Labor Demand in Korea

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1. Labor Demand during 1987–2002

During the period of 1987–2002, the total number of employed workers in Korea rose from 16.4 million to 22.2 million, increasing at an average annual rate of 2.0%. In this chapter, we will be discussing the characteristics of labor demand in terms of employment proportion by industry, cyclical pattern of labor demand by age group, proportion of employment by type, changes in the demand for skilled-labor, and elasticity of labor demand with respect to wage and GDP.

A. A Gradual Deindustrialization

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<Table 10-1> shows the changes in employment status since 1985 by industry. The employment of mining and manufacturing increased steadily to peak in 1988 at 28.5% of total employment, effectively driving the growth of jobs in the Korean labor market. As of yearend 2002, the percentage stands at a comparatively low 19.2%, having declined in tune with the nation’s deindustrialization process.

B. The Relatively Sensitive Economic Dependency of Labor Demand for the Youth and Elderly workers

When economic performance slows down, labor demand decreases, and consequently employment rate goes down. In this process, the labor demand for the youth (15~24 age group) and the elderly workers (50 and above age group) are particularly sensitive to the economic climate in Korea. This is because Korean businesses tend to cut down recruitment during the first phase of economic downturns and then lay off elderly group with a lag of two or three quarters. Thus, the young and old workers are relatively more affected by economic cycles than prime-age workers. The reason that those two groups feel the deterioration of the employment market more acutely than is indicated by the general unemployment rate during economic downturns is because they are usually the main victims of the recession. This trend was particularly pronounced over the last 15 years. While the employment rates of these two groups rose considerably during the economic boom in the late 1980s, the rate fell by a significant margin during the recession period around Asian financial crisis of 1997.
### Table 10-1: Employment Distribution by Industry

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<tbody>
<tr>
<td>Whole Economy</td>
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<td>18,085</td>
<td>20,414</td>
<td>21,156</td>
<td>21,572</td>
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<td>(24.9)</td>
<td>(17.9)</td>
<td>(11.8)</td>
<td>(10.6)</td>
<td>(10.0)</td>
<td>(9.3)</td>
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<td>Mining &amp; manufacturing</td>
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<td>(20.4)</td>
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<td>(19.2)</td>
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<td>(6.1)</td>
<td>(7.4)</td>
<td>(9.4)</td>
<td>(7.5)</td>
<td>(7.3)</td>
<td>(7.9)</td>
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<tr>
<td>Retail, Wholesale, Hotel &amp; Restaurant</td>
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<td>3,935</td>
<td>5,415</td>
<td>5,966</td>
<td>5,874</td>
<td>5,998</td>
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<td>(22.6)</td>
<td>(21.8)</td>
<td>(26.5)</td>
<td>(28.2)</td>
<td>(27.2)</td>
<td>(27.1)</td>
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<td>Electricity, Gas, Water, &amp; Finance</td>
<td>1,305</td>
<td>1,938</td>
<td>1,875</td>
<td>2,074</td>
<td>2,141</td>
<td>2,157</td>
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<td>(8.7)</td>
<td>(10.7)</td>
<td>(9.2)</td>
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<td>(9.9)</td>
<td>(9.7)</td>
<td>(9.7)</td>
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<td>Personal, Business, and Public Services</td>
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<td>2,638</td>
<td>3,965</td>
<td>4,979</td>
<td>5,540</td>
<td>5,940</td>
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<td>(13.3)</td>
<td>(14.6)</td>
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<td>(23.5)</td>
<td>(25.7)</td>
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<td>(26.8)</td>
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Note: Numbers in the parentheses denote proportions.

### Table 10-2: Employment Rates by Age Groups

<table>
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<tr>
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<td>60.7</td>
<td>58.5</td>
<td>59.0</td>
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<tr>
<td>15–24</td>
<td>32.0</td>
<td>32.3</td>
<td>34.6</td>
<td>29.4</td>
<td>30.1</td>
<td>31.5</td>
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<tr>
<td>25–29</td>
<td>59.8</td>
<td>64.1</td>
<td>67.0</td>
<td>66.1</td>
<td>66.7</td>
<td>67.7</td>
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<td>30–49</td>
<td>72.4</td>
<td>75.5</td>
<td>76.4</td>
<td>74.3</td>
<td>74.5</td>
<td>75.1</td>
</tr>
<tr>
<td>50–54</td>
<td>68.2</td>
<td>74.9</td>
<td>74.3</td>
<td>70.2</td>
<td>70.3</td>
<td>71.8</td>
</tr>
<tr>
<td>55 and over</td>
<td>38.7</td>
<td>46.2</td>
<td>47.9</td>
<td>44.5</td>
<td>44.6</td>
<td>45.3</td>
</tr>
</tbody>
</table>


