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Chan, K. H. R. (2006). Labour market reforms and polarization in Korea (CAPS Working Paper Series No.168). Retrieved from Lingnan University website: <http://commons.ln.edu.hk/capswp/11>

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Working Paper Series
Centre for Asian Pacific Studies

No. 168 (Jun 06) CAPS

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June 2006

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Labour Market Reforms and Polarization in Korea

Raymond K.H. Chan^{*}

Abstract

From the early 1990s the South Korean government launched a series of structural reforms to liberalize and deregulate the economy and labour market, in line with its globalization strategy. Particularly after the financial crisis, flexible labour market reform was one of the major initiatives to keep the Korean economy competitive in the global market. This paper describes the rationale for flexible labour market reforms in Korea from the early 1990s, evaluates their impacts on labour market polarization, and assesses the policy responses adopted by Kim Dae-jung and the current Roh Moo-hyun governments. It is argued that the flexible labour market reform is rather limited in its scale, due to strong opposition from unions and employees for different reasons, and the burden is disproportionately shouldered by the non-standard workers. As a result, a dual and segmented dual labour market has been formed. Greater protection to the non-standard workers is required to remedy the situation, considering that such reforms are necessary for Korea's economy in the future.

Globalization and Flexible Labour Market Reform

Globalization affects employment in developed as well as in developing countries. In a global market, the structure of the production and the companies involved is more flexible and constantly changing. Globalization does not give birth to flexible forms of work, but it contributes to their development through the national and international network enterprises, the need to make the employment structure flexible enough to fit this form of production,

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and the desire to remain competitive, which are the direct and indirect results of globalization. In an increasingly competitive economic environment, enterprises have sought more flexible and innovative forms of organization and production to heighten economic efficiency in response to technological change and consumer preferences in quality, service, and variety (ILO, 1998, 2000).

To accommodate this degree of flexibility, a wide variety of employment structures are desirable. Basically, the more rigid form of full-time, fixed-term contract and long-term employment is eliminated and replaced by a diverse pool of workers, including part-time, temporary, and self-employed workers. International statistics on work have shown this development. This trend is accompanied by the increasing individualization of labour conditions and contracts, in contrast to collective bargaining and general working conditions.

The causes of labour market rigidity are numerous, including discouragement of hiring due to restrictive labour legislation, high statutory minimum wage, high social contributions and taxation, rigid wage levels set by collective bargaining, inadequate training and education systems, passive labour market policy, and overly generous income substitution benefits that discourage work (Sarfati, 1999). Rigid labour regulations, working conditions, and terms of employment also act as disincentives to staff recruitment and hence unemployment (ILO, 1998). Such restrictions include maximum working hours, overtime and overtime pay, leave, and paid holidays. While trade unions argue for more protection, some employers seek to modify these regulations to make the labour market less rigid.

There are several aspects of flexibility (Confederation of British Industry, 1997: 2-3):

1. Numerical flexibility: adjustment of the number of employees to meet changing demand and competitive conditions (e.g. downsizing).
2. Flexible working patterns: varying the hours of work (e.g., part-time work, shift work, and annualized hours) and hence the

types of employment contract (e.g., fixed term and seasonal contracts).

3. Skills/functional flexibility: highly skilled and competent workers and free movement of employees between tasks due to flexible skills and an absence of demarcation lines.
4. Wage flexibility: adjustment of wages to correspond to changing economic conditions and to company and individual performance.
5. Geographical mobility: the ability of employees to move freely between different regions.

Globalization and the Reforms in South Korea before the Financial Crisis

Since the early 1990s South Korea has been part of the general movement toward a more flexible labour market. Since 1987, there have been changes in the highly centralized and regulated economic and labour market structure. The Kim Young-sam government (1993-98) launched liberalization and internationalization policies. Maintaining the competitiveness of Korean products in the global market became a more and more difficult task partly due to wage hikes. The increased reliance on exports made products vulnerable to the fluctuations of the international market (for example, the dropping price of semi-conductors before the financial crisis).

Employers are increasingly constrained by volatile product market competition and are also burdened by rigid rules and high wages in internal labour markets (Lee, 2000, p. 4). There have been calls to reform the enterprises and the labour market structure to meet these demands. Kim Young-sam attempted to apply market principles to the labour market to make it more flexible (Kim, 2000; Y.H. Lee, 2000). Alternative employment patterns and types, such as leased labour, contract labour, and part-time work, were not popular (KOILAF, 1998).

Since there were no regulations concerning redundancy dismissal, flexible labour hours, and labour lease systems, which are features of a flexible labour market, the market and its regulators were criticized

for being unrealistic and rigid in regulating the terms of employment (such as working hours, leave, allowances, and retirement pay).

