

SOUTH KOREA'S LABOR WOES

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South Korea has been plagued by poor industrial relations since the mid-1980s and the inability of the government to effect a more orderly interaction between management and workers has proved costly for the ambitious nation. This article presents evidence showing that the problem has structural, rather than merely cyclical, roots and it is argued that, the recent decline in labor militancy notwithstanding, an escalation in industrial conflict is inevitable unless the underlying imbalances are addressed systematically.

*"The mingled, mingling threads of
life are woven by warp and woof
-calms crossed by storms
and storms for every calm"*

Herman Melville

President Roh Tae Woo has won accolades for his skillful execution of Nordpolitik and appears likely to crown his career with dramatic breakthroughs in the quest for a stable environment on both sides of the Korean peninsula. The embattled head of state has also displayed considerable resilience in the face of domestic pressures. Nevertheless, it is fair to say that policy problems originating in the domestic arena either have proved less amenable to bureaucratic manipulation or have been tackled less effectively by the present government. The proliferation of industrial disputes and the escalation in wage demands, two phenomena which have attracted the attention of international investors, are often cited as evidence that thorny domestic issues virtually unknown until a few years ago continue to defy solution.

Labor market turbulence is an unusual experience for South Korea. After all, its system of industrial relations is the by-product of a Confucian culture predicated upon the notion that rigid hierarchy is a sine qua non for harmony in organizations. This culture revolves around five principles - *Kunsin Yuui* (stressing duty between king and subject), *Pucha Yuchin* (stressing love between father and son and the former's authority), *Pubu Yupyol* (stressing the distinction between

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husband and wife), *Changyu Yuso* (stressing the precedence of the old over the young) and *Pungu Yushin* (stressing that there should be good faith between friends) - which had underpinned the orderly evolution of the country's employee-management structure until the mid-1980s. The widespread adherence to the *Pucha Yuchin* principle in particular had enabled the government to build a loyal labor force through the *Gongjang Saemaul Undong* philosophy, which urges workers to be as loyal to the company as they would be to their parents (e.g., see K. Bae, 1989, pp. 352-363).

The abundant supply of young workers (especially those between 15 and 24 years of age) had also been instrumental in sustaining the spirit of cooperation among employees. Most of these workers had migrated from rural areas after graduation from middle school or high school. Young females moving into urban areas were a particularly popular choice for enterprise managers because they were thought to have a longer attention span than males and would often adjust more readily to extended assembly operations. In addition, the substantial wage differentials between male and female workers contributed to the rapid expansion of young females' employment opportunities. Now, the abundant supply of such workers, their rural background and the fact that they belonged predominantly to the female sex (present-day Korea is a male-dominated society!) rendered the maintenance of industrial peace on terms favored by management a relatively simple task (e.g., see S.I. Park, 1988, pp. 99-119).

One should emphasize that in the early stages of its modernization program, South Korea was blessed with a highly educated labor force as well as a profusion of young workers. After the Second World War, a system of compulsory public primary school education was gradually introduced in both the cities and the countryside. Secondary and tertiary education also expanded at a rather brisk rate. The literacy rate reached 90 percent by the early 1960s, from a level of only 22 percent in 1945. In the two decades following the Japanese surrender, the number of university students increased almost 20-fold and that of middle and high school students nearly 15-fold. Consequently, by 1965 South Korea's human resource development had exceeded the norm for countries with three times its per capita GNP! (e.g., see Park, 1988; and Harbison, 1964).

While the search for intellectual excellence remains a salient feature of South Korea's modernization strategy, demographic forces have transformed the labor market into a more challenging environment for employers. Thus, regrettably from a management perspective, the

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abundant supply of young workers is a thing of the past. The recorded and projected changes in the age composition of the local population during the period 1960 to 2000 reveal the importance of the postwar baby boom generation, currently occupying the 25-34 age cohort but moving into the 35-44 age bracket in the 1990s (see Table 1). As the data presented here show, this age group, whose average annual growth rate was 2.11 percent during the 1960s and 3.99 percent during the 1970s, is estimated to have grown at an average rate of merely 0.59 percent per annum during the 1980s and is expected to experience negative growth (i.e.-0.77 percent per annum) during the 1990s.