*Table 10-2* shows the employment rates by age groups since 1985. The average growth rates of both the economically active population and the employment were around 0.9% during the five years following the economic crisis of 1997. However, the employment rates of the 15–24 age group and the 55 and older population remain lower than in the pre-crisis years.
C. From an Increase in Wage Workers to an Increase in Non-regular Workers

[Figure 10-1] shows the proportion of salaried employment, the proportion of the sum of the self-employed and unpaid family workers, and the proportion of the sum of the temporary and daily workers in the total employed population.

The share of wage workers increased rapidly until 1991. The unprecedented economic boom supported the continued growth of the wage workers except during 1992–1993 and the slump in 1998.¹

As large corporations diversified their businesses and increased business investments with long term prospects, job opportunities increased significantly year after year until the economy slow down in 1993, pulling up the proportion of the regular workers in the overall economically active population. In contrast, the proportion of temporary and daily employment has been increasing steadily since 1994 except in 2001, which indicates that labor demand patterns have changed since the mid 1990s as enterprises started to favor flexible human resource management.

¹ The proportion of ‘self-employed workers + non-paid family workers’ in the total employed population has been continuously falling except in 1998.
D. Increased Demand for Skilled Labor

One notable feature of the labor demand in the 1990s was a rising demand for skilled labor. [Table 10-3] depicts employment of high-skilled workers and non-production workers since 1993.

<Table 10-3> Evolution of High-skilled Workers and Non-production workers

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1995</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-skilled workers</td>
<td>2,940 (16.3)</td>
<td>3,344 (16.4)</td>
<td>3,990 (18.9)</td>
<td>4,626 (21.4)</td>
<td>4,832 (21.8)</td>
</tr>
<tr>
<td>Non-production workers</td>
<td>9,467 (52.3)</td>
<td>10,414 (51.0)</td>
<td>11,486 (54.3)</td>
<td>12,953 (60.0)</td>
<td>13,449 (60.7)</td>
</tr>
</tbody>
</table>

Note: High-skilled workers are manager, professionals, and technicians.

The increased demand for skilled labor is also confirmed through the changes in wage levels. [Figure 10-2] represents the wage differentials during 1990–2001 by educational attainment, skill levels, and age groups. The wage graph uses hourly wages defined as regular wages over regular working hours.

[Figure 10-2] Between-group Wage Differentials: Log of Hourly Real Wages

An interesting observation can be made from [Figure 10-2]. The premium on advanced level education decreased until 1998 but picked up again starting in 1999. This trend (through 1998) is consistent with the fact that supply of highly-educated labor increased steadily until 1998. What is interesting is that the premium started rising again after 1998 even though supply of the highly educated labor force continued to grow.

[Figure 10-2] also shows the wage ratio between high-skilled and low-skilled workers. As was the case of the education premium, the wage ratio fell until 1998 and rose again after 1998. Though the supply of high-skilled workers, represented by university graduates, has continued to increase since the late 1980s, the relative wages of high-skilled workers show a different inclination since late1990s.

The wage gap between non-production and production workers, and the differentials between young and prime age workers have been widening since 1995. This trend forms a stark contrast with the declining labor supply of the youth. As the last cohort of the baby-boom generation (those born in the first half of the 1970s) had already been integrated into the working age population by 1990, the labor supply of the youth population has continued to decrease throughout the 1990s. As was the case in wage differentials by educational attainment and skill levels, the decreasing labor supply of the youth age group seems contrasted with the rising trend of relative wages of prime age workers. This pattern remains unchanged even if other factors that affect wages are controlled (Choi, Kang-shik and Jin-ho Jeong 2002).

In sum, we can conclude that wage premium of highly educated, high-skilled, and more experienced workers increased during the mid to late 1990s, and consequently wage differentials widened.

The changes in wage structures during the 1990s brought about not only between-group wage differentials but also within-group wage differentials. [Figure 10-3] (a), (b), and (c) are within-group wage differentials of male workers during the 1990s expressed in terms of the standard deviation of the logarithm of hourly wages. The graphs show that within-group wage differentials increased
considerably within identical industry, educational attainment, occupation, and age groups. The increase of the dispersion, compared to that of the mid 1990s, was particularly conspicuous in the high-skilled and highly educated worker groups.

