Social partnership in Korean industrial relations

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ABSTRACT

After more than a decade of predominantly neo-liberal industrial relations policy and adversarial industrial relations, recent Korean governments have attempted to use social partnership as a mechanism to achieve cooperative and peaceful industrial relations and to balance economic efficiency with social equity in the context of globalisation. This paper has two aims. First it seeks to put the current social partnership experiment in historical perspective and argues that current developments in Korean industrial relations remain heavily influenced by Korea's experience of rapid economic development and democratic transition. Secondly the paper examines the extent to which the Korean experience with social partnership over recent years confirms views about social partnership developed in relation to recent European examples.

Introduction

Until the late 1990s, Korean governments attempted to limit and constrain the power of the independent unions while at the same time gradually increasing labour market flexibility. These policies were largely unsuccessful. The election of Kim Dae-jung as President, and the pressures for reform associated with the IMF bailout, marked a critical juncture in Korean industrial relations. The Roh Moo-hyun government has continued the social partnership experiment begun by Kim Dae-jung. This paper has two aims. First it seeks to put the current social partnership experiment in historical perspective and argues that current developments in Korean industrial relations remain heavily influenced by Korea's experience of rapid economic development and democratic transition. Secondly the paper examines the extent to which the Korean experience with social partnership over recent years confirms views about social partnership developed in relation to recent European examples. The first section provides a brief overview of recent debates about social partnership in Europe. The second section of the paper provides historical overview of developments in Korea industrial relations since the early 1960s. The final section focuses on the fate of the Korean Tripartite Commission, Korea's recent experiment with social partnership.

Social partnership: Theory and practice

The concept of social partnership refers to a process of negotiation between unions, employers and the government which is designed to improve economic performance and at same time ensure social equity. Related terms include concertation and neo-corporatism. As Ferner and Hyman (1998: xv-xvi) put it:

The idea of social partners implies... first a societal recognition of the different interest of workers and employers; second an acceptance- indeed encouragement- of the collective representation of these interests; and, third, an aspiration that their organised accommodation may provide an effective basis for the regulation of work and the labour market.

With the development of stagflation in the developed market economies during the 1970s, there were a number of attempts by governments in developed market economies to use social partnerships to control inflation. With a few notable exceptions, including Sweden, these policies proved to be unstable and largely ineffective. Analyses of successful forms of social partnership during this period stressed two key factors. The first was the existence of central organisations of employers and, more importantly, unions who could take on a representative role and “transcend sectionalism” (Goldthorpe 1984: 325). The focus of analysis thus shifted to establishing the extent to which unions and employer groups were encompassing enough to control the demands of their affiliates and thus provided the structural preconditions for social partnership. The second set of factors associated with successful social partnership during this period related to the ability of the government to offer workers a political tradeoff, or exchange, for wage restraint.
For many this implied the existence of a social democratic government operating within in a Keynesian economic policy framework prepared to use expansionary fiscal policy to compensate workers and employers for wage restraint (see for example Scharpf 1991).

During the 1990s, durable and effective social pacts developed in a number of European countries, most notably in Ireland and Italy. Since the late 1980s, there have been five separate social partnership agreements in Ireland between the government, unions, employers and most recently, farmers and civil society groups. As Baccaro (2003: 688) notes, social partnership in Ireland appears to have played a significant role in turning around the Irish economy during this period with real GDP increasing almost four times as fast as other European economies during this period. The 1992 signing of a tripartite anti-inflationary agreement that banned wage indexation marked the beginning of a new social pact in Italy which negotiated changes to collective bargaining, pension reform and the introduction of new forms of contingent work during the 1990s. While appearing to be less economically successful than the Irish social pact, Baccaro argues that social partnership has played an important role in stabilising Italian politics (2003: 690).

The preceding discussion has a number of implications for assessing Korea’s experiment with social partnership. First, while Korea lacks the structural preconditions, especially the encompassing organisations, which have traditionally been associated with social partnership, to the extent it can develop alternative mechanisms for consensus building, especially within the union movement, it may be able to sustain a stable social partnership framework. Second, social partnership in Korea is likely to be dependent on the extent to which the government and unions think that negotiation is necessary for them to adjust to an increasingly restrictive economic climate.

