

## PROMISES AND REALITY OF LABOR REFORM IN SOUTH KOREA<sup>1</sup>

### *Promessas e realidade da reforma do trabalho na Coreia do Sul*

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#### Informações do artigo

Recebido em 23/09/2019

Aceito em 05/11/2019

doi: <https://doi.org/10.25247/2447-861X.2019.n248.p766-787>



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#### Como ser citado (modelo ABNT)

LEE, Jeong-Hee. Promises and reality of labor reform in South Korea. **Cadernos do CEAS: Revista Crítica de Humanidades**. Salvador, n. 248, set./dez., p. 766-787, 2019. DOI: <https://doi.org/10.25247/2447-861X.2019.n248.p766-787>

#### Abstract

The labor market in Korea is characterized by a 'segmented labor market' in which there exists discrimination based on enterprise size and employment type. It is believed that the labor market, along with fragmented industrial relations, has led to a vicious cycle in which inequality continues to widen. The birth of the Moon Jae-in government in May 2017, the new administration pledged to create more jobs, to reduce the number of non-regular workers, to improve their working conditions, and to build a society that respects labor. Such pledges raised hopes that the creation of an alternative labor regime would be possible to a certain extent, moving beyond the limitations of the 1987 regime. The labor world did applaud the government's initial efforts to eradicate the so-called labor jeokpye (deep-rooted vices), convert non-regular workers into regular workers in the public sector, raise the minimum wage, and limit the maximum working hours; but now it argues that the government has changed its direction in the process of implementing the policies in the labor field. A closer look at the industrial relations in 2018 raises concerns rather than expectations.

**Keywords:** Labor reform. Labor market. Labor rights.

#### Resumo

O mercado de trabalho na Coreia é caracterizado pela segmentação, existindo discriminação com base no tamanho da empresa e no tipo de emprego. Acredita-se que o mercado de trabalho, juntamente com as relações industriais fragmentadas, tenha levado a um ciclo vicioso que eleva a desigualdade. No nascimento do governo Moon Jae-in, em maio de 2017, o novo governo prometeu criar mais empregos, reduzir o número de trabalhadores não regulares, melhorar suas condições de trabalho e construir uma sociedade que respeite o trabalho. Tais promessas suscitaram esperanças de que a criação de um regime de trabalho alternativo fosse possível, até certo ponto, ultrapassar as limitações do regime de 1987. O mundo do trabalho aplaudiu os esforços iniciais do governo para converter trabalhadores não regulares em trabalhadores regulares do setor público, aumentar o salário mínimo e limitar as horas máximas de trabalho, mas agora argumenta que o governo mudou de direção no processo de implementação das políticas no campo trabalhista. Um olhar mais atento às relações industriais em 2018 gera preocupações e não expectativas.

**Palavras-chave:** Reforma trabalhista. Mercado de trabalho. Direitos trabalhistas.

<sup>1</sup> This paper is originally based on Lee (2019). For helping readers better understand the Korean situation, the author added some basic information on labor market.

## Introduction

When the so-called “Candlelight Revolution,” a vivid demonstration of South Korean-style participatory democracy, led to the birth of the Moon Jae-in government in May 2017, the new administration pledged to create more jobs, to reduce the number of non-regular workers, to improve their working conditions, and to build a society that respects labor. Such pledges raised hopes that the creation of an alternative labor regime would be possible to a certain extent, moving beyond the limitations of the 1987 regime. However, a closer look at the industrial relations in 2018 – President Moon’s second year in office – raises concerns rather than expectations. Facing numerous challenges the administration has lost policy momentum and the “growth theory” has been re-emerging. The government has been criticized for being slow and incomplete in delivering on its pledges to build a society that respects labor. Against such backdrop, this paper aims to evaluate the industrial relations in 2018 and present the outlook for 2019.

This paper is structured as follows. Chapter 2 briefly presents the structure and characteristics of the labor market in Korea, and Chapter 3 analyses the impact of the Moon government’s labor reform policy on industrial relations by focusing on major statistics. Chapter 4 addresses the question of whether the government’s labor reform policy can be a catalyst for the formation of an alternative labor regime and then evaluates major policies implemented during the first and second years of the Moon administration. Chapter 5 critically analyses the direction of labor reform policy based on an evaluation of Chapter 4 to draw implications for industrial relations in 2019. Finally, Chapter 6 concludes that continuous effort should be exerted by the administration for the realization of a new labor regime.

## Overview of labor market

The labor market in Korea is characterized by a 'segmented labor market' in which there exists discrimination based on enterprise size and employment type. It is believed that the labor market, along with fragmented industrial relations, has led to a vicious cycle in which inequality continues to widen. In this chapter, the structure and characteristics of the Korean labor market are presented in the form of key statistical indicators.

## Employment

As of 2017, the economically active population stands at 27,748,800, which is 63.2% of the total population aged 15 or over (see Table 1). It dropped slightly from 62.1% in 2002 to 61.6% in 2012 and surpassed 63% in 2017. The unemployment rate has remained steady at 3.7% in 2017, slightly rising from 3.3% in 2002.