[Figure 10-3] Between-group Wage Differentials: Standard Deviation of the Logarithm of Hourly Wages of Men

(a)

(b)
In light of those salient features above, we can conclude that the demand for high-skilled workers, highly educated workers, and experienced workers has continued to increase since the late 1990s, effectively offsetting the steady growth of the labor supply. Moreover, it appears that the demand for workers with high adaptability within the high-skilled and highly educated groups must have grown relatively more than for other workers.

E. Elasticity of Labor Demand with respect to Labor Cost and GDP

There are a number of factors that influence a nation’s labor demand. Of those, the most representative ones are labor costs and the aggregate demand represented by GDP. Kim, Chi-Ho (1991) estimated the wage elasticity of the labor demand on the basis of the labor market model and came up with 0.27–0.29 for short term wage elasticity while the long term wage elasticity was way above 1 at 1.18–1.81.

However, real labor cost and productivity are found to have common trend in the long run (Hur, Jai-Joon, 2001). This implies that the long-term elasticity of labor cost with respect to productivity, the former being defined as per-capita employee compensation and the latter being defined as GDP over employment, is close to one. Consequently the long term elasticity of labor demand with respect to labor cost and GDP is respectively close to one.

As for the short term elasticity of labor demand, labor cost elasticity appears to
be 0.15, and aggregate demand elasticity 0.26. This means that labor demand decreases by 0.15% for every 1% growth in real labor cost, and that labor demand falls by 0.26% when growth rate falls by 1% point. In the case of the year 2002, a 1% increase (decrease) in real labor cost would translate into 33 thousand less (more) jobs, and 1% point decrease (increase) in growth rate would mean 58 thousand less (more) jobs. But this is an annual effect in short term. Over the long term, a 1% growth in real labor cost or 1% point drop in growth rate would translate into an accumulated effect of 220 thousand less jobs.

If we use the wage statistics of regular workers in establishments with 10 or more employees surveyed by Ministry of Labor in lieu of per-capita employee compensation, the short term real wage elasticity of labor demand is found to be around 0.1 which is far less than 1.5. This is attributable to the fact that the labor wages of regular workers have increased at a relatively higher rate than that of non-regular workers since 1989 and, as a consequence, have contributed to divergence between the labor cost of regular workers in establishments with 10 or more employees and that of other workers. There are three reasons why the wages (wage growth rates) of workers at 10 or more employee businesses have been losing their capability as a representative wage index for the overall economy since 1989.

First, in the face of the rapidly changing business environment, firms are willing to hire as a regular worker status and pay high wages for workers who have high adaptability. However, firms also try to increase their labor flexibility by outsourcing the highly replaceable, low-skilled workers. As a result, this latter

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2 These numbers and descriptions for the labor demand are based on the assumption that all other factors such as population growth and other institutional factors remain constant and may therefore be different from observations over actual business cycles.

3 Such changes in the employment are reflected into the unemployment rate more or less mitigated by labor force participation rate. When the economy slows down, two different tendencies begin to operate simultaneously. Job seekers tend to withdraw from the labor market and the participation rate declines. At the same time additionally those who were inactive newly participate in the labor market in an attempt to make up for decreased income of the household. Generally, the former tendency dominates the latter. As a result when growth rates decrease, labor force participation declines as well. Therefore, the number of the unemployed tends to be less pronounced than the actual decrease in labor demand.
A group of workers is faced with high competition in the non-regular workers’ market, which acts as a serious limiting factor in their wage growth.

Second, the wage hikes achieved by the highly organized regular workers by strong bargaining power and adequate legal protection left little room in the labor cost budgets of enterprises to grant wage increases for non-regular workers.

Third, burden of labor cost was relatively heavier for regular employees in larger firms because coverage of social insurances (National Pension, National Health Insurance, Work Injury Insurance, Employment Insurance, and Pay Guarantee Fund) was limited until recently to regular workers in establishments with at least 10 or 30 employees.

2. Changes in the Labor Market and Labor Demand

As the movement of the labor demand is determined by changes in the product and capital markets, a comprehensive view of the overall economy is necessary to better understand the evolution of the labor market and labor demand. In the following section, we examine how the labor demand has been transformed and influenced by the changing economy. To that end, we first briefly go over the characteristics of the labor market prior to 1987 and then proceed to investigate more recent changes and causal factors.