**A brief overview of Korea industrial relations**

**KOREA INC: IMPLICATIONS FOR INDUSTRIAL RELATIONS POST DEMOCRATISATION:** Korea’s history of compressed development from the early 1960s has a number of important implications for its contemporary industrial relations and its experiment with social partnership. The main features of Korea’s economic and political development since the 1960s are well known and are only briefly summarised here. Following a military coup led by Park Chung-hee in the early 1960s, Korea embarked on a process of state-led, export-oriented industrialisation (EOI) in two phases—labour intensive industrialisation from 1961-1972 and capital intensive industrialisation from 1973 on. Both phases of EOI were characterised by what Amsden (1989) calls ‘industrialisation through learning’, in which Korean companies competed in mature markets and product lines on the basis of economies of scale and price competitiveness rather than differentiation. Unlike some of the other Asian NICs, who made use of foreign direct investment, the Korean state’s chosen agents for industrialisation were the chaebol; family owned businesses, many of whom were implicated in corruption scandals during the Rhee period.

The state played two key roles for the chaebol which allowed them to develop rapidly into large, diversified but regionally concentrated conglomerates. First, the Korean government borrowed heavily in international markets, particularly the US, and channelled this money as working capital into the chaebol through low interest loans. The high debt to equity ratios of the chaebol made it easier for the state to direct and control their activities (Woo, 1991). Second, the state took steps to control and subordinate labour. As part of initial efforts to quash political opposition, Park banned strikes, deregistered all existing unions and arrested many union leaders. He also established a new trade union confederation, the FKTU, under government control. This was followed by sweeping revisions to labour laws in 1962 and 1963, introduced in the 1940s by the AMG, which were designed to control and limit union activity. Labour repression as further enhanced in 1972 under the “revitalising constitution” with direct police and KCIA intervention in labour disputes, a revision of the labour laws and the introduction of firm level Labour Management Councils (LMCs) as the primary grievance settlement body (see Deyo, 1987; Leggett and Park 2004).

The period of authoritarian control of labour had a number of important implications for post-democratisation industrial relations. First, because Korea’s competitiveness had largely been based on the ability to the chaebol, with the assistance of the state, to control labour costs, the emergence
of a strong independent union movement in key sectors of the economy was particularly significant. The efforts of these workers to increase wages, reduce working time and improve conditions—after more than two decades of suppression—had a direct impact on competitiveness of the chaebol. Furthermore, because they had been able to rely on state supported labour control, Korean labour management was incredibly backward. Korean companies had developed few of the sophisticated labour management techniques associated with worker commitment and the ability to compete on quality and differentiation. Thus, because of the top-heavy structure of the Korean economy, industrial relations issues had direct significance for Korean economic performance (Wilkinson, 1994).

By the same token Korea's experience of labour suppression had also created a highly fragmented labour movement and a highly decentralised bargaining structure. Of particular significance was the relationship between the FKTU and its affiliates and the new independent union movement. In many cases the new independent unions formed in opposition to not only company management but also government controlled FKTU unions. However, if the independent union movement was to sustain itself and go beyond workplace bargaining over wages in conditions, it needed to develop industry level and peak level representation. As we shall see, the legal status of confederations of independent unions and the willingness of these confederations to enter into official dialogue on behalf of their affiliates is one of the most important issues in contemporary Korean industrial relations.

**INDUSTRIAL RELATIONS IN KOREA SINCE 1987:** There have been a series of dramatic changes in Korean industrial relations, often convulsive, since democratisation. It is useful to briefly review the phases of development in order to provide a context in which to analyse current trends and likely future directions. One means of distinguishing between various phases is to divide the period from 1987 to 2004 into four phases: democratisation and instability (1987-89); neo-corporatism (1990-92); neo-liberalism (1993-97); the social partnership experiment (1997 to the present).

