to the recent surveys of Korea Labor Institute, group incentives, especially profit sharing and gain sharing, show sharp increase from 1998 to 2000. Now, the profit sharing scheme is used in two of five Korean listed firms.

Table 4. Adoption Rate of Group Incentives

	Profit sharing	Gain sharing	Team incentive
Korea Labor Institute ¹⁾			
1998	25.9%	17.7%	23.7%
2000	40.7%	23.9%	25.8%

Source: 1) Korea Labor Institute (1998; 2000).

Group incentives have been actively adopted by Korean firms for the purpose of motivating employees, and complementing the side effect of merit pay, that is too harsh competition between employees. In addition, Korean firms hope to make labor cost more flexible in tying it to overall performance of firms (Park, 1999).

4. Employee Participation and Team-based Organization

1) *Employee participation*

Employee participation practices were generalized before the economic crisis but many Korean firms abandoned them after the economic crisis. As the table below shows, the implementation rate of employee participation practices have been dropped sharply from 1996 to 1998. We can infer that the economic difficulties and downsizing undermined the base of participative management. On the other hand, it is possible that before the economic crisis, the participative practices were introduced in large part from the imitative pressure or as a managerial fad, and not strongly anchored in management system and employee relations.

Table 5. Changes in Implementation Rate of Participative Practices (%)

	Year 1996 ¹⁾	Year 1998 ²⁾	Year 2000 ²⁾
Employee survey	78.4	26.1	32.2
Employee suggestion	97.1	74.8	77.7
Job enlargement	90.5	41.7	42.3
Job enrichment	83.3	38.1	43.9
Quality circle	91.8	58.3	58.8
Problem solving team	81.9	58.5	59.6
Work council	96.6	90.4	88.6
Joint committee	71.1	40.5	33.8
Self-directed work team	43.5	28.5	29.8

Sources: 1) Lee and Yu (1997).

2) Korea Labor Institute (1998; 2000).

From 1998 to 2000, the implementation rate shows no important change. However, they are administered and utilized more actively and constructively: in comparison to the results of survey in 1998, the number of firms reporting that way has significantly increased in 2000. It seems to us that the economic crisis played a role of litmus testing the

solid base of participative practices in Korean firms. Those who practice them without clear policy and vision gave them up faced with financial difficulties, while those who realize their benefit during the economic downturn invest more actively in participative practices.

2) Team-based organization

Another important change in Korean HRM practices is flattening structure. Traditionally, Korean firms' structure is characterized by long hierarchy and concentration of authority, and this often results in many negative effects including conforming and bureaucratic attitudes (Cho, 2000). Recently, they are flattening the structure by reducing the grade system and decision making procedure, delegating all necessary authority to be empowered.

The change to the team-based organization can be considered as the typical example of these recent tendencies happening in Korean firms. Under the team-based organization, heavy burden of administrative work and inefficient decision procedures are eliminated, and long grade system is reduced to team coordinator and team members. Team-based organization began to be actively implemented by Korean firms since 1995 and rapidly diffused to reach at the 80.1 percent of implementation rate in 2000.

Table 6. Implementation Rate of Team-based Organization

Percentage of firms Implementing Team-based Organization	
1998 ¹⁾	54.2%
2000 ²⁾	80.1%

Sources: 1) Korea Labor Institute (1998).

2) Korea Labor Institute (2000).

III. Transformation and New Patterns of HRM

Based upon two consecutive surveys on listed companies, we

identified recent functional changes of each HRM practices in Korea. Because two surveys were drawn from large firms, it is difficult to generalize the results to the population of Korean firms, in particular small and medium firms. However, we maybe conclude that the trend of changes in HRM practices of small and medium firms would not be that far from those of large firms. Generally large firms play a role of pattern setter in shaping new HRM practices. In particular, isomorphic institutional pressure is very strong in Korean society (Orru et al., 1991).

Then, next question is “Would those functional changes of HRM practices in Korea be a paradigm shift of HRM from traditional HRM system to new HRM system?”

1. New Paradigm in HRM

Recently we have observed the trend of transformation of HRM practices in several countries (Appelbaum & Batt, 1994; Bae et al., 1998; Nakamura & Nitta, 1995). Universal environmental pressure, especially globalization and boarderless market competition, led firms in industrialized countries to change their HRM practices toward getting more competitive advantage (Pfeffer, 1994). Under the similar environmental pressure, it seems that HRM and industrial relations practices across countries tend to converge into a similar system which aims more flexibility in the workplace (Kuruvilla and Erickson, 2000). On the other hand, some researchers argue that such changes are neither fundamental change nor transformation, rather they are continuous adjustments to or extensions of the basic framework, embedded in national cultural settings (Nakamura & Nitta, 1995).²⁾

We have seen many functional changes of HRM practices in Korean large firms. However, from these observations, it is not easy to answer the question whether such changes are fundamental transformation

2) One of important issues for the 12th IIRA World Congress, Tokyo, Japan (May 29 – June 2) was the impact of globalization and regional systems of industrial relations and employee relations: divergence and convergence.

toward a new paradigm of HRM or functional adjustments to environmental pressures.