A. The 1st Turning Point

Since the First Economic Development Plan was launched in 1962, the Korean economy continued on the path of stellar growth up until 1997, expanding at an average annual rate of 8.3%. The growth was marked not only by its rapid pace but also by various quantitative and qualitative changes as Korea battled against more than ten economic downturns. The labor market also saw its fair share of changes over the last 40 years, during which there were about three notable turning points.

The first of the trio was in the mid 1970s. According to Bae, Moo-Gi (1982), the Korean labor market bid adieu to the Lewisian world of unlimited labor supply.
era\(^4\) in the mid 1970s and market forces began to exert influence. During the first phase of the economic development from the 1960s to the mid 1970s, the labor market was blessed with what seemed like an unlimited labor supply as manpower continued to efflux from rural sectors to urban area in endless streams. The economic powerhouses of this time were labor intensive industries producing wigs, shoes, and veneer boards mainly requiring simple, low-skilled labor. This type of labor was readily supplied by vocational high schools and corporate training centers of large enterprises. The demand for low-skilled labor and a good supply of such labor were the characteristics of the primary labor market of this period. Unemployment figures were around 4\% but a significant size of the underemployed labor force composed the secondary labor market in the outskirts of the urban areas and existed as the potential source for the primary labor market.

The labor market in the second half of the 1970s changed in close correlation with evolution of the real economy. The transformation of the economy to the heavy and chemical industry somewhat reduced the growth elasticity of labor demand in the industrial sector, but the increased demand for labor from the Middle East construction sites and the construction boom within the nation effectively offset the slow down of labor demand in industrial sectors until the end of the 1970s. Rather, the shortage of construction labor actually lead to steep wage hikes for construction workers. However, the economy, and the labor market in turn, experienced a hard landing in the 1980s due to the second oil shock. The unemployment rate shot up to 5.2\%. The excessive facility investment in the large-scale equipment industries such as shipbuilding, heavy, and chemical industries had to go through some restructuring during this period. But the economy was able to regain its balance before any irreversible damages were done on the labor market thanks to its high wage flexibility and improved competitiveness in the international market. The early years of the 1980s were when inflation dropped to single digit figures for the first time in the Korean economic history.

\(^4\) According to Lewis, Arthur (1954), the supply of unskilled labor is almost infinite at subsistence wage level in the early phase of the transition from an agricultural society to an industrial society.
B. The 2nd Turning Point

The second turning point for the Korean labor market was in the mid 1980s. Thanks to the decline in oil prices since 1986, the low interest rate in international capital market, and the relative depreciation of KRW due to the high JPY that boosted the competitiveness of Korea’s export goods, Korean economy enjoyed flush times described as the ‘3-Low Prosperity.’ Taking advantage of the wave of trade liberalism sweeping across the global market during this period, the Korean economy rode on the back of its enhanced export competitiveness and pulled itself up several notches. The labor market also experienced huge changes like never before.

Employment figures in the manufacturing and service sectors were the first to jump, pushing unemployment rates down to the 2% level in 1988. The combination of slow commodity price index growth and two-digit wage hikes significantly increased the purchasing power of the working class. In 1988 and 1989, wage growth exceeded productivity growth.

This was also when overall employment conditions improved enormously in the quantitative aspect and the mismatch between the labor supply and demand among different sectors became an issue of the labor market. Measures were discussed to attract idle resources such as the elderly and women into the market, and even importing labor from overseas was considered as a manpower policy option for the first time.

During this period, the voice of the working class was made heard in full force as political democratization gave vent to the oppressed voice of workers. The industrialized countries had already gone through the labor conflicts and labor mismatch problems in the industrialization process of the 1950s and 1960s, but Korea came to experience them in the late 1980s.

The liberalization of the financial market in the late 1980s not only gave birth to a number of banks but also changed the credit allocation in the capital market. During the 1960s and 1970s, credit allocation was effectively handled in the form of export financing (Hong, Won-Tack, 1998). But that was not the case during
the Roh Tae-Woo administration when the large enterprises, in need of large investment resources to finance their market expansion and business diversification, flocked to form collusions with the government. Thus, the capital market did not have an efficient credit allocation mechanism in the late 1980s and early 1990s as allocations were indiscriminately made to the large corporations.