As has already been noted, the June 29th Democratisation announcement marked an important shift in Korean industrial relations. The new Korean government declared the principle of autonomous industrial relations including the legal right for employees to unionise and for unions to bargain collectively. Yet there remained prohibition on more than one union per enterprise, third party intervention in disputes and political activity by unions. These were the provisions that had been used to suppress independent unionism during the 1970s and in the early 1990s were again used to constrain independent unionism.

As the figures in table 1 illustrate, in the aftermath of the democratisation announcement there was an explosive growth of unions and widespread strikes for wage increases. Between 1987 and 1989, the number of union members doubled and the number of enterprise unions almost tripled. The increased unionisation was highly concentrated in large organisations. By 1989, more than two thirds of workers in firms of 500 or more were unionised. This compares with less than 10% of employees in firms with less than 300 employees (Lee and Lee, 2004: 146). During this period wages increased by an average of 15% per annum, although favourable external economic conditions associated with the three lows (low exchange rate, low oil price and low interest rates) offset the economic impact of increased wages (Lee, S. H, 2004). This period also saw the development of regional and industrial confederations of independent unions which were the genesis of the Korean Confederation of Trade Unions (KCTU).

The landslide election of the conservative Democratic Justice Party in 1990, under the leadership of President Rho Tae-Woo, resulted in a reversion to authoritarian repression of illegal trade unions (notably those associated with the KCTU). This involved much greater state intervention in 'illegal' industrial disputes and the strict enforcement of third party intervention provisions in the labour law. At the same time, in a “divide and rule” strategy the government sought to incorporate the FKTU as the official trade union centre and a political partner. One of the consequences of this was an increasing number of unions shifted their allegiance from the FKTU towards industrial confederations associated with the KCTU.
TABLE 1
Selected employment relations indicators in Korea

<table>
<thead>
<tr>
<th>Name</th>
<th>Unions</th>
<th>Industrial disputes</th>
<th>Unemployment rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Membership ('000)</td>
<td>Density(%)*</td>
<td>Number of unions</td>
</tr>
<tr>
<td>1970</td>
<td>473</td>
<td>12.6</td>
<td>3500</td>
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<tr>
<td>1975</td>
<td>750</td>
<td>15.8</td>
<td>4091</td>
</tr>
<tr>
<td>1980</td>
<td>948</td>
<td>14.7</td>
<td>2635</td>
</tr>
<tr>
<td>1985</td>
<td>1004</td>
<td>12.4</td>
<td>2551</td>
</tr>
<tr>
<td>1986</td>
<td>1036</td>
<td>12.3</td>
<td>2675</td>
</tr>
<tr>
<td>1987</td>
<td>1267</td>
<td>13.8</td>
<td>4103</td>
</tr>
<tr>
<td>1988</td>
<td>1707</td>
<td>17.8</td>
<td>6164</td>
</tr>
<tr>
<td>1989</td>
<td>1932</td>
<td>18.6</td>
<td>7883</td>
</tr>
<tr>
<td>1990</td>
<td>1887</td>
<td>17.2</td>
<td>7698</td>
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<tr>
<td>1991</td>
<td>1803</td>
<td>15.9</td>
<td>7656</td>
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<tr>
<td>1992</td>
<td>1735</td>
<td>15.0</td>
<td>7527</td>
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<tr>
<td>1993</td>
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<td>14.2</td>
<td>7147</td>
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<tr>
<td>1994</td>
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<td>13.5</td>
<td>7025</td>
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<td>12.6</td>
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<tr>
<td>1997</td>
<td>1484</td>
<td>11.5</td>
<td>5733</td>
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<td>1998</td>
<td>1402</td>
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</tr>
<tr>
<td>1999</td>
<td>1481</td>
<td>11.8</td>
<td>5637</td>
</tr>
<tr>
<td>2000</td>
<td>1527</td>
<td>11.6</td>
<td>5898</td>
</tr>
</tbody>
</table>