Table 1 - Changes in Age Composition of the Population (1960-2000)

Year	Age ('000)							Total
	Less than 14 years of age	15-24	25-34	35-44	35-54	55-64	65+	
1960	10,731	4,553	3,324	2,545	1,841	1,171	824	24,989
1970	13,241	5,611	4,398	3,316	2,309	1,520	1,039	31,435
1980	12,659	8,293	5,601	4,355	3,108	1,947	1,446	37,406
1990	12,505	8,799	8,420	5,410	4,198	2,710	2,074	44,117
2000	12,387	8,141	8,641	8,218	5,169	3,764	3,034	49,355
Average annual growth rate (%)								
1960-70	2.12	2.11	2.84	2.68	2.29	2.64	2.35	2.32
1970-80	(0.45)	3.99	2.45	2.77	3.02	3.02	3.37	1.75
1980-90	(0.12)	0.59	4.16	2.19	3.05	3.05	3.67	1.66
1990-2000	(0.09)	(0.77)	0.26	4.27	2.10	2.10	3.88	1.13

Source: Park, "Labour Issues in Korea's Future", p. 101.

The sharp decline in the growth rate of the young population partly stems from the successful implementation of family planning in South Korea, which has reduced the birth rate steadily since the early 1960s. The annual rate of population growth reached a peak of almost 3 percent during that period, decreased to a modest 1.66 percent during the 1980s, and this downward trend is expected to continue during the present decade (e.g. see Park, 1988 and Korea Institute for Population and Health, 1985). In addition to the shrinkage in the size of the young population, the labor participation rate of members of the 14-19 age cohort has been falling since the late 1970s, largely due to the rising enrolment rate in higher education that has accompanied the growth in per capita income. Again, this trend is thought likely to accelerate in the future (see Table 2).

The relative scarcity of young workers has turned the labor market into one less dominated by "buyers" (or, to put it differently, an entity more susceptible to influences emanating from the "sellers" ' side).

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Needless to say, the Confucian fabric of the South Korean industrial relations system remains intact. Yet, supply constraints have effected a partial erosion in the seemingly unassailable position of management and have enabled employees to adopt a fairly assertive posture. While demographic change has not been abrupt — indeed, corporate leaders have had ample time to anticipate its possible impact — the consequences have for some reasons (cultural inertia?) not been fully grasped and, when evidence began to accumulate that the status quo was at risk (i.e. labor militancy emerged as a problem and wages pressures intensified), policymakers in the public as well as private sector were ill-prepared to face the challenge (e.g., an extension of the retirement age from 55 to 60/65, coupled with an adjustment to the age-earnings profile of industry — which is biased in favor of older workers — would have facilitated the transition from a labor-surplus economy to one plagued by shortages).

**Table 2 - Changes in Labor Force Participation Rate
By Age and Sex (1970-2000; %)**

Age and Sex	1970	1980	1990	2000	Absolute change in rate (1970-2000)
<i>Male</i>					
14-19	41.2	22.9	22.5	19.2	(22.0)
20-24	77.3	76.4	78.2	78.4	+1.1
25-29	92.2	95.1	95.0	95.0	+2.8
30-34	95.6	97.6	98.0	98.0	+2.4
35-39	95.9	92.2	98.0	98.0	+2.1
40-44	95.3	96.1	97.0	97.0	+1.7
45-49	93.1	94.3	95.0	95.0	+1.9
50-54	87.8	90.5	90.0	90.0	+2.1
55-59	77.1	80.1	82.0	82.0	+4.9
60-64	58.8	63.7	63.0	63.0	+4.2
65+	75.1	31.7	33.0	33.0	+5.7
Total	75.1	73.6	76.3	77.2	+2.9
<i>Female</i>					
14-19	38.7	29.0	25.3	24.0	(14.7)
20-24	47.3	53.5	55.0	57.9	+10.6
25-29	34.7	32.0	30.6	29.8	(4.9)
30-34	38.4	40.8	41.4	42.3	+3.9
35-39	42.7	53.0	58.8	61.8	+19.1
40-44	46.9	56.7	62.6	66.6	+19.7
45-49	46.6	57.3	62.6	66.6	+20.0
50-54	41.1	54.0	59.8	62.8	+21.7
55-59	37.1	46.2	52.8	55.8	+18.7
60-64	22.8	32.2	37.8	40.8	+18.0
65+	11.8	9.8	11.0	11.0	(0.8)
Total	38.5	41.6	43.0	45.4	+6.9

Source: Park, "Labor Issues in Korea's Future", p. 101.