Since excess demand for capital had been a chronic condition of the Korean capital market since the beginning of the Economic Development Plan up until the 1997 financial crisis, credit access almost always meant business growth. With long term growth prospects, businesses developed massive investment plans and regularly carried out large-scale recruitment to secure high quality human resources regardless of the labor slack within the firm. Thus, the labor market had never been better for the youth population, and the elderly groups also experienced unprecedented growth in employment figures. The proportion of wage workers increased rapidly until 1991, as did the ratio of regular workers among the wage workers until 1993.

Thanks to the educational reform of 1981 that increased university capacity by twofold, the supply of highly-educated workers increased in large scale from the second half of the 1980s. In contrast, the supply of production workers in manufacturing decreased, causing a serious labor shortage and steep wage growth for manufacturing workers. But the productivity gap and wage differentials among large and small enterprises which have been widening throughout the 1980s widened even faster after 1988. The low competitiveness (productivity) of SMEs led to low solvency (low wages) which in turn led to loss of high quality manpower to larger corporations. This pattern actually became a vicious cycle SMEs faced. Moreover, the shortage of manufacturing workers in SMEs became quite extreme. The inefficient credit allocation of the capital market that granted too large a percentage of the available capital to the large enterprises is suspected as an important contributing factor to this situation as ample finance allowed these enterprises to monopolize investments and qualified human resources.5

5 The point here, which distinguishes from others, is that the inefficient credit allocation of the credit market was one of the key reasons for the labor shortage in SMEs. As large enterprises hogged most of the available capital, and thus the investment
As such, the capital market and the product market induced significant changes in the labor market during the late 1980s and the early 1990s and caused acute labor supply and demand imbalances. In the 1970s, the principal members of the primary and secondary labor markets were the workers in industrial sectors and the temporary and casual workers in the urban informal sectors. But after passing through a period of transition in the early 1980s, the main players of the primary and secondary labor markets in the late 1980s had changed to the workers of the emerging industries and large enterprises, and the workers of the fading industries and small businesses, respectively.

C. The 3rd Turning Point

The Korean labor market came across its third turning point in the mid 1990s. The trade liberalization or globalization wave that swept across the world since the 1980s intensified the competition in the international market even further in the 1990s. Despite the depreciation of KRW that started in 1990, the trade balance remained in deficit (refer to [Figure 10-4]). In and around 1993, the purchasing power of the working class which had been improving since the late 1980s boosted the domestic consumption and brought down the dependency on import and export of the Korean economy to its lowest level. Meanwhile, the 1990s was a period when external pressure for the liberalization of not only trade but also the financial market mounted like never before. The government started opening up the capital market gradually as it started working for OECD membership in earnest in 1995, but the liberalization became one of the reasons for the devastating economic crisis that struck two years down the road.

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capabilities and the necessary human resources, SMEs were faced with low solvency and manpower shortages. In contrast, Nam, Sung-II (1996) and Cho, Woo-Hyun and Chang-Hee Kang (1996) focused on the demand-side market mechanism of ‘low competitiveness of SMEs → low solvency → high labor shortage’, and Lee, Chu-Ho (1996) stressed the supply-side institutional relationship of ‘institutional problems in the human resource developing systems → low solvency’ as the reason.
Starting around 1993, ICT started gaining a significant presence in the market, and the pace gained momentum in 1997. <Table 10-4> shows, citing from Hur, Jai-Joon, Hwan-Joo Seo and Young-Soo Lee (2002), the trends in ICT expenditures and investments of the 1990s estimated from the Input-Output Tables from the Bank of Korea. ICT Expenditure is defined as the sum of investments and consumptions of both the private and public sectors on ICT products and services as was defined by the OECD (2000). By the same principle, ICT Investment is the sum of the investment made by the private sector and the government on ICT products and services.

<Table 10-4> ICT Investment and ICT Expenditures

<table>
<thead>
<tr>
<th>Year</th>
<th>ICT Investment</th>
<th>ICT Investment/GDP</th>
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<td>1990</td>
<td>3,969</td>
<td>2.22</td>
<td>6,943</td>
<td>3.88</td>
</tr>
<tr>
<td>1991</td>
<td>4,355</td>
<td>2.01</td>
<td>8,045</td>
<td>3.72</td>
</tr>
<tr>
<td>1992</td>
<td>4,626</td>
<td>1.88</td>
<td>9,077</td>
<td>3.69</td>
</tr>
<tr>
<td>1993</td>
<td>5,455</td>
<td>1.97</td>
<td>11,345</td>
<td>4.09</td>
</tr>
<tr>
<td>1994</td>
<td>7,286</td>
<td>1.97</td>
<td>14,872</td>
<td>4.09</td>
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<tr>
<td>1995</td>
<td>9,515</td>
<td>2.23</td>
<td>20,166</td>
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<td>1998</td>
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<td>1999</td>
<td>18,364</td>
<td>3.80</td>
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<td>8.54</td>
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</table>