Table 1 - Employment Trend (Unit: 1,000 persons)

	Population aged 15 or over	Economically active population			Labor force participation rate (%)	Unemployment rate (%)
			Employed persons	Unemployed persons		
2002	37,014	22,982	22,232	751	62.1	3.3
2007	39,180	24,351	23,561	790	62.2	3.2
2012	41,857	25,781	24,955	826	61.6	3.2
2015	43,239	27,153	26,178	976	62.8	3.6
2016	43,606	27,418	26,409	1,009	62.9	3.7
2017	43,931	27,748	26,725	1,023	63.2	3.7

Note: The enlisted soldiers and policemen, public service workers and the convicted prisoners are excluded from the population aged 15 or over.

Source: Statistics Korea, Economically Active Population Survey; Statistics Korea, Explore Korea through Statistics 2018

Looking at the employment rate (as of 2017) by gender and age group, the proportion of males (71.2%) remains unchanged relative to the previous year, and the proportion of females (50.8%) increased by 0.5%p. The employment rate of 20-29 year-olds (57.6%) fell 0.6%p from the previous year, leading to stagnation in the overall employment rate. In the case of women, the employment rate was higher than that of men in the 20-29 age range, but there remains a disproportionately high male skew in the age groups thereafter. In particular, the ratio of males in the 30-39 age group was 90.2%, while that of females was 59.4%.

Table 2 - Employment rate by age and gender in 2017 (Unit: %)

	Employment rate(%)			Change over previous year(%p)		
	total	male	female	total	male	female
total	60.8	71.2	50.8	0.2	0.0	0.5
15-29	8.4	7.6	9.3	0.4	0.4	0.5
20-29	57.6	55.6	59.4	-0.6	-1.1	-0.2
30-39	75.3	90.2	59.4	0.6	0.0	1.2
40-49	79.4	92.6	66.0	0.1	0.2	0.2
50-59	75.3	87.7	62.9	1.0	0.8	1.2
60+	39.9	51.5	30.6	0.4	0.2	0.6

Source: Statistics Korea (2018), Korean Social Trends (2018)

Looking at the unemployment rate, it is stable at 2-3% in the 30s and beyond, and that in the 20s age group is 8.4%, indicating that this age group is experiencing the biggest difficulties in employment. In particular, the unemployment rate for males in their 20s increased by 0.6%p from the previous year to 11.5%, indicating that they are the most vulnerable group among all age and gender groups.

## Wage

According to Kim (2019), as of August 2018, the average monthly wage of regular workers in companies with 300 or more employees is 4.12 million KRW, while that of non-regular workers is 2.61 million KRW (see Table 3). Average wages of regular workers in enterprises with less than 5 employees are 2.4 million KRW, and that of non-regular workers are 1.28 million KRW. If we set the wage of regular employees at enterprises employing 300+ persons to 100, then the wage of non-regular workers is 63.2, and the wages of regular and non-regular workers at enterprises employing less than 5 persons is 58.2 and 31.0 respectively. At times, those at SMEs claim that there is not much difference in wages between regular and non-regular workers, relative to the substantial wage gaps with those at large enterprises. However, the wage gap between regular and non-regular workers is very large across all enterprise types, ranging from 53% to 64%. It is safe to say that non-regular workers in SMEs are suffering from double discrimination based on enterprise size and type of employment. The labor market in Korea is not merely a dual labor market, but rather a multi-layered segmental labor market whereby discrimination based on the size of a corporation (or business) and that based on employment types overlap.

Table 3 - Monthly wage and wage gap by enterprise size and type of employment

	Monthly wage (10,000 KRW)			Wage gap 1(%)		Wage gap 2(%)	
				300+ persons, Regular worker=100		By enterprise size Regular worker=100	
	Regular	Non-regular	Total	Regular	Non-regular	Regular	Non-regular
1-4 persons	240	128	159	58.2	31.0	100.0	53.3
5-9	265	156	206	64.2	37.8	100.0	58.8
10-29	293	168	241	70.9	40.8	100.0	57.5
30-99	323	191	287	78.4	46.3	100.0	59.0
100-299	345	221	318	83.7	53.7	100.0	64.2
300+	412	261	391	100.0	63.2	100.0	63.2
Aggregate	321	163	256	77.7	39.4	100.0	50.7

Source: Kim(2019) 'Structure and Issues of Korean Labor Market,' KLSI Issue paper, 105

### Industrial relations

It is well known that the higher the union organization rate, the higher the concentration and coordination of collective bargaining at the national or industry level lead to less wage inequality and higher wage for low-wage workers. In Korea, collective bargaining is decentralized by company, and coordination among the parties is not smooth. Korea's wage inequality is second only to Mexico among OECD member countries and this is partly due to wage and industrial policy, but can also be attributed to low union organization rate and low collective agreement coverage scope (Kim, 2016). Furthermore, as the industrial relations sphere is dominated by enterprise-level bargaining, adjustment processes between parties do not run smoothly. The Korean labor movement has been making efforts to establish industry-level unions to overcome myopic industrial relations. As a result, the number of supra-enterprise union members (comprising only 5% at the time of the Asian financial crisis) grew to 1.18 million (56.6%) by the end of 2017. However, at the enterprise level, management insists on bargaining in a unified window, effectively refusing to comply with industry-level bargaining and maintaining the fragmented industrial relations.

### Statistics on 2018 industrial relations

The Chapter first examines the characteristics of industrial relations in 2018, focusing on key statistical indicators. The first indicator is the wage negotiation settlement rate, referring to the percentage of business establishments with 100 or more permanent employees that have completed wage bargaining. It appears wage bargaining is being

concluded at a faster pace than other years. As of the end of November 2018, the wage negotiation settlement rate was 69.0%, higher than that of the previous year (64.4%) (See Figure 1). This means that the differences between labor and management were relatively small in 2018. On the whole, the wage negotiation settlement rate has been on a downward trend since 1998 (89.5%), and the slight increase this year seems to be due to the fact that many companies have opted for a concession bargaining approach in the face of the economic downturn and industrial restructuring crisis.

