

Globalization, Financial Crisis, and Industrial Relations: The Case of South Korea

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The South Korean case shows that the globalization trend in the 1990s and the 1997–1998 financial crisis had two contrasting effects on labor rights. First, these developments resulted in negative labor market outcomes: increased unemployment, greater use of contingent workers, and widened income inequalities. On the other hand, they led international organizations such as the Organization for Economic Co-operation and Development (OECD) and the International Labor Organization (ILO) to play important roles in improving labor standards in Korea. Also, continued restructuring drives prompted unions to merge into industrial unions and wage strikes with increased frequency and intensity. Contrary to the common belief, the Korean case shows that globalization and intensified competition resulted in stronger and strategic responses from labor by stimulating employees' interest in and reliance on trade unionism.

GLOBALIZATION IS DEFINED as a process of rapid economic, cultural, and institutional integration among countries driven by the liberalization of trade, investment and capital flows, technological advances, and pressures for assimilation toward international standards. Globalization reduces barriers between countries, thereby resulting in intensification of economic competition among nations, dissemination of advanced management practices and newer forms of work organization, and sharing of internationally accepted labor standards (Frenkel and Peetz 1998; ILO 1999a; Lee 1997).

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Since globalization has coincided with declining trade unionism, especially in the 1990s, the impact of globalization on industrial relations (IR) has become a focus of academic research. Previous literature on this issue generally stresses the negative impact of globalization on labor standards (Frenkel and Peetz 1998; ILO 1999a). The negative outcomes of globalization can be classified into two types: (1) deteriorated labor standards and (2) strengthened bargaining power of capital and decreased bargaining power of labor.

First, some argue that intensified international competition accompanied by globalization increases the need for improving competitiveness by cutting labor costs, achieving greater numerical and external flexibility in terms of human resources (HR) utilization. To ensure greater competitiveness in terms of labor flexibility, productivity, and quality, governments encourage the strengthening of management control over employment issues, which may lead to weakened job security and deteriorating working conditions. With the growing necessity of labor market flexibility, employment instability stemming from collective dismissals, layoffs, outsourcing, and part-time work has been evident (ILO 1999a; Lee 1997). This trend implies a negative impact on preexisting levels of labor standards.

Second, it is argued that the growing mobility of capital tends to increase the bargaining power of employers. When labor in one country can be replaced with labor in other countries without much difficulty, labor's bargaining power may be weakened, and a decline in the wage level is expected (ILO 1999a). Also, Frenkel and Peetz (1998), analyzing the cases of China, Malaysia, and Korea, argue that globalization and attendant market liberalization have heightened the employer imperative for flexibility and cost minimization, increased employer bargaining power, and led to a decline in trade unionism and a weakening of collective bargaining.

Although previous studies predominantly document the negative effects of globalization on labor standards and the bargaining power of labor, there have been arguments implying positive impacts on them. These arguments can be classified into three categories: (1) the impact of global communication on labor standards, (2) pressures from international organizations, and (3) workers' increasing reliance on labor organizations as a protective institution.

First, the global communications revolution through advances in information technology such as the Internet, has resulted in greater exchanges of information about labor conditions in other countries. The fast and free flow of information across national borders may create an orbit of coercive comparison in the area of labor standards among countries. Information about violations of basic labor rights, such as exploitation of child labor and harsh working conditions for women and minority workers, can be disseminated easily across national borders and attract international attention.

Also, the continuing process of democratization in developing countries and the advent of nongovernmental organizations (NGOs) have led to more active monitoring of morally unacceptable labor practices with the threat of consumer boycotts and other means (Lee 1997).

Second, in the process of globalization, individual countries increasingly experience pressures for assimilation toward international labor standards. The roles of international organizations such as the International Labor Organization (ILO) and the Organization for Economic Co-operation and Development (OECD) tend to be more important in the enforcement of labor standards in recent years. The ILO and the OECD recommend their member countries employ internationally accepted labor standards, monitor violations in this respect, and publish (sometimes embarrassing) reports to force member countries to improve labor standards. Furthermore, some industrialized countries (e.g., the United States and European Union nations) at World Trade Organization (WTO) Conferences made proposals to impose trade sanctions against countries that violated internationally accepted labor standards (WTO 1999, 2001). These international organizations put more pressure on newly industrialized countries (NICs) than on developed countries for obvious reasons.

Third, most previous studies dealing with the issue of globalization and labor tended to downplay the role and strategy of labor in protecting labor standards. In prior literature, labor has been described as a rather quiescent actor in the process of globalization. Indeed, one important element of globalization is the intensification of competition. The role of labor under intensified competition, however, has long been an important academic subject in this field. For example, John R. Commons, in his well-known work describing the origin and growth of American trade unionism (Commons 1918), stressed that competitive pressure from the expanded product market forced manufacturers to cut labor costs and that workers respond to the undermining of working conditions and wages by forming unions to protect themselves. According to Commons, the extension of markets and the resulting competitive threat led to the growth and evolution of unionism, which in turn shaped unionism's changing forms and functions. This line of reasoning suggests that intensified competition and the accompanying threat to employment and income security may stimulate workers' interest in and reliance on the traditional functions of trade unionism as a protective mechanism. In this sense, it would be interesting to examine the way labor organizations and workers in the present time respond to the "competitive threat" that accompanies globalization. In sum, despite the thrust of previous literature emphasizing the negative impacts of globalization on labor standards, theoretical discussions on this issue do not provide a clear-cut answer to this question.

Korea is one of the countries that dramatically experienced the impact of globalization. Indeed, globalization is not a new phenomenon in Korea because its early economic development was closely associated with some form of globalization such as export-oriented development policy. This article, however, deals mainly with the impact of the globalization trend in the 1990s on labor standards in Korea.

The Korean economy has been globalized rapidly since the 1990s. Korea joined the United Nations (UN), the ILO, and the OECD in the 1990s; experienced more than 10-fold increases in inward and outward foreign direct investments during the 1986–1997 period; and experienced a financial crisis in the late 1990s together with Indonesia and Malaysia. The financial crisis was believed to be closely connected with the globalized nature of the world economy¹ (Lee 1998).

This article examines the impact of recent globalization trends on IR, focusing on the experience of Korea after the International Monetary Fund (IMF) rescue package of November 1997. First, we delineate the globalization of the Korean economy and discuss the general background of IR in Korea. Then current IR issues under globalization trends are discussed. Since we believed that the financial crisis was a temporary manifestation of the globalized economy, we did not explicitly distinguish the impacts of financial crisis from those of globalization itself.

To conduct this research, we conducted semistructured interviews in June and July 2000 with representatives from the Korean Employers Federation, the Federation of Korean Trade Unions, the Korean Confederation of Trade Unions, the *Daily Labor News*, and the Korea Labor & Society Institute. The comments of these interviewees are synthesized in the text and are selectively cited.

