

Labor Flexibility, A Key to Economic Success

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Korea's Labor Trends

Korea's labor unions are known for their militancy. This characteristic is believed to be the result of past political repression and perceived economic inequality. Since the 1960s, Korea has achieved remarkable economic growth, due mainly to cheap labor and diligent and skilled workers. The government emphasized a "development first and distribution later" policy during the early stage of Korea's economic development, and labor policy became a part of the nation's overall economic agenda. Labor policy during this period was intended to guarantee the basic livelihood of workers and provide sufficient workers for industrial development. But it was not until the mid-1970s that the government recognized the importance of labor issues. Workers became aware of their rights and began demanding better working conditions and a fair share of economic success. A series of labor disputes took place, but the government and employers treated labor leaders as socialists and communists, and cracked down on their activities.

With the rapid democratization in the late 1980s, Korea's labor movement underwent significant changes. The so-called "Ulsan Typhoon" in 1987, which involved approximately 1.3 million unionized workers in 3,300 companies all over the country for four months, was the turning point in Korea's labor history. It was the first time in Korea's history that blue-collar workers fiercely attacked management in a "class war." They demanded equal distribution of wealth and better working conditions. A number of new labor unions began to form, and many businesses saw a dramatic increase in labor disputes. Workers were less willing to take difficult and dangerous jobs. Labor was no longer cheap in Korea as wages increased rapidly. The shortage of manual workers in the construction and manufacturing sectors became evident. These changes forced the nation to transform itself from a labor-intense economy to a technology-based economy.

The government made efforts to improve labor-management relationships in the 1990s by institutionalizing a minimum wage system, reducing working hours, and abolishing legal restrictions on strikes. The companies worked cooperatively with workers, realizing that profits cannot be achieved under confrontational labor conditions. Labor unions also recognized that they cannot gain much from violent strikes. Government, management, and labor worked together to improve basic labor rights, and labor laws were revised to meet international standards. When the nation was hit hard by the financial crisis of 1997, the Korean people recognized the urgent need to reform in the financial, corporate, public, and labor sectors. Based on social consensus and common understanding, the Tripartite Commission was established, and leaders from management, labor, and government worked jointly to discuss ways to overcome the crisis. One of the important accomplishments of the Commission was for union leaders to accept mass layoffs in the corporate restructuring process. They came to understand that mass layoffs were inevitable and an urgent matter. The situation improved slightly, but then worsened again in 2002 and 2003 as workers demanded a five-day workweek and objected to privatization of the railways and of the gas and power sectors.

Trade Unions and Industrial Disputes

In Korea, workers can organize a trade union with the purpose of improving working conditions and the economic and social status of workers. Despite the overwhelming image of labor militancy, only a small portion of Korea's workforce is unionized. In 2000, Korea's unionization rate was 11%, the lowest among OECD nations except France, where it stood at 10%. The unionization rate declined further to 10.4% in 2004 as companies hired more temporary workers.

Most trade unions in Korea are affiliated with one of two national organizations: the conservative Federation of Korean Trade Union (FKTU) and the progressive Korean Confederation of Trade Unions (KCTU). Founded in 1946, the FKTU is the larger of the two umbrella groups, with membership of 780,000 as of the end of 2005. The KCTU was established in 1995 and is viewed as more militant. At the end of 2005, the KCTU represented 670,000 union workers. These groups have established themselves as two of the most influential social organizations in Korea through their role in leading nationwide strikes over important social issues, such as labor market flexibility, the revision of labor laws, job security, and protection of non-regular workers. These groups also expanded their activities to the political arena by campaigning for pro-labor candidates in local and national elections, and by creating the Democratic Labor Party and the Green Party of Socialist Democrats.

Prior to 1987, annual industrial disputes numbered fewer than 300, but they increased sharply to more than 3,700 in 1987. The social instability caused by confrontational labor-management relations forced the government to reevaluate its labor policy. The number of disputes continued to decline through the mid-1990s, dropping to 78 in 1997. However, they began to rise again soon after the Asian financial crisis when companies implemented restructuring that included massive layoffs. According to the National Statistical Office (NSO), the unemployment rate rose from 3.1% in December 1997 to 4.5% in January, 5.9% in February, and 6.5% in March of 1998. By the end of 1998 the number of unemployed reached 1,850,000, the highest in 40 years.

Number of Industrial Disputes

Year	Strikes	Working Days Lost (000s)
1987	3,749	6,947
1990	322	4,487
1995	88	393
1996	85	893
1997	78	445
1998	129	1,452
2000	250	1,894
2001	234	1,084
2003	320	1,298
2004	462	1,197
2005	287	848

Source: Ministry of Labor

Korea's Labor Leader Promotes Foreign Direct Investment (FDI)

The labor issue is one of the biggest challenges facing the Korean economy. Although foreign investors are attracted by Korea's excellent workforce, they have said that the nation's inflexible labor market is one of the main obstacles to investing in Korea. Foreign companies consider all the risk factors, including labor issues, before making investment decisions. In this regard, Korea's militant and violent labor environment induces negative perceptions of the Korean market. Recently, however, union leaders acknowledged the changed economic, political and social conditions of today, and they vowed to work together to invigorate the domestic economy.

On June 28, the president of FKTU, together with the President of the American Chamber of Commerce in Korea and the Minister of Commerce, Industry and Energy, joined an investment relations (IR) meeting held in New York City. It was the first time that a leader of trade unions joined a government sponsored IR delegation overseas. Understanding the need to attract FDI to revive the nation's economy and to create new jobs, the leader of the FKTU signed an "Agreement on Joint Cooperation to Promote FDI" with the Korea Trade Investment Promotion Agency (KOTRA) on April 18. The FKTU's decision to work cooperatively to attract FDI showed that it is not only working to promote the interests of its workers but also to act in the national interest. The foremost advantage of FDI is job creation for workers, which has been the biggest challenge for the unions in recent years. Although Korea's unemployment rate has been hovering just above 3%, many recent college graduates have difficulty finding jobs, and those who are employed feel less secure about their jobs. The joint effort will also provide an opportunity for unions to improve their reputation as being hard-liners and to boost confidence of foreign investors in Korea.