Figure 1 - Yearly Wage Negotiation Settlement Rate (as of the end of November) (Unit : %)



Note: Establishments with 100 or more Regular Employees.

Source: Survey of Wage Negotiation Settlement, Ministry of Employment and Labor.

The second indicators are the number of strikes and of working days lost. As of the end of November, 123 strikes took place in 2018, which was higher than that of the previous year (91 strikes). The increase seems to be the result of rising strikes in establishments in the shipbuilding industry going through restructuring, and in public institutions and hospitals where conflicts are taking place due to such issues as the conversion of non-regular workers to regular status and personnel recruitment. On the other hand, the number of working days lost was 515,347 in 2018, down from the same period last year (623,381). This figure seems to reflect the fact that there were a relatively small number of solidarity strikes by industry/sector and of long-term strikes in large enterprises or public institutions compared to the average year. The highest number of working days lost since 2000 was recorded in 2016, during the final period of President Park Geun-hye's administration, since there were

frequent strikes in the public sector against the government's push to introduce a performance-based pay system as well as prolonged strikes led by unions in the broadcasting industry demanding fair broadcasting and resignation of their CEOs (See Figure 2).

Figure 2 - The Number of Strikes and the Number of Working Days Lost (Unit : case, thousand days)



Source : Report on Labor Trends of Regional Labor Agencies and Number of Working days Lost, Ministry of Employment and Labor

The third and most important indicator is the status of trade unions organization. The number of union members has been increasing steadily. Some of the characteristics observed from the 2017 survey by the Ministry of Employment and Labor (MOEL) are as follows: First, the total number of trade union members exceeded 2 million for the first time ever. According to the Current Status of Korea's Trade Unions Organization (2017) prepared by the MOEL in December 2018, the latest number of trade union members was 2,089,000, up by 122,000 than the previous year (1,967,000). It was also 156,000 more than the number of union members in 1989 (1,932,000) when the trade union density peaked at 19.8%. Considering that the total number does not include the unions classified as outlawed in the 2017 survey, such as the Korean Government Employees' Union (KGEU) (47,000 members)<sup>2</sup>, the Korean

<sup>2</sup> Among the 90,000 members of the KGEU that obtained legal recognition in 2018, only those who previously belonged to the Court Government Employees' Union (9,000) and the Korean Democracy Government

Teachers and Education Workers Union (KTU) (49,000 members), and the union representing independent contractors including drivers for hire, it is estimated that the actual number of trade union members in Korea would at least be up by 100,000. Thanks to the increase in the number of trade union members, the trade union density in 2017 was 10.7%, up by 0.4%p from the previous year (10.3%).

Second, the new union members are analysed as those working at establishments that converted the status of non-regular workers into regular employees; firms accused of abusing their employees ('gapjil'); companies pursuing the 'no union policy'; subcontractors and service firms; and establishments in the service and IT industry. It is noteworthy that many vulnerable workers who had not been able to have a voice for a long time formed and joined trade unions. It can be said that such growth in union membership is due to a combination of factors: the government's pledge to guarantee basic labor rights and to build a society that respects labor; the strategic organization project of the trade union circles; and the increased awareness among workers of their basic labor rights.

Third, it can be confirmed that union membership has increased at supra-enterprise level. While the proportion of enterprise trade unions among all unions in terms of membership dropped from 44.7% in 2016 to 43.4% in 2017, the proportion of supra-enterprise trade unions increased from 55.3% in 2016 to 56.6% in 2017. Specifically, 83.1% of the Korean Confederation of Trade Unions (KCTU) members also belonged to supra-enterprise trade unions, higher than the percentage shown by the Federation of Korean Trade Unions (FKTU) members (45.8%). The fact that such organizational changes are occurring in Korea where enterprise-level bargaining has been dominant raises the need for all stakeholders to promote collective bargaining at supra-enterprise level and for the government to provide the needed institutional support. Fourth, based on the statistics of Korea's two major umbrella unions as of 2017, the FKTU had a total of 872,923 members, and the KCTU had a total of 711,143 members. Compared with the previous year, their membership increased by 31,206 and 61,186, respectively, and the increase of KCTU was twice as big as that of FKTU. Out of the total number of union members in Korea, the share