Economy and Industrial Relations in Korea

Globalization of the Korean Economy. Korea was a typical Asian agricultural country until the mid-1960s but three decades later, it became the

¹ There are two views on the causes of the crisis. Some attribute blame to the globalization of international financial markets, whereas others see domestic factors as the primary cause. For the former, the crisis is understood as a consequence of the liberalization of international financial markets. Under the globalized market, there are virtually no effective instruments for dealing with a large increase in capital inflows and outflows, which occurred before and during the crisis. The susceptibility of international financial markets to self-fulfilling panic can make a sudden shift from boom to bust. The latter perspective holds that a defective Asian model of development, which can be characterized by a deviation from the principles of free market economics, such as widespread political interference with market processes, moral hazard, and corruption, caused the financial crisis. The general agreement is that the crisis was caused by many factors, including the preceding two, and the interreaction among them (Lee 1998).

thirteenth biggest international trader in the world (*Seoul Economic Daily* 2001). The economic success of Korea during the past few decades may be attributed to its export-oriented development. The export-oriented strategy, combined with a gradual import liberalization process, has been accompanied by a steady increase in trade flows. The ratio of trade to gross domestic product (GDP) increased from about 35 percent in 1970 to over 60 percent in the early 1980s and has broadly stabilized since then (i.e., 63.4 percent in 1997). Import liberalization was heavily influenced by the gradual downward trend of the average import tariff rate from almost 40 percent in 1970 to less than 10 percent in the 1990s. As a result, the share of Korea's exports in world trade soared from approximately 0.3 percent in 1970 to around 2.5 percent in the 1990s (ILO 1999b).

More strikingly, the dramatic increases in inflow and outflow investment during the 1980–1997 period vividly illustrated the very rapid globalization of Korean economy. Foreign direct investment (FDI) flows had been small (approximately US\$0.5 billion in both inflow and outflow FDIs) until the mid-1980s. Following a more liberal attitude toward foreign investment, both inflows and outflows showed a more than 10-fold increase to US\$7 billion in inward investment and US\$5.8 billion in outward investment in 1997 (Korea Labor Institute 1998; ILO 1999b). Thus, in the last decade, Korea's presence in world markets and the reliance of the Korean economy on trade and foreign investment have risen substantially.

The rapid increase in FDI had important implications for IR and HR management in Korea because managing foreign workers at host countries (in the case of outward FDI) and hosting foreign management (in the case of inward FDI) required learning of the globalized way of managing a diverse labor force and accepting and adjusting foreign management systems in Korea. In this sense, the impact of increasing FDI activities on IR in the 1990s has been more fundamental than that of the export-oriented economic policy in the 1960s because the latter involves only limited exposure to human contacts with the globalized labor force. Indeed, the 1990s represented a period when large indigenous Korean firms (e.g., Samsung and LG) eagerly began to adopt and experiment with westernized HR management systems under the name of “new personnel systems.”

The Economy and Labor Market in Korea. Korea, with a population of approximately 47 million, has shown the most remarkable economic growth among newly industrialized countries. Growth rates, in terms of real GDP, of the Korean economy have averaged nearly 8 percent per year during the period 1970–1997 (Table 1). Real wages, defined as nominal wages deflated by the consumer price index (CPI), grew at an annual rate of 7.8 percent

TABLE 1
ECONOMIC INDICATORS AND LABOR STATISTICS IN KOREA

Year	Growth Rates of GDP (Percent) ^a	Employed Labor Force (1000 Persons) ^b	Union Members (1000 Persons) ^a	Union Membership Ratio (Percent) ^a	Changes in Nominal Wage (Percent) ^a	Changes in Real Wage (Percent) ^a	The Ratio of Employee Compensation to GDP (Percent) ^a	Weekly Actual Working Hours (All Industries) ^c
1986	11.0	8,433	1,036	12.3	8.2	5.3	52.8	52.5
1987	11.0	9,190	1,267	13.8	10.1	6.8	53.7	51.9
1988	10.5	9,610	1,707	17.8	15.5	7.8	55.2	51.1
1989	6.1	10,390	1,932	18.6	21.1	14.5	57.8	49.2
1990	9.0	10,950	1,887	17.2	18.8	9.5	59.1	48.2
1991	9.2	11,405	1,803	15.8	17.5	7.5	59.8	47.9
1992	5.4	11,619	1,735	14.9	15.2	8.4	59.8	47.5
1993	5.5	11,793	1,667	14.1	12.2	7.0	59.6	47.5
1994	8.3	12,326	1,659	13.5	12.7	6.1	59.5	47.4
1995	8.9	14,583	1,615	12.6	11.2	6.4	61.7	47.7
1996	6.8	12,783	1,599	12.2	11.9	6.7	64.2	47.3
1997	5.0	13,226	1,484	11.2	7.0	2.4	62.8	46.7
1998	-6.7	12,190	1,402	11.5	-2.5	-9.3	59.0	45.9
1999	10.7	12,522	1,481	11.8	12.1	11.1	59.8	47.9

^aSOURCE: Korea Labor Institute (various years), *KLI Labor Statistics*.

^bSOURCE: National Statistical Office (various years), *Yearbook of Economically Active Population Survey*.

^cSOURCE: Korea Ministry of Labor (various years), *White Paper on Labor*.

during the period 1986–1996, which is higher than most industrialized countries and other NICs, such as Taiwan, Singapore, and Hong Kong. The remarkable economic growth has been associated with a very low rate of unemployment. The unemployment rate dropped from 8.2 percent in 1963 to 4.4 percent in 1970, and since 1980 it has remained lower than 3 percent until 1997 (Table 2). The financial crisis in the late 1990s, however, lowered real wage growth substantially to 2.4 percent in 1997 and to –9.3 percent in 1998 and increased the unemployment rate to 8.6 percent in February 1999. As the economy recovered from the financial crisis, the growth rate of real wages reached 11.1 percent in 1999, and the unemployment rate dropped to 4.1 percent as of December 2000.

Despite the remarkable economic growth, long working hours and a high incidence of industrial accidents showed the dark side of the Korean labor market. Although working hours in Korea have decreased substantially since the mid-1980s (Kim 1993), they are still longer than most countries for which relevant data are reported in the *ILO Yearbook* (47.9 hours per week in 1999). In addition, the occupational injury rate in Korea (44,082 workdays lost due to occupational injuries in 1996) is also higher than the rates of any other major economies (Korea Labor Institute 1998).

Government Policy on Employment and IR. Korean economic growth was accompanied by extensive investment in HR, and the ratio of government expenditure on education to the total government budget reached 17.4 percent in 1994. The ratio was greater than those of most major countries except Singapore (e.g., 10.8 percent in Japan, 11.4 percent in the United Kingdom, 14.1 percent in the United States, 23.4 percent in Singapore) (Korea Labor Institute 1998). The cultural value placed on education, influenced by Confucianism, also was instrumental in building a relatively high-quality labor force during the early period of economic growth. Approximately one-fifth of the adult Korean population has a college degree, the highest figure among OECD member countries after the United States and the Netherlands (OECD 2000).