Note: * With respect to total employees

As the economic climate deteriorated, the government also issued wage guidelines and attempted to constrain wage growth within these guidelines. While the number of strikes declined and unionisation fell from its heights in 1989, the highly decentralised nature of collective bargaining in Korea and the high level of unionisation in large companies, meant that the government and employers were unable to constrain wage growth within the guidelines. In response to declining competitiveness, Korean employers also attempted to introduce changes in labour management which including the introduction of performance based reward systems, the increased use of irregular workers and multi-tasking. These changes were strongly resisted by independent unions. Thus by 1993, while firm-level collective bargaining had become the accepted mechanism for setting wages and conditions, relations between labour and management remained highly antagonistic (Lee, S.H, 2004).

Under the Kim Young-sam government there was a shift from authoritarian control to an increasingly neo-liberal policy stance. In the period leading up to the election of Kim Young Sam, the independent unions had called for revisions of the labour laws to remove the ban of political activity by unions, allow for multiple unionism and give public sector employees rights to form unions and bargain. Korea’s accession to the ILO in 1991 and its efforts to become a member of the OECD heightened expectations that the reform oriented Kim Young Sam government would revise labour laws in line with union demands. However, employers were opposed to these changes and were calling for changes to labour laws which would increase levels of labour market flexibility.

In May 1996 a Presidential Commission on Industrial Relations Reform (PCIRR) was set up to discuss labour law reform. While it was hoped that that this would create the situation for agreement between employers and unions and resolution of the legal status of the independent
union movement, the PCIRR failed to reach a consensus. Instead, the New Korea Party unilaterally introduced labour law revisions to the National Assembly in December 1996, which mainly addressed employer concerns but did not resolve the state of the independent union movement.

The pro-employer approach to labour law reform taken by the Kim Young Sam government to labour law reform, in part, reflected a shift in balance of power between the government and the chaebol. While during the authoritarian period the government had been able to use access to credit as a means of controlling the chaebol, financial market liberalisation during the 1990s, which had been accelerated under Kim Young Sam had allowed many of the chaebol direct access to international financial markets. With access to foreign loans, the chaebol became less dependent on the state. While the dramatic growth of private, largely short term, debt in Korea during the 1990s was to have significant implications for the Korean economy during the Asian financial crisis (see Shin and Chang 2003 and below), in the mid-1990s it created a situation in which employer opinion was able to dominate the reform agenda. Employer interest in issues like the ability to redeploy labour, lay off workers and engage temporary workers reflected not only the pressures associated with globalisation but also the extent to which collective bargaining with strong independent unions had eroded the traditional sources of competitiveness of Korean firms.

The manner in which these reforms were introduced—late at night in the absence of opposition parties in the National Assembly—sparked the biggest general strike in Korean history in January and February of 1997. Importantly, protest against the labour laws was jointly coordinated by the KCTU and FKTU and indicated a greater degree of inter-union cooperation than in the past. In February 1997 the government was forced to withdraw the labour law amendments and introduce a revised labour law which included a timetable for the legalisation of the KCTU and public sector bargaining rights and delayed the introduction of layoffs for managerial reasons. While the 1997 strike demonstrated the continuing significance of the independent union movement in Korea, despite reductions in trade union density during the 1990s, it also illustrated the extent to which collective bargaining with strong independent unions had eroded the traditional sources of economic role of setting wage and conditions for a small minority of workers.

A new social partnership? The fate of the Korean tripartite commission

Ironically, the financial crisis later in 1997 and the IMF bail out gave the government of President Kim Dae-Jung the opportunity to introduce more far-reaching industrial relations reforms than those achieved under the previous government and created the conditions for the development of a social pact for the first time in Korean history.