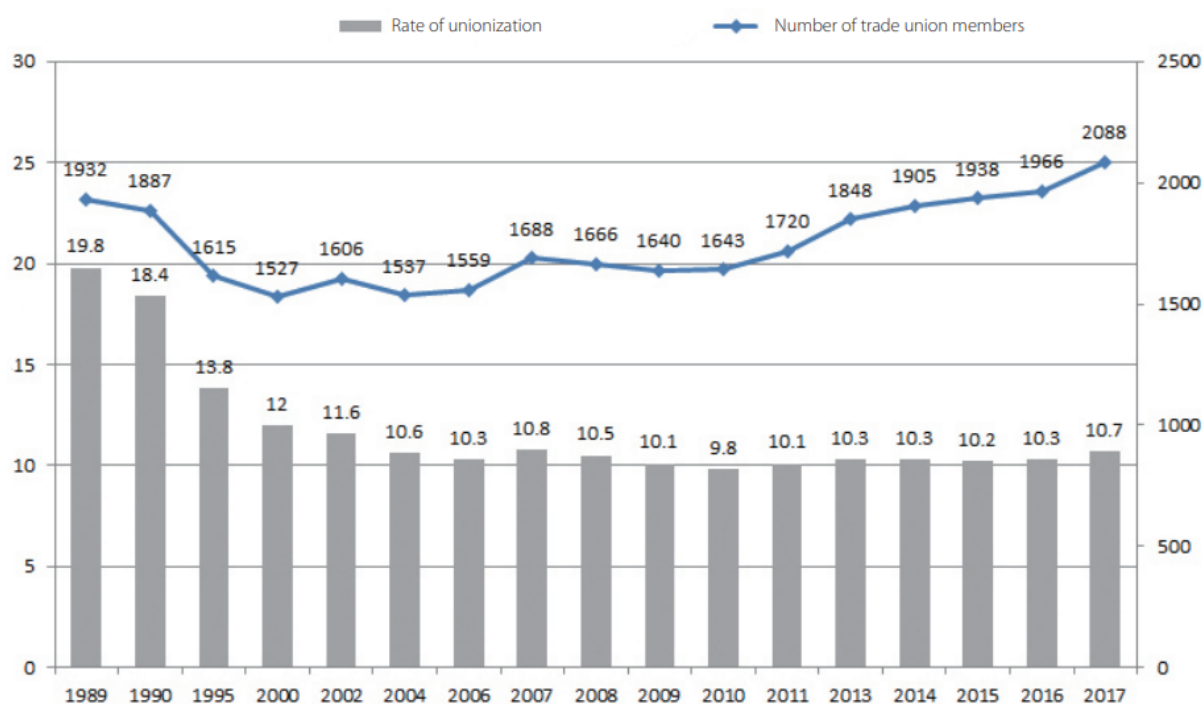
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Employees' Union (34,000) were counted in the 2017 survey for the Current Status of Korea's Trade Unions Organization (Source: Korea Daily Labor News; December 21, 2018).



of FKTU membership was 41.8%, down by 1%p from the previous year (42.8%) while the proportion of KCTU membership was 34.0%, up by 1%p from 2016. The number of trade union members continued to rise in 2018, and both the FKTU and the KCTU report a total membership of almost a million or just over a million in 2018.

Figure 3 - Trends in union density and the number of union members (Unit : %, thousand persons)



Source : Ministry of Employment and Labor(2018).

Before moving on to the overall evaluation of industrial relations, it is important to note the difficulty of finding any quantitative indicators regarding employers' associations. On the subject of employer's associations, there are no reliable statistics showing the status of organization, distribution by industry, or employer organization density. Thus, it is judged that research and discussion on the significance and the role of employers' associations are necessary in the process of reforming the existing industrial relations. However, it is worth mentioning that, among the organizations that have traditionally functioned as employers' associations, the Federation of the Korean Industries (FKI) greatly diminished in its role in the industrial relations of 2018, while the Korea Chamber of Commerce and Industry (KCCI) and the Korea Federation of Micro Enterprises (KFME) were relatively active.

## Transitioning Period for the Existing Labor Regime

### Transitioning into a new labor regime and directions

The Moon Jae-in administration was launched in May 2017, and that year bore significance as it marked 30th year since Korea's Great Workers' Struggle in 1987 and 20th year since the 1997 Asian financial crisis. Thus, critical reflection on the existing labor regime and discussion about transitioning into a new labor regime began to take place. Criticisms of the existing labor regime were raised, including the authoritarian government's control of labor, labor flexibility strategies taken by efficiency-driven companies, distributive bargaining based on confrontational industrial relations at enterprise level, existing unions mainly working for regular workers and failing to represent the interests of non-unionized workers, and government policies focused on economic growth. On the other hand, directions for a new labor regime were proposed with an emphasis on participation and cooperation, fairness and coordination, expansion of employee interest representation, and inclusive growth (Jung, 2018). Meanwhile, attention was given to whether the labor policies of the Moon Jae-in government will serve as a stepping stone for the transition to a new labor regime. The government has proposed three major goals of its economic policies, namely income-led growth, innovative growth and a fair economy; and promised to move away from the old paradigm that led to income polarization and unfair economy and take a paradigm of "people-focused economy" as its main policy goal. However, with the second year of the new administration unfolding, the government is being criticized over a lack of progress on labor policies. Among the income-led growth policies, only the minimum wage hike has been quite visible. Efforts made in reforming the chaebol to improve the structural soundness of the Korean economy, in revitalizing the local businesses and supporting micro-enterprise owners, in improving the property tax system have been criticized as insufficient. Under the slogan of innovative growth, the government pledged to advance the manufacturing industry and respond to the 4th industrial revolution, but there have been no concrete industrial policies in the field, and the innovation strategies for such key industries as automobile, shipbuilding and steel have also been criticized as inadequate. Against such background, labor circles are concerned that the policy of "respecting labor and reforming chaebol" is gradually turning into the policy of "respecting chaebol and reforming labor." As far as labor issues are concerned, there are three elements required to build a society that respects labor