During the period of rapid economic growth, the Korean government acted as a “benevolent dictator” through comprehensive and detailed legal frameworks and direct state intervention in the labor market. The rights of Korean workers were protected by detailed protective legislative measures. Korean laws and regulations covering individual workers’ rights were more extensive in some respects than those of Western countries. For example, establishments with five or more employees could not lay off workers without just cause, and courts recognized layoffs only if there was no other way

TABLE 2
UNEMPLOYMENT RATES

Year	Unemployment Rate ^a	Month of 1997	Unemployment Rate ^b	Month of 1998	Unemployment Rate ^b	Month of 1999	Unemployment Rate ^b	Month of 2000	Unemployment Rate ^b
1986	2.8	Jan.	2.6	Jan.	4.5	Jan.	8.5	Jan.	5.3
1987	3.1	Feb.	3.2	Feb.	5.9	Feb.	8.6	Feb.	5.3
1988	2.5	March	3.4	March	6.5	March	8.0	March	4.7
1989	2.6	April	2.8	April	6.7	April	7.1	April	4.1
1990	2.4	May	2.5	May	6.9	May	6.4	May	3.6
1991	2.3	June	2.3	June	7.0	June	6.2	June	3.6
1992	2.4	July	2.2	July	7.6	July	6.2	July	3.6
1993	2.8	August	2.1	August	7.4	August	5.7	August	3.7
1994	2.4	Sep.	2.2	Sep.	7.3	Sep.	4.8	Sep.	3.6
1995	2.0	Oct.	2.1	Oct.	7.1	Oct.	4.6	Oct.	3.4
1996	2.0	Nov.	2.6	Nov.	7.3	Nov.	4.4	Nov.	3.6
1997	2.6	Dec.	3.1	Dec.	7.9	Dec.	4.8	Dec.	4.1
1998	6.8								
1999	6.3								

^aSOURCE: Korea Ministry of Labor (various years), *Yearbook on Labor Statistics*.

^bSOURCE: National Statistical Office (various issues), *Monthly Employment Trend*.

of solving business problems and fair criteria were used for selecting the workers to be laid off.

On the other hand, the government suppressed an independent labor movement. While American-style labor laws were enacted in 1953 and guaranteed full-fledged trade union rights, throughout the 1960s and 1970s, labor law was revised frequently to put substantial restrictions on union activities. For example, labor legislation was amended in 1972 to suppress unions, and strikes were prohibited until 1980. Since the late 1980s, there have been revisions of labor laws in the direction of providing some freedom for the labor movement. However, the current labor law, revised in 1998, still contains some restrictions on the labor movement, such as a prohibition of union activities by public employees and university professors and emergency arbitration of labor disputes in some industries by the Ministry of Labor.

The process of political democratization since the late 1980s has been accompanied by a surge of workforce militancy and violent labor disputes. Since the labor movement was suppressed by successive governments, political democratization was perceived by workers as an opportunity to remove the vestiges of past labor suppression. Workers' demands did not stop with improved wages and working conditions. They sought political liberalization, the right to form and control their own unions, and intervention in certain management prerogatives. Confronting unprecedented workforce militancy, the state increasingly has lost control over the labor market as well as trade unions since the late 1980s (Kim, Bae, and Park 2000).

Employers and Employment Practices. Economic growth in Korea was led by large indigenous private organizations with close guidance and various supports (e.g., low-interest, long-term bank loans) from the state. The Korean economy had been heavily dependent on *chaebols*, such as Samsung, Hyundai, LG, and SK. In the 1990s, the top 50 *chaebols* accounted for nearly 20 percent of the gross national product (GNP) and employment and 40 percent of sales in manufacturing.

Tayloristic management systems have been a dominant method of production, especially in manufacturing facilities, although a few progressive employers have made experiments with lean production (e.g., Samsung) or team production (e.g., LG). The responses of employers to the newly emerging militant unionism have been varied. The main response since the 1980s, however, has been the adoption of hard-line methods (e.g., hard bargaining, dismissal of union activists, and blacklisting) rather than more accommodative means (Wilkinson 1994).

Employment practices in Korea can be characterized by seniority-based wage and long-term employment principles. Under the long-term employment

system in Korea, a company usually hired recent school graduates. After being hired, workers receive training within the company and perform various jobs through rotations and transfers, and their remuneration is based largely on length of service. Once hired, employees usually complete their careers at the same company. The long-term employment and seniority-based pay principles, however, have been violated frequently since the mid-1990s, particularly during the financial crisis in the late 1990s, when employers were eager to adopt an alternative employment principle.

Trade Unionism in Korea. After the breakdown by force of the Communist labor movement in 1949, the government recognized the Federation of Korean Trade Unions (FKTU) as the only legal national-level union federation. The FKTU, established in 1960, had received financial support from the government, and its policies and activities generally were subordinate to the government. Economic success, substantial wage increases, and the military threat from North Korea were used by the government to justify the authoritarian IR policy. The fast industrial growth, the emergence of a middle-class population, and the rising level of education, however, contributed to strengthening the potential political basis of workers.

Since the late 1970s, a strong labor movement has emerged separate from the formal union organization. This movement was characterized by a proliferation of wildcat strikes in the late 1970s and early 1980s and disputes over management-controlled company unions. The late 1980s witnessed a turning point. The “Democratization Declaration” by President Noh Tae Woo in June 1987 led to the greatest labor turmoil in Korean history, the “Great Labor Struggle.” There were 3749 strikes in 1987, a 13-fold increase from the previous year (Table 3). Along with the unprecedented magnitude of labor strife, the union movement has undergone an expansion. Union membership increased during the 1987–1989 period from 11.7 to 18.6 percent of employment (see Table 1). In the early 1990s, a militant and illegal national federation, the Korea Confederation of Trade Unions (KCTU), was organized. After the largest general strike in Korean history in early 1997, the Trade Union Law was revised to allow the KCTU to become a legitimate union federation.

Most Korean unions are organized at the level of the individual enterprise. Members of enterprise unions include only full-time blue-collar and some white-collar workers (excluding temporary or part-time employees). In the unionized sector, wages and working hours are determined by collective bargaining between enterprise unions and individual employers, whereas multiemployer bargaining practices exist in the transportation, mining, and textile industries.