The Presidential Commission on Industrial Relations Reform was formed in May 1996, with the aim of relaxing the labour regulations. The proposed revision of the Labor Standards Act on layoff was passed by the National Assembly in March 1997, but was boycotted by the opposition party. The governing party had to halt the provision of layoff for two years to give the government more time to lobby support. However, the introduction of a system of flexible working hours was adopted, which allow the calculation to be based on a bi-weekly or monthly basis.

To smooth the reforms, the Employment Insurance System was enacted in 1993 and implemented in 1995. The System has the dual role of stabilizing employment while, at the same time, smoothing the labour adjustment process when unemployment and reemployment are necessary.

Pushing Flexible Labour Market Reform since the Financial Crisis

Changes in Employment Status

The Korean financial crisis occurred in November 1997 and brought the positive trajectory of economic development to a sudden and unexpected halt. As outlined by the Ministry of Finance and Economy (1999), the first phase of the reforms for recovery (i.e., from December 1997 to April 1998) was to introduce the corporate restructuring and flexible labour principle, establish the Tripartite Commission, and legislate the layoff provisions. The second phase, from May 1998 to June 1998, witnessed the liberalization of foreign investors' mergers and acquisition of local companies, real estate, and equity ownership of private Korean enterprises. The third phase, from July 1998 to February 1999, was characterized by massive corporate merging and restructuring. The most significant social impacts of the crisis were to increase unemployment and decrease income in the process of corporate and employment restructuring.

With agreement from the trade unions, the clause on layoffs in the Labor Standards Act was formally implemented in February 1998, though layoffs could only be permitted under the following conditions: 1) urgent managerial needs, including transfer, acquisition, and merger of business to avoid financial difficulties; 2) employers should make every effort to avoid dismissal of workers and if dismissal occurs, a fair and rational standard should be in place; 3) sincere consultation with the trade union and 60 days, advance notice (Article 31, *Labor Standards Act*).

Another strategy to make the labour market more flexible was to legalize the labour dispatch system. The ‘Act Relating to Protection, etc, for Dispatched Workers’ was enacted in 1998; it allowed the use of a “dispatched worker” in Korea for up to two years in 26 occupations deemed to require specialized knowledge, skills, and experience. The employment could be extended for another year if agreed upon by both parties.

Large enterprises were more ready to make good use of subcontracting to shift their burdens, due to excessive wage hikes, to subcontracted small and medium-sized enterprises (SMEs), resulting in the transition of jobs in SMEs to non-regular ones (*Labor Today*, Issue No.336 - April 13, 2006). The KCTU (1999) argued that the government and employers have deliberately enforced labour market flexibility: “Employers have sought to suppress the increase in regular employment and resorted to expansion of part-time employment in their pursuit for labour cost savings, flexible employment adjustment, and elastic response to shifts in the business demand”.

Together with the rapid expansion of public projects, which provided mainly temporary and daily work, the number of irregular or non-standard (which mainly refers to temporary and daily) workers increased. By 1999, the irregular workers (simply defined as a total of temporary and daily workers) accounted for more than 50 per cent of the paid workforce (though the share reduced to less than half from 2003) (Table 1).

Nevertheless, there were some debates on the definition of non-standard (or irregular, atypical workers) from around 1999, when non-standard workers as represented by temporary and daily workers began to take up more than half of the waged workers (Ahn, 2004). The definition of most-frequently referred terms: regular vs irregular workers (comprised of temporary and daily workers) adopted in the Economically Active Population Survey are as follows,

Regular workers – workers with employment contracts for 1 year or longer’ and / or ‘workers who have worked for one year or longer and are entitled to fringe benefits such as legal retirement allowances and bonuses’;

Temporary workers – ‘workers with employment contracts for longer than one month but shorter than one year’;

Daily workers – ‘those workers who are not regular or temporary workers, and with employment contracts for less than one month’.

Table 1: Waged workers by employment status, 1990 – 2005 (%)

	Wage & salary workers	Regular employees	Temporary employees	Daily workers
1990	100	54.2	29.0	16.8
1991	100	55.5	28.7	15.7
1992	100	57.4	27.7	14.9
1993	100	58.9	26.7	14.4
1994	100	57.9	27.8	14.3
1995	100	58.1	27.9	14.0
1996	100	56.8	29.6	13.6
1997	100	54.3	31.6	14.1
1998	100	53.1	32.9	14.0
1999	100	48.4	33.6	18.0
2000	100	47.9	34.5	17.6
2001	100	49.2	34.6	16.2
2002	100	48.4	34.5	17.2
2003	100	50.5	34.7	14.8
2004	100	51.2	34.1	14.7
2005	100	52.1	33.3	14.6

Source: Ministry of Labor Website

The definitions adopted are rather loosely defined and may not be able to reflect the workers' status and their experience in labour market. Therefore, a Supplementary Economically Active Population Survey (SEAPS) was conducted annually to collect further data (the first survey was in August 2000). The survey asks more questions to clarify the employment status, such as starting date, existence of an employment contract with period, possibility of renewal, full-time or part-time, expected duration of the current employment, coverage of social insurance systems, and entitlement of fringe benefits.