Paradoxically enough, the impressive strides on the education front have also engendered strains in the labor market. The point is that, in some respects, South Korea has developed into an "overeducated" society (e.g., see Park, 1988 and Korea Development Institute, 1985 and 1986). Thus 5.4 percent of the population above the age of 14 were university graduates in 1980. This proportion is believed to have climbed to 12 percent in 1990 and is projected to rise to 19.9 percent in 2000. If the number of university students currently enrolled is added to these figures, then the proportion increases to 17.5 percent in 1990 and 25.8 percent in 2000. To put it another way, among the population over the age of 14, about one out of four will be either university graduates or university students in the year 2000. Including high school graduates in these figures, the ratio rises (see Table 3) from 25.9 percent in 1980 to 42.7 percent in 1990 and to 55.1 percent in 2000!

The massive investment in human capital witnessed since the Second World War has stood South Korea in good stead throughout its history and should expedite the transition into a more skill-and technology-intensive phase of industrial growth. The "education explosion," however, has not been an entirely positive phenomenon if looked at from an economic perspective. Specifically, the dramatic increase in the educational standards of the labor force has pushed up significantly the general wage level in the country. As the ranks of university graduates have begun to swell, they have started to "filter down" to jobs that were previously filled by workers with high school education. Now, given the fact that the prevailing wage practice in South Korea is to rate the individual rather than the job, even university educated persons who are employed in high school graduates' jobs receive higher pay than their less qualified counterparts/predecessor and the general wage level inevitably shifts upwards.

Table 3 - Population By Level of Education (1980-2000; '000)

Level of education	1980	1990	2000
Population aged 14 and over	24,848 (100%)	32,385 (100%)	37,823 (100%)
High school graduates	4,383 (17.6%)	8,174 (25%)	11,102 (29.3%)
University students	721 (2.95)	1,787 (5.5%)	2,213 (5.9%)
University graduates	1,329 (5.4%)	3,877 (12.0%)	7,511 (19.9%)
High school and university graduates	6,433 (25.9%)	13,838 (42.7%)	20,826(55.1%)

Source: Park, "Labor Issue in Korea's Future". p. 104.

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Another negative factor which should be highlighted in this context is the prevalence of skill mismatches in the labor market (e.g., see Korea Development Institute, 1985 and 1986). Such mismatches are common because the prodigious output of the education system does not necessarily reflect the needs of the economy. The problem partly stems from the lack of career-oriented programs in middle schools and general curriculum high schools. Consequently, most graduates from non-vocational high schools who do not enter or fail to gain admission to university find themselves ill-equipped to perform tasks requiring technical skills. Further, graduates from vocational high schools, which were originally designed to train skilled workers, normally seek entry into institutions of tertiary education and do not join the labor force as technicians.

The remarkable expansion of universities (see Table 4) has also proved to be a mixed blessing in this respect in that the quantitative leap forward has not been accompanied by a corresponding improvement in the quality of instruction. In addition to a deterioration in standards, the system of higher education continues to suffer from a bias towards the humanities and is not producing a sufficient number of professionally versatile applied scientists and engineers. The upshot is that, despite the abundant supply of university graduates, market demand for well-qualified technologists (see Table 5) cannot be satisfied. The scarcity of thoroughly trained degree-holders, particularly with exposure to applied science and engineering, in turn, results in an upward pressure on wages.

One would expect a highly educated labor force to be managed in a reasonably progressive fashion. Yet, the South Korean experience is not consistent with this general pattern (e.g., see Korea Development Institute, 1986; Park, 1988; and Boganno, 1980). Although the political environment is undergoing a quasi-liberal metamorphosis, the local industrial relations system is characterized by authoritarian/paternalistic inertia. Prevailing practices in areas such as involvement of employees' organizations in the decision-making process, occupational safety and protection of workers' basic rights are simply not commensurate with developments on the educational front. As an expert in this field has observed with regard to labor-management interaction: "Government control over both collective bargaining activities and internal union affairs, cozy relationships between business and some union leaders and a union-prone workforce that is frustrated by the continuing impotence of its unions and their legally constrained ability to truly represent worker interests are among the hallmark phrases which characterize the nature of collective bargaining

relationships to have developed in Korea during the 1970s. Unfortunately, the 1980s inherited this legacy" (see Boganno, 1980, pp. 10-11.).

Demographic change, (i.e., relative scarcity of young employees), abundant supply of university graduates (i.e., filtering down of degree-holders to jobs previously filled by workers with high school education), skill mismatches (i.e., shortage of technicians and applied scientists/engineers) and persistence of authoritarian/paternalistic attitudes in organizational settings have combined to transform the labor market into a source of difficulties for management. The political crisis which South Korea experienced in the aftermath of the collapse of the Fifth Republic has brought the latent strains engendered by the confluence of these socioeconomic factors to the surface, presenting employees motivated by a deep sense of relative deprivation (or, to put it in more general terms, injustice) with an unprecedented opportunity to vent their frustrations. The proliferation of industrial disputes and escalation in wage demands witnessed in the past few years can be attributed to that conjunction of long-term influences and short-term stimuli.