TABLE 3
STATISTICS ON LABOR DISPUTES IN KOREA

Year	Number of Strikes ^a	Workers Involved in Strikes (1000 Persons)	Workdays Lost Due to Strikes (1000 Days)	Reason for Strikes: Unpaid Wages (Number)	Reason for Strikes: Wage Increase (Number)	Reason for Strikes: Employment and Working Conditions (Number)
1986	276	46	72	48	75	153
1987	3749	1262	6946	45	2613	1102
1988	1873	293	5400	59	946	868
1989	1616	409	6351	59	742	815
1990	332	133	4487	10	167	145
1991	234	175	3271	5	132	97
1992	235	105	1527	27	134	74
1993	144	108	1308	11	66	67
1994	121	104	1484	6	51	64
1995	88	49	392	0	33	55
1996	85	79	892	1	19	65
1997	78	43	444	3	18	57
1998	129	146	1452	23	28	78
1999	198	92	1366	22	40	136
2000	250	177	1893	7	47	196

SOURCE: Korea Labor Institute (various years), *KLI Labor Statistics*.

Globalization and Labor

This section examines the effects of globalization in the 1990s on IR along three dimensions: (1) the impact of intensified competition and the financial crisis on labor, (2) pressures to adopt internationally accepted labor standards, and (3) labor's strategic responses to increasing competition. Whereas the first trend is closely related with the negative side of globalization in terms of labor standards in individual countries, the next two trends mainly explain the positive impacts of globalization on labor.

Intensified Competition, the Financial Crisis, and Labor. Favorable progress in labor rights has encountered the challenges of intensified international competition, mainly from Asian developing countries, and economic downturns in the 1990s. While some additional labor rights have been legalized as a result of national efforts to meet global labor standards, labor markets and other environments for workers and trade unions have deteriorated seriously due to intense global competition and economic distress.

Since the early 1990s, Korea has been under heightened competitive pressures. The economic competitiveness of Korea deteriorated substantially in the early 1990s because Korean products were higher priced than those from low-wage competitors (e.g., China, Thailand, and Malaysia), and their quality was known to be inferior to that of high-value-added competitors (e.g., Europe, Japan, and the United States). The slowdown of the Korean economy had already begun in the early 1990s, and the 1997–1998 financial crisis seemed to be a culmination of declining economic competitiveness.

Around the period when the Korean government sought the IMF rescue package in November 1997, several economic indexes changed rapidly. For example, the foreign exchange rate (won/\$) depreciated from 921.85 in October 1997 to 1706.8 in January 1998. Just for a month after November 19, 1997, when Korea decided to seek help from the IMF, the value of the Korean won fell by about 50 percent against the U.S. dollar, and the stock market dropped some 60 percent. In fact, the world's eleventh largest economy suddenly became an economy surviving on overnight loans from international financial institutions. The IMF bailout program provided a comprehensive financing package of about US\$65 billion on both a multilateral and bilateral basis. In return, the Korean government was required to provide containment of inflationary pressure through tight monetary and fiscal policy, fundamental restructuring of the financial sector, and reduction of corporations' excessive reliance on short-debt financing. In particular, the IMF requested the Korean government to take steps to improve labor market flexibility (Park 1998).

Korean government officials under pressure from the IMF insisted that securing labor market flexibility was the only approach to improving the economic competitiveness of Korean firms and encouraged private firms to implement bold restructuring programs, including massive layoffs. Faced with the sudden economic crisis, Korean employers actively pursued numerical and external flexibility through layoffs, outsourcing, and the use of contingent workers. Economic and employment adjustment programs (e.g., downsizing, restructuring, exchange of business units among *chaebols*, mergers and acquisitions, and intra- and interfirm ventures) have been pursued by firms under the initiative of the government prompted by the IMF.

The sudden decline in employment also was attributable to the bankruptcy of small and medium-sized firms that suffered more from the credit crunch arising from a tightened control of loans by the highly scrutinized banking sector.

Among unemployed people with job experience, 13.6 percent were victims of the bankruptcy of firms, whereas 56.9 percent were the victims of

employment-adjustment programs during the financial crisis (National Statistical Office 1998). The unemployment rate in Korea has increased sharply from 2.1 percent in October 1997 to 8.6 percent in February 1999 (see Table 2). While the Unemployment Insurance Act was made effective in July 1995, coverage of the act was shallow and limited. Consequently, most unemployed people experienced severe economic hardships (Kim and Feldman 1998).

Although trade union membership had already started to decline since 1989, labor has experienced substantial setbacks since the beginning of the 1997 financial crisis. Unions in Korea lost about 50,000 members (3 percent) during the first 9 months after the 1997 economic crisis (Kim, Bae, and Park 2000). The sudden membership loss was mainly due to downsizing and bankruptcy of unionized companies. The initial response of labor to the waves of downsizing was to vehemently oppose any employment restructuring programs by mobilizing union members, student activists, and the general public and calling for a series of general strikes. Because Korean unions tried to prevent the layoff itself and refused to negotiate, they could not be involved in the process of layoffs. In other words, when downsizing was inevitable, unions were not involved in the important decisions on the procedure of layoffs or the choice of layoff victims and financial relief for victims (Jung 1999).

Because downsizing has been common in almost all sectors of the Korean economy, collective bargaining aimed at wage increases has been displaced by collective bargaining focused more on employment security. Indeed, some unions were able to secure employment guarantee agreements with employers. On the other hand, a trend of concession bargaining was apparent during the period of 1997–1998. Consequently, wage levels for most workers have stagnated or deteriorated since 1997. As shown in Table 1, both nominal and real wage rates have decreased. The growth rates of nominal and real wages were -2.5 and -9.3 percent in 1998, respectively.

In Korea, a group bonus system usually was combined with the seniority wage system. Bonuses constituted about 20 to 40 percent of the annual earnings of workers in most companies in Korea. In principle, bonuses are supposed to be contingent on the financial performance of a company. As the importance of bonuses in a total compensation package grew, however, making the bonus truly variable became more difficult for organizations. In Korea, the terms and amount of bonuses often were established by collective-bargaining agreements before the financial performance of the company could be identified. For these reasons, it was believed that the bonus system in Korea was not truly variable (Kim and Park 1997). The trend in bonus payouts during the 1997–1998 financial crisis dissipated such belief. Most

firms stopped paying the bonus portion of compensation, or employees “voluntarily” returned the bonus during the financial crisis. The bonus has resumed since 1999. These developments showed that the bonus system could flexibly respond to economic fluctuations and served an important part of the adjustment mechanism for responding to the crisis.

Traditional Korean HR management practices have cultivated loyalty and commitment of employees through seniority-based pay and long-term employment. As economic competition has intensified since the early 1990s, the traditional practices were challenged by American-style practices focusing on relatively short-term, performance-based, and market-oriented methods of managing HR. The legacy of lifetime employment was weakened greatly in most private companies. While the seniority-based pay system is still a dominant form of remuneration in Korea, a wage system emphasizing individual ability and performance (a type of merit pay system) has gained its popularity in recent years (Kim and Briscoe 1997; Kim and Park 1997). A comprehensive survey by the Ministry of Labor showed that 23 percent of Korean firms had already adopted a merit pay system as of January 2000 and that more than 30 percent of them were considering its implementation within 2 to 3 years (Korea Ministry of Labor 2000b). Before the financial crisis in 1997, only 5 percent of Korean firms (mainly larger firms) were estimated to have adopted a merit pay system (Yu and Park 1999). For most firms using a merit pay system, approximately 10 percent of employees’ total compensation is believed to be truly variable (i.e., at risk) (Ahn 1998), whereas the variable portion of the managerial compensation was found to be, on average, 30 percent for the biggest 50 companies according to a recent survey (*Dong-a Daily Newspaper*, January 14, 2001).