Table 2: Employment by types, 2000 - 2003 (%)

Employed workers	2000	2001	2002	2003
Workers without fixed term contract				
1. continuing employment, possible	70.1	71.3	73.0	67.2
Workers without fixed term contract, <u>continuing employment impossible</u> and the expected duration				
2. > 3 years	--	0.5	0.2	0.6
3. 1 – 3 years	2.3	1.7	1.1	1.8
4. < 1 year	--	1.7	1.3	1.3
<i>Sub-total</i>	2.3	3.9	2.6	3.7
Workers with fixed term contract, <u>continuing employment possible</u> and the duration of contract				
5. > 3 years	--	0.4	0.5	0.6
6. 1 – 3 years	3.4	1.7	1.6	2.6
7. 1 year	--	1.1	1.5	2.6
8. < 1 year	3.4	1.7	1.6	2.6
<i>Sub-total</i>	6.8	4.9	5.2	8.4
Workers with fixed term contract, <u>continuing employment impossible</u> , and the duration of contract				
9. > 3 years	--	0.0	0.0	0.1
10. 1 – 3 years	--	0.1	0.1	0.2
11. 1 year	3.8	0.1	0.1	0.2
12. < 1 year	--	3.9	3.7	5.4
<i>Sub-total</i>	3.8	4.1	3.9	5.9
13. part-time workers	4.5	4.3	4.0	4.6
14. dispatched workers	0.9	0.9	0.7	0.7
15. temporary agency workers	1.7	2.1	2.3	2.3
16. independent contractors	4.3	5.7	5.3	3.9
17. on-call / daily workers	7.9	2.2	2.9	4.2
18. tele-workers / home-based workers	1.1	1.6	1.3	0.9
<i>Sub-total</i>	20.4	16.8	16.5	16.6

Sources: *Supplementary Economically Active Population Survey*, various years

As reflected by the SEAPS from 2000 to 2003 (Table 2), most of the workers belong to the category of waged earners without fixed term contract but with possibility of continuing employment, though the percentage is declining. That might reflect the traditional employment structure in Korea. The percentage of workers with fixed term contract is increasing (i.e. 10.6% to 14.3%). In 2003, among the fixed term contract workers, 56% are with less than 1 year contract; and 41.3% of them expected their contract not to be renewed. The share of all other forms of non-standard work reduced from 20.4% to 18.6% in the period.

The latest SEAPS, conducted in August 2005, provides us the most updated information on employment status. Waged workers with a fixed term contract continued to increase and reached 18.2% of the total (17.1% in 2004). Among them, 56.7% had a less than one year contract, though more than half (i.e. 55.4%) of the fixed term contract workers have had their contract renewed. Part-time workers increased to 7.0% of total waged workers.

The increase in fixed term contracts is not only due to the economic recession in 2003 and 2004, but also seems to be attributable to the structural shift in the labour market – implying that companies are increasingly preferring non-standard workers for greater ease in wage or employment adjustment. Another reason is more companies are putting in place a trial period before turning the workers into standard positions. According to the Workplace Panel Study by the Korea Labor Institute (KLI) in 2002, 65% of the responding workplaces have utilized nonstandard work, and the main reasons were more flexibility of employment (30.3%) and reduction of labour costs (32.1%) (Ahn, 2004: 16).

Though the data collected from the EAPS and SEAPS seemed not that alarming, further analysis of the data clearly demonstrates a worrying trend of labour market segmentation.

Inequality – Women’s Employment

Compared to the overall distribution, female waged workers have a higher percentage of workers as temporary and daily workers (see Table 3).