In a quintessentially Korean fashion, the political crisis which erupted in the late 1980s reached such emotional highs that it drained the participants of their mental energy, thus making a return to semi-orderly conditions a highly probable event. Having benefited from the therapeutic effects of catharsis, the players are pursuing less confrontational strategies and are displaying greater sensitivity to the interests of the other side, i.e., treating conflict as a "positive-sum" rather than "zero-sum" game). In the labor domain, this manifests itself in a perceptible decline in disruptive activities at the enterprise level (see Figure 1) and new-found willingness to settle for comparatively modest pay increases (see Figure 2). It would be tempting to conclude, therefore, that industrial harmony has been restored and that the potentially thorny issue of human resources management no longer merits close attention.

While welcoming signs that friction between corporate leaders and rank-and-file workers is on the decline, one must however resist the urge to embrace this line of thinking. In the first place, the wave of labor unrest which engulfed South Korea in the late 1980s has propelled wages in the country to a level well above those prevailing in HongKong, Singapore and Taiwan (see Table 6). It could be argued, of course, that high labor costs are not necessarily detrimental to long-term economic performance because they are a corollary of the transition to a more skill-and technology-intensive phase of industrial growth (indeed, some

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Table 4 - International Comparison of University Advancement Rates (%)

	South Korea		Japan	W. Germany	US
	1980	2000	1982	1983	1982
University advancement rate	27.2	68.6	28.6	15.1	85.3
Number of university students per person (x1000)	19.2	44.8	15.3	14.8	33.6

Source: Park, "Labour Issues in Korea's Future," p. 107.

Table 5 - Prospects for Manpower Demand by Selected Occupational Categories (1986-96; %)

	1985	1991	1996	Annual rate of growth
Total	100.0	100.0	100.0	1.8
Professional-technical and managerial workers	6.8	7.8	8.8	4.1
Engineers	1.1	1.6	2.2	8.7
Clerical workers	13.8	15.0	15.7	3.0
Sales and services	24.5	28.5	30.1	3.7
Agricultural workers	24.7	17.9	13.5	(3.6)
Production workers	30.1	30.8	31.9	2.3
Machine and equipment operators	2.4	2.8	3.0	3.7
Electrical and electronics workers	1.9	2.0	2.0	2.4
Spinners	1.9	1.7	1.7	0.5
Seamstresses/seamsters	3.3	3.2	3.3	1.4
Transportation equipment operators	4.0	4.8	5.0	3.5

Source: Park, "Labour Issues in Korea's Future", p. 107.

Table 6 - Average Monthly Factory Wage (US\$; 1990)

Country/territory	Average wage
Hong Kong	750
Singapore	615
South Korea	945
Taiwan	872
Indonesia	63
Malaysia	275
Philippines	98
Thailand	115
China	45
Southern China	110