Since the financial crisis, Korean HR management has become increasingly Americanized: 360-degree appraisal was introduced to an increasing number of firms; hiring decisions are now made at a more decentralized level; the selection process puts more importance on interviews than on traditional paper-and-pencil tests; training and education programs focus more on technical knowledge and skills than on loyalty and commitment to the company; and companies publicly announce that they do not provide employment security but employability. A tendency to adopt American HR management practices existed before the financial crisis, but the financial crisis seemed to accelerated preexisting movements toward American-style HR management (Kim and Yu 2000).

Another emerging pattern is the increased use of contingent labor force. As the number of contingent workers rose after the financial crisis, the Law on Protecting Dispatched Workers was passed in February 1998 to regulate their use. The proportion of contingent workers to employed population in

Korea rose sharply from 46 percent in 1997 to 53 percent in 2000² (National Statistical Office, various issues). Contingent workers usually replaced regular workers, and there was little difference in terms of task, duty, and workload.³ The wage level for contingent workers, however, is 40 to 80 percent of the wage of regular workers. Also, the social safety net for contingent workers generally is unreliable because employers often fail to pay premiums for medical insurance, unemployment insurance, the social security program, and workers' compensation for contingent workers.

Overall, the financial crisis in the late 1990s strongly influenced labor market outcomes, IR, and HR management in Korea. Some of the impacts, however, were found to be temporary and showed a V-shaped form. That is, a deep and sharp recession was followed by an equally steep recovery in some dimensions. As the Korean economy recovered, the nominal and real wages showed 12.1 and 11.1 percent increases in 1999, respectively (see Table 1). Also, the unemployment rate decreased from 8.6 percent in February 1999 to 3.6 percent in June 2000 (see Table 2). Right after the financial crisis, the bargaining power of unions was weakened significantly, and concession bargaining was the norm. After the 1997–1998 financial crisis, the bargaining power of unions bounced back and “give-back bargaining” was widespread, which led to wage increases of over 10 percent in 1999. Also, the ratio of employee compensation to GDP, which shows the overall bargaining power of labor in a society, decreased from 64.2 percent in 1996 to 59.0 percent in 1998 but reached to 59.8 percent in 1999, implying the recovery of labor's power in Korean society (Bank of Korea 2000).

Other impacts seem to be more fundamental and may have a lasting impact on IR in the post-financial crisis era. The new trends in HR management focusing on increasing flexibility and short-term efficiency, which have strengthened since the financial crisis, seem now to be a dominant method of managing HR. The increase of the contingent labor force could

² The concept of contingent workers defined by the National Statistical Office is believed to be rather wide because it includes all employees with shorter than 1-year employment contracts and employees who stayed on the job longer than 1 year but are ineligible to some benefits (such as lump-sum severance pay). If one uses an alternative estimation using a narrow definition, which include only employees with a shorter than 1-year employment contract and nonstandard employees such as part-timers, leased employees, and employees from temporary help agencies, the proportion of contingent workers to employed population was approximately 29.3 percent in 2000 (Jung 2000).

³ An organizational purpose of using contingent workers may be either to protect core workers in business downturns or to replace core workers permanently to reduce labor costs and improve flexibility. In the former case, the use of contingent workers is expected to decline after economic downturns because of layoffs of contingent workers in the short run. In the latter case, after the economic crisis, the use of contingent workers is likely to rise due to the replacement of core workers. Korean firms clearly have followed the latter path after the economic crisis.

weaken the solidarity of labor and worsen income distribution in Korean society. Indeed, income inequalities have started to widen. Over the period 1997–1999, the average income of the poorest 20 percent of urban households declined by 13.4 percent (from 947,100 to 815,600 won per month), whereas the average income of the richest 20 percent of urban households increased by 5.2 percent (from 4,254,800 to 4,475,000 won per month).⁴

The proportion of long-term unemployed persons (longer than 1 year) to the total number of unemployed persons rose from 4.2 percent in 1996 to 10.6 percent in 1998 and to 15.5 percent in 1999. The ratio of unemployed persons in their forties and fifties to the total number of the unemployed persons increased from 13 percent in September 1997 to 20 percent in June 2000 (National Statistical Office, various issues). The ratio of discouraged unemployment to total unemployment is estimated to be about 20 percent. All these statistics show that unemployment in Korean society has become a more chronic, entrenched social problem than it once was.

Pressures to Adopt International Labor Standards. Basic labor rights in Korea had expanded increasingly as the economy grew. Although there was an imbalance between the pace of economic growth and the expansion of workers' rights in the 1960s and 1970s, the gap has decreased since the late 1980s. It is a common understanding that full employment or a labor shortage (the unemployment rate was lower than 3 percent until December 1997) since the mid-1980s played an important role in inducing the improvement of workers' rights. Since the early 1990s, however, various international organizations also have played important roles in improving labor standards in Korea. One dimension of globalization is a widespread adoption of internationally accepted labor standards.

First, economic- and labor-related international organizations such as the ILO and the OECD have influenced Korean workers' rights. Korea joined the ILO in December 1991 and the OECD in December 1996. Since 1991, successive Korean governments have experienced international pressures to adopt the ILO conventions. Korea has ratified only 11 conventions (including three "core" conventions), whereas, on average, OECD members have ratified 64 conventions (Kwon 2000). Aware of international concerns about labor standards in Korea, the ruling party (the Democratic Party) made ratification of ILO conventions one of the "top 100 government tasks" in 1997.

⁴ Consequently, the Gini coefficient rose from 0.283 in 1997 to 0.320 in 1999, which indicates the worsening of income distribution (Korea Ministry of Labor 2000a).

The Korean government, in the process of joining the OECD, had to make a solemn commitment to “reform existing laws and regulations on IR in line with internationally accepted standards, including those concerning basic human rights, such as freedom of association and collective bargaining.” Despite this commitment, the OECD Council instructed the OECD’s Employment, Labor and Social Affairs (ELSA) Committee to “monitor closely the progress made on labor law reforms in Korea.” It was unprecedented for the ELSA Committee to assume a role of monitoring labor standards of a member country (International Labor 2001).

Consequently, the OECD ELSA Committee and the ILO Committee on Freedom of Association have paid close attention to issues where Korean labor law and actual practices seem to be inconsistent with internationally accepted standards. These include issues on trade union pluralism, third-party intervention in collective bargaining, the right to organize public employees and teachers, the right to strike in the public sector, trade union membership of dismissed or unemployed workers, the payment by companies of their full-time union officials, and the imprisonment of unionists for activities that would be regarded as legitimate and legal in other OECD member countries (OECD 2000).