An examination of <Table 10-4> shows that ICT growth in Korea accelerated in 1993. The expenditure rates and investment rates for ICT dropped in 1991, 1992, and 1993 but started picking up in 1993 to record 8.54% and 3.80%, respectively, in 1999. ICT expenditure has been increasing steadily since 1997, and ICT investment rates surged relatively significantly in 1995, 1997, and 1999. It is worth mentioning that ICT investment grew even as the overall investment rate was suffering a negative growth in 1998 because of the Asian financial crisis.

Due to intensifying competition in the global market and innovative technological changes, significant changes occurred in terms of work organization and employment security during this period.

In work organizations centered around regular workers, training to multi-skilled workers and an increase in worker autonomy, or decentralization of decision-making were observed. As the need for higher flexibility increased not only for the decision making process but also for the organization to prepare against possible restructuring, employment security started to waver. Besides low-skilled workers and non-regular workers suffered relative decline in wages. As a result, the overall income distribution situation deteriorated ([Figure 10-5] and [Figure 10-6]).
ICT Diffusion and Changes in the Labor Market

- Rapid Changes in Market Environments
- Multi-commodity-small-quantity Production
- Increased Need for Organizational Flexibility
- Multi-skill
- Increased Flexibility in Decision Making
- Lean Organization
- Increase in Outsourcing
- Increased Autonomy of Workers
- Wage Pressure
- Low Job Security
- Increased Wage Flexibility

Changes in Income Distribution Structure Expressed In Terms of Gini Coefficients

Source: Korea Labor Institute

KLI Labor Statistics
As digitalization proceeded in enterprises, workers in low hierarchy were able to access ample information and knowledge. High-level executives could also increase the scope and number of workers under their direct control. Thus, the role of the middle-level managers who used to function as the mediator between the low and high level constituents contracted. The deployment of ICT networks in enterprises gradually dismantled the traditional vertical hierarchy and decreased the proportion of middle managers and general administrative positions.

In the case of workers who are required to have high cognitive skills, such as managers, professionals, and high-skilled or experienced engineers, ICT can replace their functions only in limited areas, and the demand for such workers actually increased. As such, the progress of digitalization brought unsymmetrical changes in the labor market. As a result, regular workers in positions requiring high cognitive skills experienced an improvement in their autonomy and job security whereas the low-skilled workers carrying out simple, repetitive functions were threatened with loss of job security and decrease in their wages.

The economic crisis at the end of 1997 served to extremely intensify the uncertainties in job security and exacerbated the income inequality. The crisis propelled the corporate labor management paradigm, which had been trying to make do with its gradual pace of change, into abrupt and profound changes. The resulting acceleration destabilized job securities even further. During the ensuing phase of restructuring, workers with high adaptability saw an increase in demand, but the low-skilled-worker-intensive units were mostly handled through outsourcing or by using non-regular employees.

Whereas the annual average growth rate of the Korean economy had been 8.3% during the 35 years preceding the financial crisis, the average rate in the post-crisis years until 2002 was only 4.6%, showing that the economic downfall had undermined the growth potential itself.

The slowdown limited both corporate growth and job opportunities and forced another qualitative transformation of the labor market. As financial institutions introduced the concept of risk management, firms had to pay attention to cash flow or liquidity to survive through the restructuring wave. Firms became careful in investment and investment rates decreased. Foreign direct investment in the
stock market was permitted full scale and the corporate governance structures changed. Korean firms had to concentrate more on maximizing their short term profits rather than investing in a long-term perspective. As a result, employment adjustment became an ongoing process, and wage inequality increased as firms’ compensation system and training system were adjusted in favor of the high-skilled workers. [Figure 10-7] is a diagram summarizing the trends just described.

The Asian financial crisis was an important momentum for the expansion of social security system. In the past, the welfare system expanded gradually on the strength of the increased economic prowess of the nation, but the emphasis shifted to the social safety net aspect of the system following the crisis and brought some rapid expansion there. The expansion was highly called for right after the crisis to deal with the imminent turmoil caused by the high jobless rates. However, the demand for expansion of social safety net still remains even after the crisis-sparked confusion has somewhat subsided because the current labor demand structure continues to aggravate the job security and income distribution.
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