(Shin Kwang-young, 2018), i.e. fair reward, social recognition, and participation; there have not been much tangible results in those areas. First, “fair reward” refers to a fair distribution of economic rewards, which can be achieved by addressing the problem of low wages and working poverty, by narrowing the wage gap between large and small enterprises, and realizing equal pay for equal value labor in the long run. Though a certain level of wage increase was achieved until the second year of presidency through the minimum wage hike and the conversion of non-regular workers to regular employees, it is hard to say that the discriminatory distribution structure has really improved. Even within the government, some evaluated the minimum wage hike during the first and second years of the administration as “drastic” and suggested the need to slow down. The government also faced criticism that its policies on micro-enterprise owners and employment of low-wage workers have been ineffective. In response, it revised the minimum wage law to expand the scope of wages included in the minimum wage, which again caused labor circles to criticize that the government’s initial commitment to deliver on its pledges has faded. On the other hand, efforts to enhance economic soundness, such as improvement of unfair trading practices between large corporations and SMEs, prime contractors and subcontractors, aimed at improving the distribution structure, received relatively less attention. Second, “social recognition” refers to workers being treated respectfully by employers and colleagues in their workplace, and Korean society is particularly weak in this aspect, even dubbed ‘Republic of Gapjil’ (‘Gapjil’ means abusive treatment of subordinates by people in power). In recent years, the controversy over gapjil in the workplace has been spurred by physical, verbal, and sexual violence, and it is a positive sign that the atmosphere of society and the workplace are changing little by little, enabling victims to come forward with their experiences. However, it is also necessary to make continuous efforts to ensure adequate working hours by abolishing excessively long working hours, and by establishing institutional mechanisms to protect the right to work with human dignity and to guarantee the right to work without being injured or killed. At the same time, the recent amendment to the law that prohibits workplace harassment using individuals’ status can be evaluated in a positive light. Third, “participation” means that workers exercise the right to speak and participate in decision making that affects their welfare. In other words, they are guaranteed the right to organize and collective bargaining through trade unions to participate in the process of determining their wages and working conditions, and allowed to take part in management and active social dialogue. In

terms of the right to organize and the right to negotiate, there are ongoing discussions on how to guarantee the basic labor rights for certain groups of workers—teachers, public officials in certain occupations and positions, and independent contract workers. The introduction of the board-level employee representation system, one of the campaign pledges made to promote participation of workers in the internal decision-making process of firms, is still being reviewed for feasibility. Progress with social dialogue, referring to workers' participation in the policy making process, has been visible through the launch of the Tripartite Commission (currently named the "Economic, Social and Labor Council"), but the KCTU, one of the main stakeholders, has refused to participate. It should be noted that while the government is consistently presenting policy directions in implementing labor policies, it has been transferring a number of potentially controversial issues to the Tripartite Commission agenda. Such move raises concerns about the over-politicization of social dialogue, and can be viewed as an attempt to simply utilize an organization for social dialogue since the government has already presented its policy directions. In the meantime, it is problematic that discussions on how to restructure collective negotiations, a key axis of industrial relations, have not been taking place as desired. Policy efforts to reform the current structure of collective negotiations—segmented at enterprise level, without any active coordination mechanism—into one operating at supra-enterprise level have not yet materialized.

#### Evaluation by issue

##### *The Minimum Wage*

The minimum wage recorded double-digit growth for two consecutive years. The minimum wage for 2018 was 7,530KRW (up 16.4% year-on-year) and the minimum wage for 2019 was 8,350KRW (up 10.9%). The goal of achieving the minimum wage of 10,000KRW by 2020 has become virtually impossible to achieve. There have been varying evaluations of the level of hike so far. Labor and management circles stood at very different standpoints: the former saying the increase rate was below expectations; and the latter claiming the increase was likely to push SMEs and micro-enterprise owners to the breaking point and reduce the overall number of jobs. Coupled with the deterioration of employment indicators in 2018, the controversy over the minimum wage level has expanded to the issue of the current

administration's economic policies. Meanwhile, the National Assembly passed a revised bill on the minimum wage in May to expand the scope of wages included in minimum wage entitlements. In response, the labor world argued that the minimum wage hike would not lead to substantial wage increases for low wage workers. The controversy over the scope of inclusion continued until the end of the year, and the revised bill which includes weekly holidays in calculating the minimum wage was deliberated and resolved at the Cabinet Meeting on the last day of 2018.

### *Conversion of Non-regular Workers to Regular Status*

The conversion of non-regular workers to regular status continuously took place in the public sector. As a result of such conversion during the first and second year of presidency, a total of 172,000 non-regular workers in the public sector were selected for conversion, of which about 134,000 completed the conversion process (as of December 31, 2018, Ministry of Employment and Labor). Although the regularization policy for non-regular workers had been promoted in the past under the Roh Moo-hyun government, the Lee Myung-bak regime and the Park Geun-hye administration, it is considered by many that the current administration's regularization policy implementation is much faster in speed and bigger in scale. Also, the government received a positive evaluation due to the fact that it took the lead in addressing the issue of non-regular workers starting from the public sector from the very early stage of administration, and that it included not only directly employed workers (fixed-term) but also indirectly employed ones in the scope of workers eligible for conversion. However, there exist conflicts between labor and management because of the fact that certain workers engaged in jobs of a permanent and continuous nature have been excluded from the conversion process and that conversion takes place in the form of regular employment by a subsidiary rather than direct employment by public institutions. Some have pointed out that conversion of non-regular workers to regular status violates the principle of fair recruitment.