Pressure from international organizations has been strong and persistent. Indeed, the ILO has issued seven official recommendations to allow and legalize teachers’ unions in Korea since 1991, and the OECD raised the issue of Korean labor standards five times at international forums (Korea Ministry of Labor 2000a). In the 1990s, members of the ELSA Committee and the ILO Committee on Freedom of Association visited Korea frequently to examine the progress on the ILO recommendations and to discuss future plans with Korean government officials.

For example, the meetings of the OECD ELSA Committee in June 1999 discussed the progress of Korean labor law. Korean government delegates (represented by the vice-minister of labor) explained the progress made and future plans for upgrading labor standards in Korea. A majority of committee members, however, expressed their concerns about the prohibition of unions for public servants, the prohibition of strikes for essential public industries, the malfunctioning of the Tripartite Commission,⁵

⁵ The Tripartite Commission has not functioned satisfactorily since 1998. The state has pursued two contradictory labor market policies since the financial crisis: unrestricted restructuring drives based on neoliberal economic philosophy, on the one hand, and social compact approaches relying on democratic corporatism, on the other. Union members generally believe that the state has used the commission as a mechanism to justify its predetermined restructuring policies. Thus labor, especially the KCTU, refused to be a rubber stamp in that process. In February 1999, the KCTU withdrew from the commission, and the commission has not produced any meaningful agreements since then.

and the increasing number of the arrest and imprisonment of trade unionists.⁶

The recent report issued by the OECD mentioned that “since the start of the monitoring process, there is no doubt that the legislative reforms have shifted Korean labor laws significantly in the desired direction.” Major examples include recognition of the principle of trade union pluralism, the legalization of teachers’ unions, freedom of public servants to join workplace associations, the gradual reduction of the list of so-called essential services, where compulsory arbitration applies, as well as recognition of the KCTU in November 1999 as the second national trade union center. In addition, the government has decided to allow trade union pluralism at the enterprise level from 2002. The report, however, listed some outstanding issues, including the prohibition of public servants from organizing and bargaining collectively, the prohibition of the payment of full-time union officials from January 2002, and the arrest and imprisonment of trade unionists⁷ (OECD 2000).

Second, the movement toward linking labor standards to trade and investment decisions has put another pressure on newly industrialized countries (NICs) such as Korea. With the advent of the WTO in January 1995, there have been voices (mainly from the United States and EU countries) advocating a link between international labor standards and the liberalization of international trade (called the *blue round*). Indeed, the link between trade and labor standards was a highly controversial issue at the 1996 Singapore Ministerial Conference. The rationale behind the link between trade and labor standards is that countries violating international labor standards take unfair advantage of labor exploitation, and it can be a ground for invoking trade sanctions. The labor standards referred to as the “core” ILO standards are the freedom of association, the right to collective bargaining,

⁶ Successive Korean governments have imprisoned labor activists mainly for illegal conduct of strikes. Among the 104 workers who were in prison as of July 2001, 54.8 percent (57 of 104 workers) were imprisoned for violation of procedural rules, such as violating the order of the Regional Labor Relations Commission to stop labor disputes and occupying the public roads illegally. Twenty-six percent (27 of 104) were involved in violence during labor disputes, such as throwing fire bottles. Ten percent (10 of 104) were imprisoned because they were involved in the Communist movement (*Korea Labor Daily News*, July 12, 2001).

⁷ Another point is the impact of international pressures on the bargaining attitude of parties. In the interview with this research team, an official of the Korean Employers Federation mentioned that “joining ILO and OECD clearly raised the aspiration level of labor representatives in national-level tripartite bargaining on labor standards. For example, before joining these organizations, the level of labor rights in East Asia countries (such as Taiwan, Singapore, and the Philippines) served as a target level, whereas after joining them (especially OECD), labor standards in advanced countries (in Europe and North America) became the reference point in improving labor standards in Korea.”

the prohibition of forced labor, equality of treatment and nondiscrimination in employment, and the minimum wage. At the conference, delegates from developing countries argued that linking labor standards to trade is a disguised instrument of protectionism by raising labor costs in developing countries in order to reduce their international competitiveness⁸ (WTO 1999, 2001). Although the idea was not realized at the conference mainly due to the opposition of developing countries, the movement was a formidable threat to countries such as Korea whose labor standards are believed to be inferior to international standards.

Another example is the report of the Overseas Private Investment Corporation (OPIC). In July 1991, the OPIC, an independent U.S. government agency that sells investment services to assist U.S. companies investing in some 140 emerging economies around the world, suspended its program in Korea because Korea had failed to take steps to adopt and implement internationally recognized worker rights. Consequently, government officials and employer groups in Korea paid close attention to the OPIC report on “internationally recognized worker rights in Korea.” In June 1998, OPIC determined that Korea now met the worker rights eligibility criteria applicable to its programs and resumed its service. The major steps taken by Korea since 1991 are shown in Table 4. All these trade-related organizations have prompted Korea to take actions to confirm global labor standards.

In early 1996, the tripartite actors in the IR system began to arrange a new institutional arena in which most labor issues could be discussed in a

TABLE 4
THE MAJOR STEPS TAKEN BY KOREA SINCE 1991

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- Joining the ILO and ratification of some ILO conventions
 - Legalization and de facto recognition of multiple unions at the national and industrial levels
 - Elimination of the prohibition on third party intervention in industrial disputes and its replacement with a notification provision for non-affiliated third parties
 - Establishment of works consultative committees for government workers as a prelude to full unionization
 - Progressive reduction in the list of “essential” public services ineligible to strike
 - Temporary removal of the prohibition on union involvement in political activity
 - Full extension of worker rights to workers in export processing zones
 - Amnesty for workers previously convicted or arrested for legitimate union activity
 - Reduction in the legal maximum weekly working hours
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SOURCE: OPIC (1998).

⁸ The present position of the WTO in this matter is that “labor standards are currently not subject to World Trade Organization rules and disciplines. . . . the International Labor Organization holds primary responsibility for labour issues” (WTO 2001).

formal way. In May 1996, the Presidential Commission on IR Reform was launched based on the agreement. One purpose of the commission was to improve Korean labor standards up to the level required by international organizations, such as the ILO and the OECD. The commission, consisting of representatives of labor, management, and the state, held a series of public hearings and panels of experts for 6 months in order to reach a consensus on the labor issues in question. Despite these efforts, the Presidential Commission on IR Reform was not able to reach complete consensus by November 1996.