FIGURE 1. Number of Labour Disputes

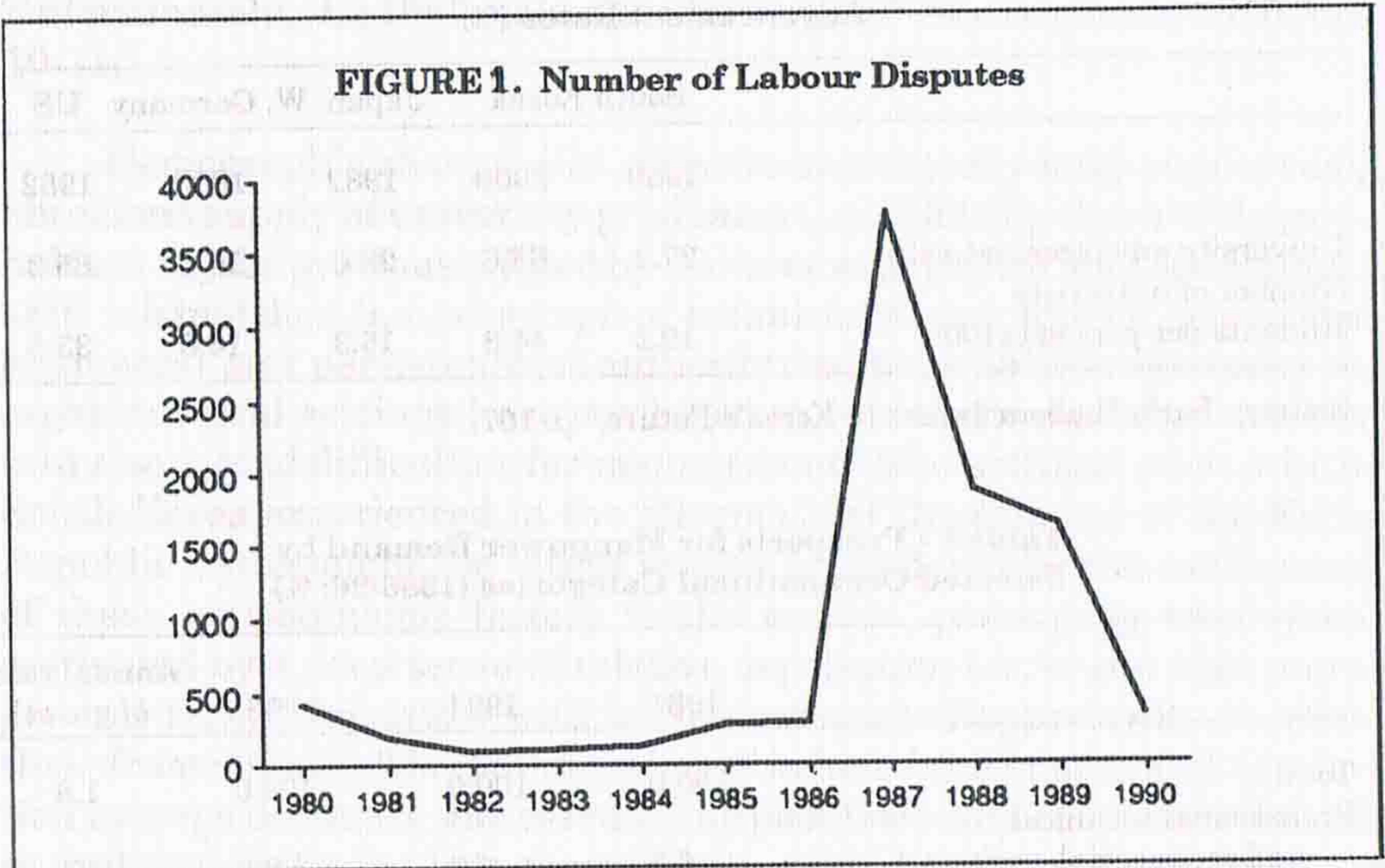
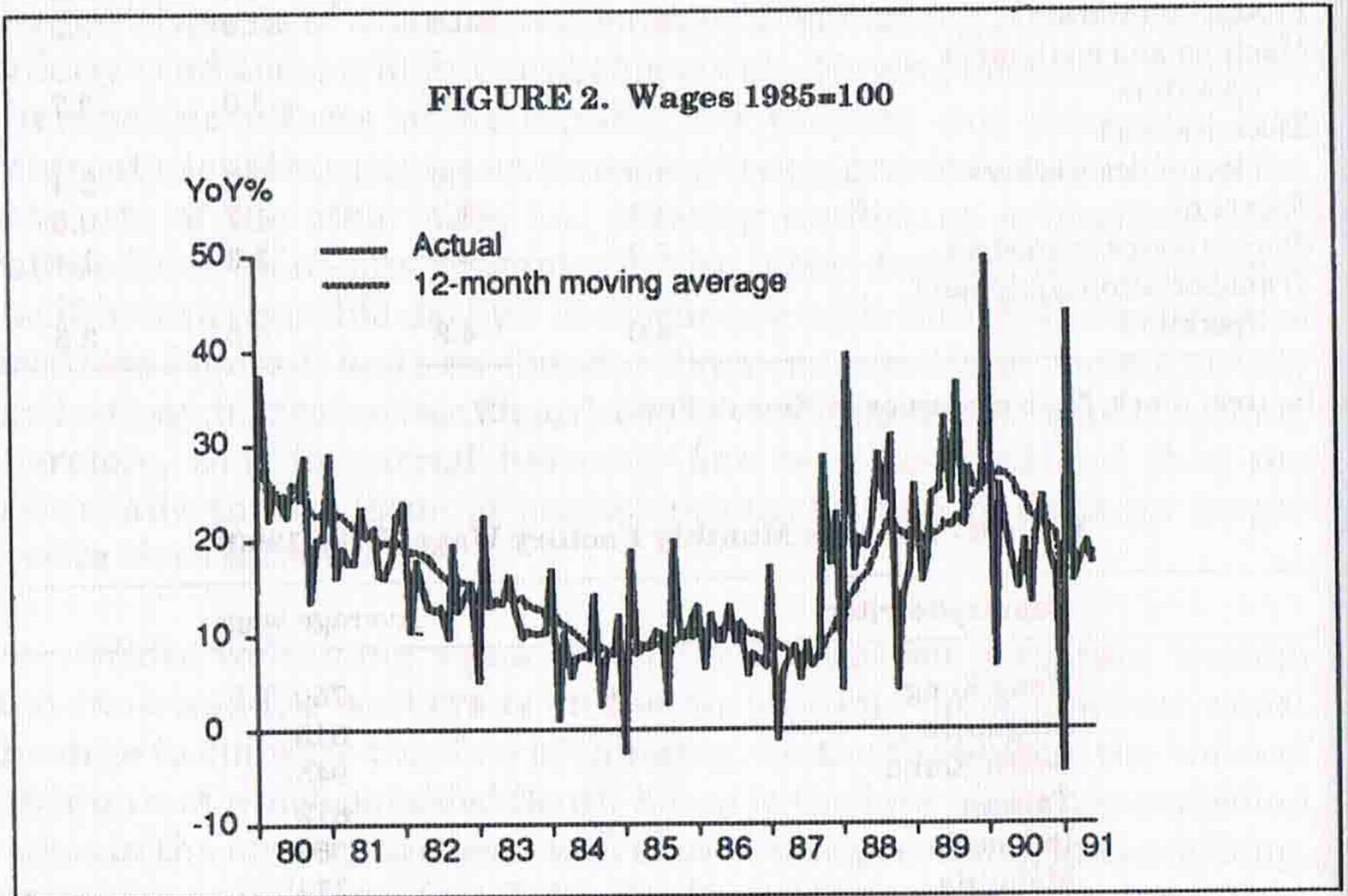


