

# RECENT CHANGES IN SOUTH KOREAN INDUSTRIAL RELATIONS

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## **Introduction**

South Korean society has, through rapid industrialization, changed drastically in the last 30 years. In 1960, South Korea was a poor agricultural country with a per capita income of around \$80. By 1988, she had become a newly industrialised country with a per capita income of \$4,040.

In the process of industrialisation, the South Korean employment structure has changed. Table I, which gives labour statistics collected systematically by the Economic Planning Board (EPB) since 1963, shows this. In this paper I discuss the implications which the remarkable recent industrial and employment developments have for industrial relations in Korea.

### Industrialisation and the change of employment structure in South Korea

A number of factors need to be considered. First, the modern industrialisation of Korea began only in the 1960s; hence, Table I demonstrated that until this time Korea was an agricultural society. The history of industrialisation is therefore still very short. Even in 1970, the percentage of the population employed in the agricultural sector remained more than half of the total labour pool. In comparison, the proportion of the British population employed in agriculture was 33.0% in 1811, and had declined to 28.4% by 1821 (Hunt 1981: 26). In the case of Japan, the comparable figures were 54.0% in 1920 and 49.7% in 1930. Industrialisation in Korea began late, more than 150 years later than in Britain, and more than 50 years later than in Japan.

**TABLE I**

**CHANGES IN EMPLOYMENT BY MAJOR INDUSTRIES**

(Unit: %)

Years:	1963	1970	1975	1980	1985	1989
Agriculture	63.1	50.5	45.9	34.0	24.9	19.5
Manufacturing and mining	8.7	14.3	19.1	22.6	24.5	28.2
Services and others	28.2	35.2	35.0	43.4	50.6	52.3
Total:	100%	100%	100%	100%	100%	100%
Total (1,000s)	7,662	9,745	11,830	13,706	14,935	17,510

**Source:** Economic Planning Board, *Annual Report on the Economically Active Population*.

Second, as the history of industrialisation is so short most current South Korean employers are founders of their companies. Hence, as with many founding entrepreneurs, they are often strong and charismatic characters. This is one major reason why many employers exert strong authority through an imposed hierarchical order. It also explains why they tend to demand loyalty and discipline from their employees.

The characteristics imposed by employers can be summed up by the term *sahun*. *Sahun* in Korean companies corresponds to certain basic values in American firms, such as the 'customer service' of IBM. According to one survey of the 87 largest South Korean companies, the most preferred *sahun* values are 'harmony and unity' (46.4%) and 'sincerity and diligence' (44.2%). The values are realised by a unique personnel management system: executives and top managers are closely related to the primary owner by blood; senior and junior managers are connected to top managers on the basis of school alumni; shop floor workers share a strong regional identity with the primary owner. Here, a pre-industrial hierarchical relationship retains strong influence (Hak Chong Lee 1989 [in Chung and Lee 1989]; Yoo and Lee 1987).

Third, because of employment patterns, wages paid by large employers have been kept at a comparatively low level. During the first stage of South Korean industrialisation, workers needed by industry were supplied from the rural sector. As there was a large under-employed rural population eager to move to the industrial sector in order to seek better economic opportunities, industry could expand without suffering any serious labour shortage until the mid 1970s (Bai 1982). In this period the South Korean economy expanded through the growth of labour-intensive low-technology industries such as the manufacture of textiles,

garments, wigs, and so on. The expansion was rapid, so from 1962 to 1983, 12.5 million people migrated from the farm to urban centres. The yearly average was around half a million, an annual 4.1% of the average farm population over the same period. The income of rural Korean farms was low, running at a level of 60-70% of urban household income in the 1960s and 80-90% in the 1970s. In such a situation, wage levels in the industrial sector were inevitably kept at a low level. As one example, over the 25 years from 1960 real wages rose by an annual 6.7%, but labour productivity increased 10.7% annually.

Fourth, a sharp discrepancy of opinion among employees appeared in the mid 1980s. Those workers who had migrated to urban centres during the first stage of industrialisation had experienced severe poverty in their previous rural life. They remained grateful that they had a job in the urban sector, and they were accustomed to the authoritarian order which they had experienced in rural society. Therefore they were comparatively compliant and neither expressed strong opinions nor complained about their meagre employment conditions and the authoritarian controls imposed by their employers. But by the mid 1980s, the South Korean economy had progressed from low-technology industries to medium-technology plants producing automobiles, electronics, ships and other engineering manufactures. This had led to the appearance of new groups of workers who behaved differently to early migrants. These groups were more educated than their older compatriots, as Table II shows. They were younger and had been born or educated in cities. They had never experienced severe poverty. As they had learnt social and democratic principles in their schools, they did not hesitate to criticise authoritarian rule in the workplace. Their opposition to the traditional order of industrial relations led to conflict not only with employers and managers, but in

some cases also with their elder fellow employees who had for many years maintained a moderate stance.