Nonetheless, the ruling party at that time (the New Korea Party) decided to revise the labor law by the end of 1996. The government prepared a draft that mainly reflected employers' interests, and the ruling party passed the labor law at midnight on December 26, 1996, without the presence of the National Assembly members of the opposing parties. The unfair passage of the labor law induced the biggest general strike (with 1.5 million participants) in Korean history in January and February 1997. Because of the unprecedented magnitude of labor's opposition, the ruling and opposing parties agreed to revise the labor law again on February 17, 1997. After some conflict among the tripartite actors, the revision was completed on March 10, 1997.

Among the major contents of revision was a significant advance of basic labor rights. The 1997 revision of labor laws aimed at improving workers' well-being by strengthening basic labor rights while strengthening firm competitiveness by enhancing labor market flexibility. In return for the legalization of multiple unions, the legalization of layoffs (with a 2-year reservation for implementation) and flexible working hours systems were adopted.

The financial crisis of November 1997 led the three actors to form the Tripartite Commission, which otherwise would not have been possible because of the hostile relationship between labor and the state. Due to anticipated international pressures, the Korean government could not rely on its traditional authoritarian and oppressive labor policy to impose economic restructuring agendas on labor. The government had to resort to a more consensual system of IR, a radical change in official labor policy. In the past, the Korean government considered organized labor as an obstacle to economic development, tried to subordinate official labor unions to the state, and suppressed any independent labor movement. Creation of the Tripartite Commission implied that the Korean government regarded labor at least as a partner for negotiations and compromise. The Tripartite Commission has two purposes: to accomplish restructuring of the Korean economy and the labor market in a more consensual way and to revise Korea labor law according to OECD and ILO standards.

On January 20, 1998, all parties to the Tripartite Commission announced the first Tripartite Joint Statement identifying the goal of economic reform and the principle of fair burden sharing. On February 9, 1998, the Tripartite Commission agreed to major agenda items and announced the Social Agreement to the public. The major issues of the Social Agreement were very significant. In particular, in return for accepting immediate implementation of layoffs of redundant labor force, unions and workers gained additional legalization of basic labor rights. This point has been regarded as the main element of the Social Agreement. Tripartite representatives, with regard to basic labor rights, have agreed

- To allow the establishment of workplace associations for government employees beginning January 1999
- To guarantee the right to organize trade unions by teachers beginning July 1999
- To guarantee the right of unions to engage in political activities by revising the Elections Act and the Political Funds Act during the first half of 1998
- To recognize unemployed workers' right to join trade unions organized on the transenterprise level beginning in 1999
- To require that mandatory advance notice should be given 6 months before the unilateral termination of collective agreements
- To devise measures to provide tax benefits for trade unions at the earliest moment possible to facilitate financial independence of trade unions

The “Great Compromise” of February 1998 (as the popular press called the Social Compact) was the first autonomous agreement made by labor, management, and the state in an autonomous manner in Korea.⁹ The Social Compact improved the government’s crisis-management capacity and helped the country overcome the credit crunch.

Labor’s Strategic Responses. Previous discussions on the impact of globalization on labor mainly focus on the negative outcomes (Frenkel and

⁹ In fact, the “Great Compromise” in February 1998 was later rejected at the ratification vote by delegates from KCTU-affiliated enterprise unions. Because the political significance of the Social Compact was so enormous, this rejection was not taken seriously by the general public, and the legal status of the Social Compact was not questioned.

Petz 1998; ILO 1999a; Lee 1997). However, globalization and the financial crisis do not seem to have reduced the power and activities of labor in Korea. In fact, the financial crisis reversed the declining trend of union membership. Moreover, grass-roots organizing of small and medium-sized firms was strengthened after the financial crisis. Furthermore, strike activity rose after 1997. The movement to transform traditional enterprise unions into industrial unionism also was revitalized after the economic crisis.

As shown in Table 1, the unionization ratio in Korea reached its highest level, 18.6 percent, in 1989. The ratio then declined to 11.2 percent in 1997. However, the financial crisis reversed the declining trend. The unionization ratio rose in 1998 to 11.8 percent in 1999. The number of unionized workers increased by about 79,000 in 1999 partially because teachers' unions were made legal, and approximately 17,000 teachers newly joined teachers' unions in 1999.¹⁰

The financial crisis and resulting waves of massive layoffs sent mixed signals to unionized and nonunion workers. During the period of the financial crisis and employment restructuring, the FKTU, which traditionally was more cooperative in following government labor policies than was the KCTU, became independent of state influence. When the number of union members declined sharply due to massive layoffs, it was imperative for the FKTU to voice its own agenda to protect its members. Indeed, the FKTU had to compete with the KCTU to obtain its members' loyalty and support. Thus, since 1997, both the FKTU and the KCTU have called a series of general strikes to stop the waves of downsizing by aggressively opposing government-initiated restructuring programs. Despite these activities, some union members were disappointed by the failure of unions to protect their members.¹¹ Indeed, even workers at unionized *chaebol* companies became victims of massive layoffs, and unions could not protect them¹² (Jung 1999).

¹⁰ The prohibition of unionism and collective bargaining for teachers had been a subject of harsh criticism from international organizations since Korea joined the ILO and the OECD in the 1990s. For example, since 1991, the ILO has issued seven official recommendations to allow and legalize teachers' unions in Korea. Due to the increasing international pressures on this subject, the Korean government revised relevant laws in 1998 to guarantee the right to organize trade unions of teachers from July 1999.

¹¹ Interviewees from the *Daily Labor News* and the Korea Labor & Society Institute explicitly mentioned that since the financial crisis and the resulting employment reductions, the number of union members attending union meetings (especially among white-collar workers) had been noticeably reduced. The interviewees interpreted this trend as an indication of union members' disappointment at the powerlessness of their unions during downsizing drives.

¹² An interviewee from the FKTU mentioned that since the financial crisis, rank-and-file union members' interests in company financial situations had increased greatly, which reflected their concern with employment security. In particular, union members' interests in employee stock ownership programs (ESOP) has been amplified because they believed that they might change major management decisions such as restructuring and employment reduction through their influence as stockholders.

On the other hand, unorganized employees increasingly realized that they needed some protective mechanisms against the successive waves of layoffs because during the financial crisis nonunion employees were more likely to be victims of layoffs than were unionized employees. Since 1998, the desire of nonunion employees for employment security has been expressed in the form of grass-roots organizing. It has been increasingly popular for nonunion workers voluntarily to organize unions without any help from a higher-level union and to approach the KCTU or the FKTU. The KCTU's membership traditionally came from large establishments belonging to *chaebols*, but since 1988, employees in small establishments have tended to organize themselves and approach the KCTU for affiliation. For example, during the period January 1 to May 19, 2000, 153 newly organized unions (covering 15,207 workers) became affiliated with the KCTU. These newly organized unions were typically small; on average, each union covered only 99 workers. For both the FKTU and the KCTU, most of the newly affiliated unions represented white-collar employees, managerial employees, service workers, and the contingent labor force.¹³

Along with these developments, all dimensions of strike activities have risen since the financial crisis. As shown in Table 3, the number of strikes increased from 78 in 1997 to 250 in 2000. The number of workers involved in strikes rose from 43,991 employees in 1997 to 177,969 in 2000. Also, the number of worker days lost due to strikes jumped from 444,720 days in 1997 to 1,893,563 in 2000. In addition, the number of employer unfair labor practices claims filed by employees with regional labor committees rose from 495 in 1997 to 950 in 1999 (Korea Ministry of Labor 2000b). Such filings traditionally have been positively correlated with the magnitude of labor disputes in Korea. Interestingly, as shown in Table 3, the number of strikes due to employment and working conditions accounted for almost two-thirds of the total strike activities in the late 1990s (much greater than that of strikes due to wage issues). Employment-related issues have been more important bargaining subjects than wage issues in this period.