### Limiting the grounds for using non-regular workers and protecting vulnerable workers

The core of the current government's policy on improving the employment structure is the introduction of a system limiting the grounds for using non-regular workers. Under this system limiting at the grounds under which non-regular workers could be hired, regular

employment will be required for jobs of a permanent and continuous nature and those involving life and safety-related duties, and non-regular employment will only be allowed in exceptional cases such as childbirth and leave. In February 2018, the government established a taskforce including experts to discuss measures to revise the Act on the protection, etc. of fixed-term and part-time employees and the Act on the Protection, etc. of Temporary Agency Workers, but did not include this as part of key bills at the regular session of the National Assembly. Although discussions on limiting the grounds for using non-regular workers have not made much progress, some amendments have been made to the existing laws to alleviate discrimination against non-regular workers. First, with the enforcement of the revised bill of the Enforcement Decree of Equal Employment Opportunity and Work-Family Balance Assistance Act on May 29, any workers who have been working for more than six months are allowed to apply for childcare leave. Second, the Equal Employment Act, which prohibits gender-based discrimination in wages, promotion, and age limits, etc., will further apply to businesses employing less than 5 workers beginning in January 2019. Third, from January 1, 2018, up to 90% of the social insurance premiums (national pension & employment insurance) will be subsidized for low wage workers employed in workplaces where less than 10 workers are employed. The standard for defining low wage was raised from less than 1.4 million KRW per month to less than 1.9 million KRW per month. Fourth, industrial accident compensation insurance has been applied to all workplaces employing at least one worker since July 1, 2018. The employer must compulsorily join employment insurance and industrial accident compensation insurance within 14 days of first employing a worker. As can be seen from the above, the eligibility and benefits of social insurance, as well as the scope of workplaces where discrimination is prohibited are expanding, reflecting the outcome of the government's effort to deliver on its pledges. However, since multi-layered discrimination and gaps still exist in the labor market, it is pointed out that the speed of policy execution should be raised.

#### Reducing working hours (achieving work-life balance)

The government's pledge for reducing working hours materialized in March 2018 when the Labor Standards Act of Korea was amended. First, a 52-hour cap was introduced on weekly working hours. When the 40-hour statutory workweek was introduced in the September 2003 revision, conflicting views were presented surrounding whether to include

holiday work into overtime work calculations, resulting in different interpretations such as 68 hours (administrative interpretation), 60 hours, and 52 hours, etc. Now that the revision bill states “one working week refers to seven days including holidays” (Article 2-1 of the Labor Standards Act), it clearly stipulates that the maximum weekly working hours will be 52 hours. The 52-hour cap will be phased in according to company size. Second, the government decided that the statutory holidays of government offices will be applied to the private sector. Third, it abolished double payment of allowances and specified holiday work allowances. According to the revision bill, the employer will additionally pay 50 percent of the ordinary wages for less than 8 hours holiday work, and additionally pay 100 percent of the ordinary wages for more than 8 hours holiday work. Fourth, the number of special occupations that are allowed unrestricted labor was reduced from twenty-six to five (land transport, water transport, air transport, other transport services, and healthcare industry). Even for these five types, the law requires that employees be granted at least 11 hours of rest between two working days. Meanwhile, management circles have been demanding the improvement of the current system, voicing concerns that the reduction of working hours will result in the shrinking of business activities. They claim it is necessary to extend the unit period of the flexible working hour system<sup>3</sup> and improve the special overtime work system to meet the needs of the enterprises where long work hours are inevitable for a certain period of time. To address such concerns of the field, the government pledged to expand the unit period of the flexible working hour system, and the related discussions are taking place at the Committee on Improving the Work Hour System established under the Tripartite Commission. However, controversy is expected as the labor world is criticizing such move, saying that the original purpose of the working hour cap is fading and it will cause side effects such as the infringement of health rights.

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<sup>3</sup> The flexible working hour system allows an employer to extend work hours in excess of the statutory work hours in a particular day or in a particular week as long as the average working hours over a given period conform to the statutory work hours (maximum 52 hours per week) without being penalized or having to pay overtime allowances.

## Guaranteeing the basic labor rights

One of the key elements in 'building a society that respects labor' proposed by the current administration is guaranteeing the basic labor rights of workers, which is also confirmed by the government's pledge to ratify the International Labor Organization's (ILO) Fundamental Conventions. The administration pledged to ratify 4 Fundamental Conventions including 'Freedom of Association and Protection of the Right to Organise Convention' (No. 87), 'Right to Organise and Collective Bargaining Convention' (No. 98), 'Forced Labor Convention' (No. 29), and 'Abolition of Forced Labor Convention' (No. 105). To this end, the Committee on Improving the Industrial Relations System and Practices established under the Tripartite Commission has been discussing measures to revise the domestic laws; and presented an agreement prepared by members of public interests as a legislative task on November 20. The members of public interests recommended the revision of the Trade Union Act and the Teachers' Union Act, which limit the union membership of laid-off workers and the unemployed; and the revision of provisions within the Public Employees' Union Act which restrict the joining of unions based on jobs or positions. It is noteworthy that the KGEU was recognized as a legal union within 9 years of its establishment. The KGEU was founded in 2002 and merged with the Korean Democracy Government Employees' Union and the Court Government Employees' Union, and in the process of notifying the establishment of the new union, the issue of laid-off workers joining the union came to the fore and, as a result, it was classified as outlawed. After the launch of the Moon Jae-in government, the KGEU engaged in several working-level consultations with the MOEL, and partially amended its rulebook allowing laid-off workers to join as union members in early 2018. It submitted the registration form again and received the certificate as a legal union. Unlike the KGEU, the KTU is still classified as outlawed under the current union law even if the reason for initially being outlawed was the same as the KGEU—limiting the union membership of laid-off workers.