**TABLE II**  
**EMPLOYMENT BY EDUCATION**

(unit: %)

Years:	1960	1970	1980	1989
primary school	84.2	67.4	49.1	30.3
junior high school	7.3	20.1	26.4	43.1
high school	6.2	-	-	36.5
college	2.4	6.1	7.8	13.1

**Source:** Economic Planning Board, *Annual Report on the Economically Active Population*.

**Note:** In South Korea, to graduate from primary school, junior high school, high school and college, students have to attend for 6, 9, 12 and 14 years respectively.

#### Recent Developments in the Trade Union Movement

As industrialisation in South Korea progresses and the number of wage labourers increases, so the potential for industrial disruption also increases. However, until 1986 industrial relations were relatively peaceful and trade union activities remained moderate. The number of strikes had been kept below 200 per year throughout the 1970s. The main reasons for such a halcyon situation may have been the relative weakness of trade unions as a result of an over-supply of labour, and government-imposed restrictions on union activities.

In the 1980s, although the over-supply of labour sharply declined, the government under Chun Doo Hwan [Chön Tuhwan] retained its restrictions. The number of strikes was consequently kept below 300 per year until 1986. In 1980 however, the transitional year between governments, the number of strikes reached 407. This temporary increase was due to loss of government control. In 1987, the country again entered a transition period. Chun was due to step down in favour of Roh Tae Woo [No T'aeu]. As the country prepared for the change, the political situation suddenly altered in a way which was to increase democracy and individual liberty. A momentous shift in industrial relations occurred.

**TABLE III****UNIONS: THEIR INCREASE AND MEMBERSHIP**

Date	numbers of unions	membership (1,000s)	(%)
June 1987	2,725	1,050	11.9
June 1988	5,062	1,510	15.9
June 1989	7,380	1,825	18.0
Dec 1989	7,883	1,932	18.7

**Source:** Korean Labour Institute, *Quarterly Labour Review* 3/1 (1990).

The most striking features of this recent shift is the rapid expansion of trade union organisations and the increase in their activities. This is demonstrated in Table III. The number of union members remained relatively constant at about 1,000,000 for over a decade until June 1987. In December 1989, the number of union members and the union density (workers affiliated expressed as a portion of the total working population) reached around 2,000,000 and 18.7% respectively.

Although the ratio of organised workers to all employees remains below 20%, the union organisation establishment rate, which can often be an important indicator of trade union influence, is very high. This is especially true in large establishments, as Table IV shows; in January 1989, the establishment rate for companies with over 300 employees reached 72.9%. In contrast, the union organisation establishment rate in companies with under 100 employees is very low in South Korea. The rapid expansion of unions is partly due to a 1987 revision of the Trade Union Law. This relaxed previous regulations on union organisation. A more important factor, however, is a change in the Korean socio-political environment, so that workers now feel less fearful about the consequences of involvement in union activities.

**TABLE IV****UNION ORGANISATION ESTABLISHMENT RATE IN KOREAN MANUFACTURING INDUSTRIES**

Company Size (employees)	Nov 1986	Jan 1989
10-29	1.4	2.0
30-99	2.5	7.7
100-299	11.0	30.6
300-499	25.9	59.4
500-999	45.9	77.0
over 1,000	51.6	79.2
All companies	4.9	20.3
Medium and small size	3.3	9.6
Large size (over 300)	38.9	72.9

**Source:** Ministry of Labour, *Survey Report on Manufacturing Industry Wage Conditions*, quoted from Moo (1990).

**Note:** Organization rate = (no. of companies with unions/total companies) x 100

Many company managers are unaccustomed to collective bargaining, just as they are used to maintaining an authoritarian dictatorship over their employees. Moreover, leaders of newly organised unions have no experience of institutionalised industrial relations and—sometimes—have an insufficient understanding of the business administration within the company of their concern. Confrontation has been inevitable, since both sides are novices in collective bargaining, and this offers one reason why the number of industrial disputes has recently increased.

Together with the change in the political environment, an acute labour shortage since 1986 has influenced the extent of union activities and the propensity of workers to take strike action. The annual rate of South Korean GNP increase exceeded 12% between 1986 and 1988. Coupled with this, the unemployment rate was below 4% (see Table V). This itself led to a shift in bargaining power, unions gaining an advantage.

**TABLE V**

**MAJOR TRENDS IN THE KOREAN LABOUR MARKET**

(unit: %)	nom. wage (rates of increase)	real wage (rates of increase)	GNP growth rate	unemployed rate
1985	9.2	6.6	5.4	4.0
1986	8.2	5.3	12.9	3.8
1987	10.1	6.9	13.0	3.1
1988	15.5	7.8	12.4	2.5
1989	21.1	14.5	6.7	2.6

**Sources:** Economic Planning Board, *Major Statistics of Korean Economy*; Ministry of Labour, *Monthly Survey Report on Labour*.