Another recent trend is a movement toward industrial unionism. The financial crisis and the massive layoffs led union leaders to realize inherent limitations of enterprise unionism. Since the financial crisis, union leaders increasingly have realized that enterprise-based unions cannot respond

¹³ Interviewees from both the FKTU and the KCTU stressed that almost all regional offices of the two union centers experienced the same increasing trend of grass-roots organizing of nontraditional sources such as white-collar employees, managerial employees, service workers, and the contingent labor force right after the financial crisis.

effectively to industrial- and national-level employment issues, such as industry-level restructuring plans forced by the government.

The movement toward industrial unionism existed before the financial crisis, but Korean labor laws enforced enterprise unionism by prohibiting other forms of unions until 1987. Two revisions of labor law in 1987 and 1997 made it legal and easier to establish industrial unions. Thus both the increasing need for industrial organization and the changes in labor law accelerated the movement toward industrial unionism. For example, the formation of the Banking Employees' Industrial Union was a direct response to the first round of banking industry restructuring in 1998, which led to layoffs of approximately 40 percent of employees in the banking industry. The immediate purpose of transforming existing enterprise unions into one industrial union, the Banking Employees' Industrial Union, was to protect the job security of remaining employees against an expected second round of employment restructuring in 2001.

The shift to industrial unionism has been decisive and swift. In the 2-year period 1998–2000, almost 20 industrial unions were formed.¹⁴ Most of these industrial unions were formed by merging individual enterprise unions. The combined membership of these industrial unions reached to 32.8 percent of the total union membership in Korea (502,310 industrial union members out of 1,529,560 total union members in Korea) as of July 2001. Industry-level bargaining, however, is only conducted in a limited number of sectors, such as education and banking, mainly due to employers' refusal elsewhere. In 1 to 2 years, the membership of industrial unions is expected to be roughly 40 to 50 percent of the total union membership in Korea. Because it is not expected that all enterprise unions will transform themselves into industrial unions for various reasons, future trade unionism in Korea most likely will be characterized by a mixture of enterprise unions and industrial unions.

In the long run, the movement toward industrial unionism is expected to improve the organizing potential of Korean labor unions. As the number of union members in the manufacturing sector decreases due to downsizing, plant closings, and bankruptcies, the importance of organizing expanding

¹⁴ Industrial unions belonging to the KCTU include the Korean Teachers and Educational Workers Union (87,000 members), the Korean Health and Medical Workers (39,000 members), the Korean Metal Workers Union (32,000 members), the Korean Press Union (18,800 members), the Korea Securities Trade Union (15,600 members), and the Korean Life Insurance Labor Union (14,400 members). Industrial unions belonging to the FKTU include the Korean Tax Workers Union (98,000 members), the Korea Financial Industry Union (50,000 members), the Korean Postal Workers Union (29,000 members), the Korean Union of Teaching and Educational Workers (28,000 members), the Korean Railroad Workers' Union (27,600 members), and the Korean National Electrical Workers' Union (25,000 members).

sectors of the economy has become greater. Enterprise unions, however, have only limited incentives and resources to organize workers across firm and sector lines (Freeman and Rebeck 1989). In particular, enterprise unions in Korea have not been successful in organizing workers in such emerging sectors as service and information technology and the contingent labor force. Industrial unions are expected to be more interested and effective in organizing employees in these sectors.

In sum, recent developments in Korean trade unionism since the 1997 financial crisis show a dissimilar pattern to the declining trend of union activities in other countries such as the United States, Japan, the United Kingdom, and Germany. These developments include (1) a slight increase in union membership and the unionization ratio, (2) an increasing trend of grass-roots organizing and strike activity, and (3) a movement to transform enterprise unions to industrial unions. These developments run contrary to the popular belief that globalization automatically weakens the power and activity of unions.

Conclusion

In this article we have reviewed the backgrounds of Korean IR and examined recent changes with a special focus on globalization trends in the 1990s. Globalization is a long process, and it may be too early to evaluate the outcomes. However, the Korean case, at least tentatively, shows that globalization in the 1990s has two contrasting effects on labor rights. There is the positive side of globalization in terms of worker rights and labor standards, but there is also a negative side in terms of working conditions and employment practices.

Globalization in the 1990s influenced various labor market outcomes in a negative way. Some labor market outcomes (i.e., nominal and real wages, unemployment rate, and the ratio of employee compensation to GDP) during the period of the financial crisis showed a V-shaped form, implying a sharp recession followed by a steep recovery. However, other labor market outcomes (i.e., new trends in HR management, increased use of contingent labor, widened income inequalities, and chronic unemployment) proved to have a more fundamental impact on IR and HR management. In addition, political and institutional globalization in the 1990s led various international organizations (the ILO, the OECD, and the OPIC) to play important roles in improving labor standards in Korea.

Strike activity has risen, and the movement to transform traditional enterprise unions into industrial unionism has accelerated. In some sense,

the financial crisis accelerated preexisting moves on both the management and labor sides. For management, it accelerated the movement toward labor market flexibility, whereas for labor, it accelerated the movement toward the establishment of industrial unionism. The maintenance of union strength and militancy in Korea can be attributed to the organizational capacity of Korean unions to mobilize support from the general public, the desire of nonunion employees for a union as a protective mechanism against downsizing, and Korean union leaders' strategic choice to transform enterprise unions into industrial unionism.

At the risk of oversimplification, it can be concluded that the positive effects of globalization are found in changes of IR institutions such as laws and representation structures, whereas the negative effects are concentrated mainly on HR management practices and actual relationships among IR actors. More important, it was found that the relationship between globalization and IR outcomes could be moderated by IR actors. The Korean case clearly shows that global environments affect labor rights and conditions but also that there is room for strategic choices among the IR actors.

Korean trade unions showed unusual dynamism in recent years. Thus the choices made and actions done by Korean labor may not be feasible for unions in most other countries under less favorable circumstances. Despite this reservation, the Korean case clearly shows that intensified competition can result in stronger and strategic responses from labor by stimulating employees' interest in and reliance on trade unionism, a point Commons (1918) made a long time ago.

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