During 1996 there was sharp decline in Korea’s the current account balance to $23.7 billion (more than 5% of GDP) largely reflecting falling export earnings from semiconductors. While not serious by international standards, high levels of short term debt and declining international investor confidence associated with Thai and Indonesian currency crises and the collapse of Hanbo and Kia, produced a major financial crisis. On December 3rd 1997 the Korean government announced that it was seeking a loan from the IMF. The IMF bailout package committed the Korean government to a series of major reforms designed to address what the IMF saw were long term structural problems in the Korean economy. These included restructuring of the financial system, corporate governance reforms, the introduction of tight monetary and fiscal policy, privatisation of state owned corporations and policies designed to expand labour market flexibility. In particular, the IMF sought amendments to labour laws that would make widespread redundancies possible (Shin and Chang 2003: 34-41 & 56).

The dramatic deterioration of the economic situation following the IMF intervention created the crisis conditions for the formation of a social pact. The Korean Tripartite Commission was established as a presidential advisory body and included representatives from the government, both the KCTU and FKTU, the Federation of Korean Industries and the Korean Employers Federation.
In late January it released the “Tripartite Joint Statement on Fair Burden Sharing the Process of Overcoming the Economic Crisis” and on February 9th 1998 it released a detailed social pact. This pact agreed to the immediate revision for the labour laws to allow layoffs for managerial reasons and the use of agency workers. In return it put in place income security programs for the unemployed, recognised the KCTU, reduced restrictions on union political activity and gave government employees the right to organise and teachers bargaining rights (from July 1999).

During the negotiations KCTU officials had failed to gain employer acceptance for concession bargaining which protected employment by reducing wages and/or working time. Instead the agreement accepted the legal right to layoff workers in return for other concessions. The social pact was rejected by KCTU affiliates by a margin of 2 to 1. The KCTU leadership resigned en masse. The newly elected KCTU leadership refused to rejoin the KTC.

Since mid 1998, the KTC has made limited progress. After direct negotiation between the government and the KCTU, which committed the KTC to discussing restriction of the layoff system and use of temporary workers, reductions in working hours and the strict prohibition of unfair labour practices, the KCTU joined the second KTC in June 1998. However, in August the government unilaterally announced a plan for restructuring the banking sector and the privatisation of public enterprises. Both raised the prospect of significant redundancies. The KCTU accused the government of using the KTC to rubber stamp policy decisions that had been made elsewhere and eventually withdrew in February 1999. Thus, since the initial breakthrough social pact, business and labour representatives have adopted an ‘empty chair’ approach to the KTC (Kong 2004: 29).

The Commission has subsequently undergone a series of attempted renewals, the most recent being by President Rho Moo-Hyun. A number of proposals have been put forward to revive the KTC. These include strengthening both the political and technical profile of the KTC as a key institution for national-level social dialogue and using the KTC as the main policy-making forum in labour policy. It has been proposed that the membership of the KTC should be extended to include a broader range of interest groups and specialists, including the establishment of a ‘policy consultation group’ for each industrial sector. It is also argued that the national and industry-level activities of the KTC should be supplemented by more decentralised and firm-level consultative systems. Although Korea has had Labour-Management Councils for a number of years, the experience has been mixed and joint consultation has not been widely utilised. Another proposal is to upgrade and strengthen other labour market institutions which could complement the work of the KTC. This includes broadening the role of the National Labour Relations Commission (NLRC) which is underutilised in its role of providing mediation and conciliation to help minimise and settle industrial disputes (Lee 2003).

Despite these proposals, the future of Korea’s experiment with social partnership remains uncertain. The breakthroughs achieved by the first KTC support some of the findings of studies of recent social pacts in Europe. The Asian financial crisis created the sense of crisis necessary for the social partners to enter into a social pact, without the promise of significant political exchange and, even though both the unions and employers lacked encompassing organisations, the KTC was able reach agreement on labour law reform. Nevertheless, while these conditions made the original social pact possible, a number of factors have prevented the development of ongoing social partnership as has been the case in a number of European countries. The changes in labour law, which made it possible for Korean employers to shed significant amounts of labour during the crisis, and Korea’s rapid economic recovery have reduced the incentive for business to sustain its involvement in social partnership. Employers achieved many of the increases in labour market flexibility they had wanted in the first social pact and industrial restructuring has reduced the threat posed by independent unions.