The traditional Korean HRM system has been defined as one that cultivates long-term loyalty and organizational attachment from employees by providing job security and various seniority-based HRM practices (Kim & Yu, 2000). We have seen some functional changes of HRM which apparently depart from such traditional HRM system. However, we also have seen HRM practices which seem to be still related to traditional HRM system.

In order to identify how much the transformation has occurred (or will occur), we conducted another survey in 1999. The respondents of the survey were 107 HRM specialists including university professors (human resource management and industrial relations field), consultants, researchers, and top HRM executives in large Korean firms (Yu & Park, 2000). In the survey we presented items related to explain several HRM perspectives and asked respondents whether these items are represented as traditional HRM perspectives or new HRM perspectives of Korean firms.

As can be seen in Table 7, majority of respondents agreed upon that there are fundamental shifts of HRM perspectives of Korean firms. Table 7 shows that traditional seniority based, paternalistic, autocratic and generalist HRM perspectives based on socio-cultural background of Korean society are expected to transform to new performance based, contract based, democratic and specialist HRM perspectives. Traditional HRM perspectives are based on socio-cultural background of Korean society. Accordingly traditional Korean HRM system reflects the features of traditional Korean management styles, which summarize as family-oriented paternalistic leadership (Kim & Kim., 1989). New HRM perspective reflects environmental pressures based on market and competition mechanism.

Various functional changes described earlier are closely related to such a paradigm change of HRM perspectives. For example, a shift from seniority based HRM perspective to performance based HRM perspective is closely related to the change of pay system. Individual

Table 7. HRM Specialists' Opinion Regarding Paradigm Shift of HRM Perspectives of Korean Firms

Traditional paradigm	New paradigm
Seniority based HRM (70%)	Performance based HRM (96%)
Paternalistic HRM (62%)	Contract based HRM (91%)
Autocratic HRM (70%)	Democratic HRM (91%)
Generalist HRM (62%)	Specialist HRM (84%)
People based HRM (50%)	Job based HRM (47%)

performance based pay system -- merit pay (or “Yeon-bong Je”) – has been diffused rapidly right before and during IMF crisis. It is apparently based on difference in individual performance, not difference in seniority. In the same token, it is not surprising that various group incentive pay schemes also have been diffused rapidly and widely.

Transformation from paternalistic HRM to contract based HRM is also important features of new HRM paradigm. Traditionally Korean firms have maintained paternalistic family-oriented management styles (Kim & Kim, 1989; Shin, 1992). The family ideology has been widely used by Korean firms (in particular, Chaebol) to develop long-term psychological relationship between employees and management. Accordingly massive layoff was rare for Korean firms before the IMF crisis. However, as we have seen, more than sixty percent of firms have adopted sorts of lay-off for structural adjustments. Long-term psychological relations based on family ideology cannot be the norm anymore.

Transformation from autocratic HRM to democratic HRM is also another feature of new HRM paradigm. The other side of coin against family-oriented management style would be autocratic managerial leadership. Autocratic leadership could have been very effective for rapid economic development by providing concrete guidance of direction. However, recent environmental pressures force Korean firms to change their leadership styles. Active utilization of human resources becomes one of the most critical success factors for Korean firms.

Transformation into democratic HRM is closely related to diffusion of employee participation and team-based organizational structure, as we have seen.

Emphasis on specialist HRM rather than generalist HRM is deeply related to the change of staffing practices. Traditional staffing practices in Korea were primarily based on internal labor market that generally characterizes a job ladder with entry only at the bottom and movement up this ladder (Althauser & Kalleberg, 1981). Unlike the internal labor markets in western firms, however, traditional Korean internal labor markets did not provide career ladder for specialists. Even R&D specialists must transfer to managerial positions after a certain period of stint within the firm if they want to get opportunities for more compensation and promotion. The reason for such staffing practices was because Korean firms prefer generalist who can perform versatile roles in organization and thus provide internal flexibility during rapid economic expansion period (Shin, 1992). Now, Korean firms begin to realize the important roles of specialists to get competitive advantage, in particular in the development of information and communication technology. As we have seen in functional HRM changes, specialist HRM perspective is closely related to both externalization of staffing practices and provision of career ladder and incentive schemes for specialists such as R&D engineers and marketing.