## Korean-style organization for social dialogue

The government pledged to establish a Korean-style organization for social dialogue to improve the dual structure of the labor market and to get ready for the diversification of employment and jobs resulting from the 4th industrial revolution. It promised to formulate a basic plan to build a society that respects labor by accomplishing a great tripartite



compromise. Given the criticism of labor circles of the existing organization for social dialogue, the new organization was first established as a commission of representatives from labor, management and government. After a series of discussion, an agreement was reached with regard to the official name (Economic, Social and Labor Council), characteristics (focused on workers' and employers' representatives), and the plan to expand participation of vulnerable groups (youth, women, non-regular workers, mid-sized enterprises, SMEs, and micro-enterprise owners) and the plan to set up committees by subject and by industry. And the Act on the Establishment and Operation of the Economic, Social and Labor Council which contains all of these agreements was approved at the National Assembly on May 28. As such, the framework for the new social dialogue organization was created, but the KCTU, one of the key participants, could not decide whether or not to participate in the Tripartite Commission. Therefore, when the Tripartite Commission was officially launched on November 22, only the FKTU was attending as the representative of labor circles at the national level.

## **Industrial Relations Outlook for 2019**

### **Overview**

The year 2019 is the third year of President Moon's administration and the time when the 2020 general election year is just around the corner. At this stage, the forecasts of economic growth and employment growth do not signal any positive changes for 2019. According to the Center for Labor Trends Analysis at Korea Labor Institute (2018), the economic growth rate is projected to rise or drop by around 0.1% compared with the 2018 figure. Although the possibility of sharp economic contraction is low, the economic condition is unlikely to act as a force to significantly improve employment. The number of employed persons is expected to increase by 129,000, but would be a slight improvement from 95,000 in 2018. Overall, the 2019 labor market trends are not likely to be significantly different from this year. Given that the general election is only a year ahead, as time goes by, it would be more difficult for the government to gain momentum to implement reform policy. Against such backdrop, the government finalized and announced the 2019 direction of economic policies at the Expanded Meeting with Economy-related Ministers presided by the President on December 17. It said it would adjust the pace of implementation for the minimum wage

hike and the 52-hour cap on weekly working hours, and it would push for a reform of the existing rigid wage structure by introducing a job-based wage system in the public sector. Such move is interpreted as an attempt to produce visible economic outcomes immediately while moving away from the economic downturn. The labor world did applaud the government's initial efforts to eradicate the so-called labor jeokpye (deep-rooted vices), convert non-regular workers into regular workers in the public sector, raise the minimum wage, and limit the maximum working hours; but now it argues that the government has changed its direction in the process of implementing the policies in the labor field. In particular, when it comes to the policy tasks involving individuals' labor relations, such as wages and working hours, the government take the so-called "give and then take it away" approach. However, when it comes to issues involving groups' industrial relations, such as guaranteeing the right to organize and collective bargaining, the government has been pursuing those issues in a relatively slow manner.

#### Delay in discussions on a new labor regime

These worrying signs are likely to delay the discussion on the formation of a new labor regime. The launch of the Moon Jae-in government had heightened people's expectations that the old labor regime—characterized by control, confrontation, conflict, and labor flexibility—would be replaced by a new labor regime reflecting the values of tolerance, solidarity, participation and cooperation. However, the current circumstances make us seriously question what direction the current labor regime in transition will take going forward. In particular, the two events that occurred at the end of 2018 have important implications for us. The first incident is the death of Kim Yong-gyun, a subcontracted worker who was killed after getting stuck in a conveyor belt at the Taean Power Plant. The tragedy revealed all the negative aspects of the old labor regime. Labor flexibility strategies taken by companies to achieve the purpose of reducing costs and increasing efficiency have resulted in not only avoidance of employer responsibilities and widening gaps in wages and working conditions, but also "outsourcing of risk," even "outsourcing of death." The need to improve the existing practices had been continuously felt and expressed. In May 2016, a similar accident occurred at Guui Station in Seoul. In response, the Democratic Party (the main opposition party then) proposed 7 bills to prevent the outsourcing of danger (including the amendment of the Occupational Safety and Health Act, prohibiting the subcontracting of

dangerous tasks and strengthening safety obligations for employers) at the National Assembly but the discussions have not made substantial progress for 2 years. It was after the death of Kim Yong-gyun (11<sup>th</sup> December, 2018) that a full revision of the Occupational Safety and Health Act barely passed at the plenary session of the National Assembly after some weeks of intensified debate between the ruling party and the opposition party. The revised bill contains key provisions on the increased scope of responsibility for prime contractors, stronger punitive measures, the expanded range of people protected by the law, and giving workers the right to suspend operation. It certainly represents a major step forward. However, many have criticized the bill over the scope of responsibility for prime contractors and the scope of tasks banned from subcontracting being still narrow. Second, it is important to take note of the recent controversy between the taxi industry and the carpooling service industry surrounding ride-sharing services (carpooling). Labor and management representatives of the taxi industry strongly protest that the carpooling business will kill the already struggling taxi industry and threaten drivers' right to live. The carpooling service industry seems to be adjusting the speed of business expansion after three taxi drivers recently set themselves on fire in protest, but still maintains the position that the introduction of new services is a trend that they cannot afford to ignore. Recent changes in digital technology—the so-called fourth industrial revolution—are expected to affect not only the existing ways of corporate management but also the overall job order such as job characteristics, employment, labor processes, and industrial relations. That is why it can be said that the recent conflict leaves an important challenge for our society as to how to deal with such issues. In the process of building a new labor regime, it is necessary to consider and discuss in earnest how to socialize the impact of the spread of the sharing economy resulting from IT development on the existing similar industries, and in the process how we will handle such issues as wealth distribution, achieving fairness, enhancing job quality, and ensuring safety.