FIGURE 2. Wages 1985=100



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analysts claim that the upward movement of wages accelerates the process of structural change). Yet, since economic realignment is likely to be a protracted affair, relatively generous compensation packages might aggravate the pains of transition by blunting the competitive edge of "sunset" industries and unduly handicapping their "sunrise" counterparts.

More importantly, strains in the labor market are, as pointed out earlier, the product of fundamental imbalances as well as ad hoc factors. The implication is that in the absence of policy initiatives directed at the root causes of the problem, the difficulties encountered by human resources managers in recent years will resurface sooner or later, even if in a milder form. For instance, given the shrinking supply of unmarried young workers in the traditional labor-intensive manufacturing sector, an effort should clearly be made to replace them with low-income married women. At the same time, to reduce the under-utilization of married women with university education, decisive steps ought to be taken to eliminate discriminatory employment and wage practices. Further, to provide productive employment opportunities for the prematurely retired, whose supply is expected to rise substantially in the coming decade, the present involuntary retirement age should be extended gradually with a simultaneous tempering of the current age-earnings profile.

In the educational sphere, it would certainly be desirable to shift the planning focus from quantitative expansion to qualitative improvement. At a more specific level, strategies ought to be implemented to alleviate skill mismatches/shortages as expeditiously as possible. The efficiency of the labor market could also be enhanced through reforms designed to strengthen the linkage between pay and workers' performance/productivity and policies (e.g. anti-trust and deregulation measures) aimed at encouraging competition throughout the economy (the assumption being that, in a highly competitive environment, firms have a strong incentive to rationalize management, particularly in the human resources area, and act in a manner consistent with the objective of profit-maximization).

The extent of government involvement in labor relations is another question which ought to be subjected to critical scrutiny. There can be little doubt that the bureaucratic propensity to interfere in the operational aspects of human resources management and control internal union affairs is an unhealthy phenomenon. The government can play a constructive role in the labor relations field by providing a fair and just

legal framework autonomously and freely on the basis of more equal power. Unfortunately, such a sophisticated regulatory framework does not presently exist and bureaucratic controllers apparently do not relish the prospect of administrative disengagement. They have been compelled to stage a partial retreat in response to the deterioration in the industrial climate in the late 1980s and will doubtless continue to relinquish authority in a piecemeal fashion. Nonetheless, until greater progress is achieved on this front, and other necessary reforms are implemented, the labor market will remain a potential source of destabilizing influences.

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