Although majority of respondents agreed upon that Korean HRM has undergone an important paradigm shift from traditional HRM to new HRM perspectives, there was an important issue that remains to be controversial: people-based HRM vs. job-based HRM. Traditional HRM system in Korea is known to be based on people, which means that the most important basis for HRM decision is on general characteristics of employees. The seniority-based compensation and generalist staffing practices are closely related to people-based HRM perspective. Korean firms generally did not have specific job description and job classification. Rather they had broadly-defined position grade (“Jik-geup”) which is quite different from job grade concept (Jeong, 2000). As we have discussed so far, there is an apparent consensus that such

people-based traditional HRM system would not be adequate for current environment. Then would the new HRM perspective be job-based HRM? Certainly there are some evidence that Korean HRM practices are somewhat moving toward job-based HRM. However, as traditional job-based HRM practices in U.S. has been widely criticized recently and many US firms are moving toward competence-based HRM (Lawler, 1994; Dubois, 1998), HRM specialists hesitate about job-based HRM perspectives. Less than fifty percent of specialists agreed upon that Korean HRM is moving toward job-based HRM.

2. Changing Role of HRM: How Strategic is HRM in Korea?

Recently HRM literature has largely emphasized on strategic role of HRM to get competitive advantage of firms (Martell & Carroll, 1995; Wright & McMahan, 1992). Along with the changes of HRM practices, the strategic role of HRM within an organization in Korea also has been stressed (Yu, 2000). Then how much have HRM in Korean firms taken strategic roles?

On 2000 KLI survey, we asked strategic planning executives to evaluate how much the role of HR department has occurred within an organization.³⁾ Not surprisingly, as shown in Table 7, the survey results indicate that the majority of strategic planning executives think that the role of HRM within an organization has significantly increased after IMF crisis and this trend will continue in the future. Also, HR executives of the majority of Korean large firms currently participate in the strategic planning processes in the organization and significantly influence in decision-making of CEOs. Similarly, majority of respondents agrees upon that the HR department should play a significant role in implementing organizational strategy. However, in reality, HR department in only thirty percent of firms actually plays a significant role in implementing organizational strategy. Based on the

3) We sent separate questionnaires to strategic planning managers (executives) to get reliable evaluation regarding roles and effectiveness of HR department.

survey results we can tentatively conclude that Korean firms begin to realize the strategic role of HRM within an organization, but only a few firms actually implement those roles.

Interestingly, the survey respondents identified that a lack of CEOs' understanding of the strategic role for HRM department would be the most important impediment to the changing role of HRM. The executives with whom the CEO's consult in the most time were first marketing executives (49.8 percent) and second finance executives (24.5 percent). Only seven percent of respondents were HR executives.

However, another important barrier to the changing role of HRM is the lack of competence of HR executives themselves. According to the survey on HR specialists, the most important competencies that today's HR managers must possess were not only broad knowledge on various HRM issues and specific skill on HRM field but also broad knowledge on management and business, leadership, and vision and communication skill. The latter competencies are relatively new to HR managers in Korea, and important ones for HR managers to perform strategic roles (Yu & Park, 2000).

Table 8. Changing Role of HR Department

	Yes	No
The role of HRM has significantly increased after IMF crisis	51.8	9.5
The role of HRM will significantly increase in the future	57.8	8.8
HR executive participates in strategic planning process	53.5	17.5
HR executive significantly influences in decision-making of CEO	56.0	10.5
The HR department should play a significant role in implementing organizational strategy	53.5	9.8
The HRM department plays a significant role in implementing organizational strategy	30.8	22.3

IV. Conclusion

We have discussed functional changes and paradigm shift of HRM practices in Korea. It is clear that under the universal environmental pressure such as globalization and technology development and Korean particular environmental pressure such as IMF crisis and stagnation of economic development, traditional HRM practices and perspectives of Korean firms are not very effective anymore. The new direction of HRM practices and perspectives is the one that gives firms more flexibility of the workplace and the one that emphasizes more performance from employees. It indeed resembles the one that we encounter in the various literatures (Appelbaum & Batt, 1994; Towers Perrin, 1992). However, we also found the peculiarity of Korean HRM practices such as promotion standards and selection criteria in which seniority and membership is still important.

We have analyzed the overall patterns of HRM practices of large Korean firms. However, equally important is the individual firm's choice of HRM practices that we did not handle in this paper. Although Korean firms have previously shown almost identical HRM practices, we recently have seen large discrepancies of HRM practices between firms. Different environmental context and firms' business strategy require different configurations of HRM practices in Korean firms (e.g., Kim & Yu, 2000). What sort of configurations of HRM can we find and how these configurations change over time should be included in the next research agenda of Korean HRM.

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