#### Outlook by issue

First, given that the ILO will celebrate its 100th anniversary in 2019, there will be high expectations for the government to deliver on its pledges to ratify the ILO conventions. The biggest concern is the ratification of the ILO Fundamental Conventions No. 87 and No. 98, guaranteeing the right to organize and collective bargaining. Although the agreement

prepared by members of public interests of the Tripartite Commission is expected to stimulate future legislative discussions, some argue that management circles should discuss other legislative amendments, such as extending the valid period of collective agreements and permitting alternative work during strikes, together with the ILO convention ratification issue so the whole legislative process is unlikely to be smooth. Another area of interest is promoting collective negotiations at supra-enterprise level. The expanded application of collective agreements—included in the government's pledges—presupposes a rise in trade union density and having in place the structures for collective negotiations at supra-enterprise level. It would be interesting to observe how the government efforts to achieve these goals and the strategic choices of labor and management stakeholders will materialize. Second, the size of the minimum wage hike in 2020 and how it will be decided are also of interest. The government has already mentioned several times the need to adjust the pace of hike, emphasizing that it will consider several factors comprehensively—market acceptability, firms' payment ability, and economic ripple effect. The government also proposed a dual-track process for deciding the minimum wage. Under this process, the committee on minimum wage will be divided into two entities: one tasked with setting the range and the other responsible for deciding the final rate. The former establishes a reasonable range of the minimum wage hike reflecting various economic indicators, market acceptability, etc., and the latter makes the final decision within that range. The labor world is concerned that such plan is likely to reduce the role of labor and management stakeholders in the decision-making process and that the government is unilaterally pushing for institutional reform. Third, since the 52-hour cap on weekly working hours, which was enforced first on businesses employing 300 or more workers starting in July 2018, will be phased in according to company size, firms will need to work on reducing their real working hours to maximum 52 hours per week. In that process, the controversy over changing shifts, recruiting personnel, and changing the way of work is likely to continue for a while. Since the cap will be applied to businesses employing 50~300 workers in January 2020, those businesses will have to make preparations in 2019. Conflicts over the flexible working hour system are also expected. The related discussions are taking place at the Committee on Improving the Work Hour System established under the Tripartite Commission. Fourth, although the government has worked to reduce the number of non-regular workers and improve their working conditions by converting the status of non-regular workers into regular

employees in the public sector, controversy over whether the working conditions and treatment have really improved for the converted ones is likely to continue. In particular, in some workplaces, non-regular workers who had belonged to a temporary agency or a service firms (indirectly employed) were converted to regular workers, but the conversion took place in the form of regular employment by “a subsidiary” rather than direct employment by public institutions. Such move has resulted in group actions by those workers who are criticizing and demanding direct employment of government institutions, and the controversy is likely to continue throughout 2019. Fifth, it would be noteworthy to observe whether the Tripartite Commission will live up to its reputation and be able to derive constructive social dialogue. Given the urgency of improving the dual structure of the labor market, protecting the working poor and formulating labor policies to meet the needs of diversifying employment types resulting from the development of digital technologies, the stable operation of the organization for social dialogue is such an important task. However, based on its past experience of social dialogue in Korea, the labor world has a prejudice that social dialogue is merely ‘a sidekick to the government’ in implementing policies. The KCTU has not yet formally decided to participate in the Tripartite Commission.

## Conclusion

Whenever a year goes by and a new year comes, evaluations and prospects are made on different subjects, and industrial relations seems to be the most difficult one to deal with, perhaps because every year the analysis accompanies the expression “worse than” or “more unstable than the previous year.” The inauguration of the Moon Jae-in government had been expected to provide great political opportunities for Korea’s industrial relations, but the evaluation of the first two years of the administration is not positive. Pressure for the government to adjust the pace of implementing reform policies, such as the minimum wage hike and the reduction of working hours, has resulted in its providing the workplaces with more leeway for the punishment in violation of the labor laws. For example, the government prolonged the grace period of the regulation forcing a maximum workweek of 52 hours from the end of 2018 to March 2019. As for expanding the scope of wages included in the minimum wage, which was initially scheduled to take effect in January 2019, the government said it would offer a self-adjustment period of up to 6 months. In addition, it said it would implement labor inspection based on ‘self-adjustment’ rather than ‘detection’ of violations of labor laws,

based on the judgment that business environment and employment indicators are not likely to improve. Against such backdrop, instead of labor and management representatives actively forming 'a relationship', it is observed that the labor world constantly tries to voice its demands 'toward' the government and the management circles trying to push theirs 'from the back' of the government. Amidst unfavourable economic prospects and employment outlook, the 2019 industrial relations has just begun its sailing and will have to steer clear of big rocks surrounding the issues of working hours and the minimum wage.

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