As I have mentioned, one outcome of these developments was the increase in strikes. From an annual 200 up to 1986, the number jumped sharply to 3,749 in 1987, and more than 1,600 in 1988 and 1989 respectively (Table VI). Though the number decreased from a 1987 peak, the loss of working days continued to increase because the average duration of strikes lengthened and the number of workers joining strikes grew through to 1989.

**TABLE VI**

**STRIKES AND DAYS LOST DUE TO STRIKES**

Years	Strikes	Days Lost (unit: 1,000)
1970-79	79 (annual average)	-
1980-85	193 (annual average)	-
1986	276	-
1987	3,749	6,792
1988	1,873	11,269
1989	1,616	13,275

**Source:** Ministry of Labour, *Monthly Survey Report on Labour*

After 1987, strikes were no longer confined to the manufacturing industries: many companies in transportation, medical and health, and the construction industry have also been affected. The most influential strikes have however been those at big manufacturing companies such as Hyundai Motor Company and Hyundai Heavy Industrial Company. In 1987, workers were called to strike with the idea to "strike first, negotiate second". As a result, many companies experienced strikes even though they had no trade union. Union leaders, for their part, demanded higher wages, better working conditions and improved work rules regardless of whether any existing

agreement was in place. Then, after 1988, most strikes proceeded legally, according to the process prescribed in the labour law.

Finally within this account, I should briefly mention the underground activities of some intellectuals and connected radical organisations. Since the 1970s, some student activists within universities have sought to join in the trade union movement. To do so, they have taken jobs as manual workers and, in due course, become agitators in the midst of ordinary workers. In some workplaces these intellectuals have exerted a strong influence over young workers. They were critical of authoritarian managers and senior workers obedient to managers. The intellectuals and workers influenced by them confronted the comparatively moderate union leaders, criticizing them as "co-opted leaders". During the labour upheavals after 1987, some incumbent union leaders were forced to resign because of this agitation and criticism.

In this way, some unions came under the influence of intellectuals. Such unions call themselves "democratic" to distinguish themselves from others. In January 1990, a new federation, the National Federation of Trade Unions (NFTU) was organised by these "democratic" unions. According to the Ministry of Labour, the NFTU had 337 affiliated unions and 140,000 members in July 1990.

There are some merits in the competition which has grown between the two rival union camps. In particular, the NFTU has questioned—and potentially could change—the stagnant and submissive characteristics of the traditional Federation of Korean Trade Union (FKTU) group. But, at the same time, we cannot neglect the negative aspects of splits and rivalries within the union movement. So long as trade unions have two different voices, their influence in changing

government policy is likely to be weak, and their chance of improving the welfare of workers is likely to be poor.

### **Future prospects**

As I have shown, since 1987 South Korean industrial relations have moved in a direction which contrasts with similar relations in most advanced countries. Elsewhere, trade union membership and union activities are diminishing (Beaumont 1987).

What are the future prospects of South Korean industrial relations? Many people still have a long-term optimism. There is some reason for this when we consider South Korea's economic growth, a growth characterised by remarkable adaptability on the sides of both managers and workers. This performance has, however, been achieved under two conditions: an abundant supply of labour and strict controls on trade union activities by the authoritarian government regime. Now that both conditions have changed to the advantage of workers, a new system and working practices must be put in place which reflect this new situation.

During 1990, the number of trade unions and their members continuously increased, but the incidence of strikes decreased. However, this decrease seems to be caused not by the development of co-operative relationships between employers and unions. Rather it is a result both of the slowdown in economic growth and of a strict application of legislative machinery to control union activities by the government. In this regard, establishing an industrial relations system and working practices which will lead to

more commitment and satisfaction amongst workers but less conflict between employers and unions, remains an urgent task which must be solved.

#### NOTE

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## **THE RECENT DEVELOPMENT OF LABOUR RELATIONS IN KOREA AND THEIR IMPLICATIONS FOR INTERNATIONAL INVESTORS**

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### **Introduction**

Although the history of Korea's labour relations goes back to the early 20th century, the nation's real labour movement, a movement directed by workers for workers, only began to appear after 29 June 1987. This was the date of a package of democratic political reforms, dramatically announced under the pressure of severe civil unrest against Chun Doo Hwan's [Chŏn Tuhwan's] oppressive regime. Prior to 1987, labour relations had been deliberately restricted, ostensibly to achieve the goal of economic development through the maintenance of artificially low labour costs and enforced workplace peace.

The pronouncement of liberalisation on 29 June marked a real and sensible milestone in the labour movement. Since then, every aspect of labour relations has begun to change. Unprecedented disputes and strikes have taken place in virtually all workplaces, reflecting the fact that the pronouncement gave labour movements tremendous momentum in their organisation and collective