By the same token, the impact of the original social pact reduced both the willingness and the ability of organised labour to remain engaged in social partnership. As Kong (2004: 34) puts it “the benefits of some future political inclusion … were not very tangible in comparison with the loss of members and influence caused by economic restructuring”. Kong suggests that because of the relatively new and underdeveloped nature of social welfare protection in Korea, in comparison with European countries which have been able to form social pacts in the 1990s, the impact of industrial restructuring fell more heavily on rank and file union members. The failure of the KTC to entertain trading off wages for job security, and the widespread use of
layoffs by Korean employers in the aftermath of the crisis, effectively made it impossible for Korean union leaders to convince affiliates and rank and file union members of the benefits of social partnership. This was exacerbated by the legacy of highly decentralised bargaining in Korea which concentrated most of the decision making authority in the Korean union movement in enterprise level unions. Thus, unlike Ireland and Italy, Korean union leaders were not able to develop a functional equivalent to the encompassingness necessary for a stable social pact. In effect, the actions of employers and the government in the first social pact undermined the likelihood of ongoing social partnership. In response to these developments, the KCTU, and to a lesser extent to FKTU, have returned to an oppositional stance, with a focus on developing industry wide bargaining to overcome the problems of decentralised bargaining (Lee and Lee 2004). Despite the efforts of the government to revive social partnership, these developments suggest that a revival of social partnership in Korea is highly unlikely.

It has been argued that while environmental factors provided favourable conditions for the successful initiation of the KTC, structural and attitudinal factors have hampered its effectiveness of its operation in the longer term. This argument emphasises the catalytic effect of the 1997-98 financial crisis in bringing the various parties together and producing the ‘great compromise’ of February 1998. However, once the crisis passed, the parties returned to their tradition of adversarial labour relations - attitudes shaped by Korea’s pattern of economic development and developments since democratisation. The lack of centralised union and employer organisations as well as the absence of a Social Democratic or Labour party meant that there was an absence of institutional structures to maintain support of the KTC. Finally, the absence of a social partnership ideology and mutual trust was detrimental to the development of positive attitudes to the KTC. While Baccaro (2003) and others have suggested that some of the new social pacts in Europe have persisted and achieved success despite the lack of traditional supportive mechanisms, the comparison of these European examples with the Korean case suggests that that the ongoing success of social partnership is in part determined by the ability to develop effective and stable institutional arrangements within which social partnership can take place. The Korean case is different from the models of democratic corporatism that have emerged in some European countries and it remains a dynamic and developing political economy in which new labour market institutions are still evolving. The ongoing challenge for the Korean government is to persuade the unions and the employers that social partnership offers a better alternative than a return to strong central controls over a laissez-faire approach which gives free rein to the market. Just as earlier experiences of Korea has provided an example of how ‘neo-liberalism mutates when transplanted to different local environments’ (Kong, 2004: 39), the current experiment with social partnership may yet reveal that Korea will forge a new model of democratic corporatism fostered by strong government initiative and commitment to building new labour market institutions.

**Conclusion**

Since 1987 Korea has experienced dramatic changes in industrial relations and industrial relations issues are likely to remain central to economic reform into the future. In contrast to developments in many developed countries during the same period, Korea has witnessed the development of a strong and militant independent union movement that has been able to improve the wages and conditions of workers, especially in the core manufacturing sector of the economy and an improvement in labour rights. Collective bargaining has become institutionalised for a significant percentage of Korean workers. However, the highly decentralised and antagonistic character of collective bargaining in Korea, which largely reflects Korea’s history of compressed development, will remain a significant impediment to the development of stable and peaceful industrial relations in Korea. While the Asian financial crisis created the conditions for the development of a social pact for the first time in Korean history, despite the absence of the structural preconditions deemed necessary, the prospects for a revival and continuation of social partnership are unfavourable. This suggests that, without the development of a stable institutional framework, the highly antagonistic pattern of industrial relations that has developed in Korea during the 1980s is likely to continue.
References