Table 3: Employment by status for female waged workers

Year	Unit: 1,000 persons / % of total			
	Female waged workers	Regular employees	Temporary employees	Daily workers
2000	5397	1679 (31.1)	2496 (46.2)	1222 (22.6)
2001	5609	1861 (33.2)	2589 (46.2)	1159 (20.7)
2002	5857	1968 (33.6)	2682 (45.8)	1207 (20.6)
2003	5970	2109 (35.3)	2826 (47.3)	1036 (17.4)
2004	6237	2269 (36.4)	2869 (46.0)	1079 (17.3)
2005	6391	2439 (38.2)	2874 (45.0)	1079 (16.9)

Source: *Economically Active Population Survey*, various years

Wage Gap

The wage gap between the standard and the non-standard workers is widening in recent years. According to the SEAPS in August 2005, the hourly wages of wage-earners was KRW 9,263 for regular jobs and KRW 6,526 for non-regular jobs. The hourly rate of non-regular jobs was only 70.5% of the regular jobs, compared to 73.5% in 2004.

Among them, the non-regular workers at small or medium-sized businesses amounted to only 42.9% of that of regular workers at large enterprises. Compared to 2004’s growth rate, the hourly wage of regular workers was 5.8% compared to those of non-regular workers at a mere 1.3%. After adjusting the impacts of factors such as age, experience, education and other attributes, irregular workers are paid approximately 20% to 27% less than a regular worker receives (Jones, 2005: 5).

Table 4: Wage and wage growth rate for regular and non-regular workers, 2000 - 2004

Unit: in 1000 KRW

Waged workers	Aug 2000	Aug 2001	Aug 2002	Aug 2003	Aug 2004
Regular	1,527	1,649 (8.0)	1,769 (7.3)	1,958 (10.7)	2,036 (4.0)
Temporary / daily	783	843 (7.6)	901 (7.0)	952 (5.6)	989 (4.0)
Wage gap (%)	51.3	51.1	51.0	48.6	48.6

Source: Hwang & Jeong, 2005: Table 12

Fringe Benefit & Social Insurance Coverage

It was found that, in 2003, longer-term contract employees with continuing employment possible enjoyed the highest participation rate, and lower participation rate among those with shorter contract with renewal impossible, and most forms of non-standard employment (Table 5).

Table 5: Coverage of social insurance by types of employment (%)

Employed workers	None	EI	HI	NP	All
Workers without fixed term contract					
1. continuing employment, possible	24.6	1.2	1.1	0.1	58.7
Workers without fixed term contract, <u>continuing employment impossible</u> and the expected duration					
2. > 3 years	65.2	3.4	2.2	0.0	23.6
3. 1 – 3 years	77.8	3.2	2.0	0.8	12.7
4. < 1 year	83.1	2.1	2.1	0.0	10.1
Workers with fixed term contract, <u>continuing employment possible</u> and the duration of contract					
5. > 3 years	2.2	1.1	1.1	0.0	84.4
6. 1 – 3 years	7.6	0.0	1.4	0.0	84.1
7. 1 year	2.7	0.3	1.6	0.8	23.7
8. < 1 year	65.9	2.2	1.6	0.8	23.7
Workers with fixed term contract, <u>continuing employment impossible</u> , and the duration of contract					
9. > 3 years	10.0	0.0	10.0	0.0	60.0
10. 1 – 3 years	3.8	0.0	3.8	0.0	73.1
11. 1 year	9.1	0.0	0.0	0.0	72.7
12. < 1 year	85.5	1.0	0.9	0.0	10.0
13. part-time workers	95.7	0.0	0.6	0.0	1.4
14. dispatched workers	39.4	3.2	3.2	0.0	50.0
15. temporary agency workers	23.0	1.9	13.4	0.0	51.6
16. independent contractors	72.6	1.8	2.5	0.2	18.5
17. on-call / daily workers	98.0	1.7	0.2	0.0	0.0
18. tele-workers / home-based workers	93.4	0.0	0.0	0.0	6.6

Source: *Supplementary Survey of the Economically Active Population, 2003*

From the SEAPS – 2005, unequal treatment among those with fixed term contract and daily workers was clearly demonstrated. Fixed term workers enjoy a higher percentage of entitlement in these fringe benefits: retirement pay (43.8% vs 0.1%); bonus payment (38.9% vs 0.1%); overtime allowance (31.0% vs 1.7%); and paid leave (34.5% vs 0.1%).

Another worrying trend is the rate of participation in social insurance by non-regular workers which was only less than half of that of regular employees. The participation rate of various social insurance schemes by non-regular workers, which was on the increase until 2004, began to decline in 2005. For national pension participation rate, the rates of regular and non-regular workers are 75.7% and 36.6%. For health insurance, the rates of regular and non-regular workers are 75.9% and 37.7%. For employment insurance, the gap was smaller with 63.8% of regular workers and 34.5% of non-regular workers participating (Table 6).

Table 6: Participation Rate of Social Insurance Schemes by Type of Employment

Unit: 1,000 persons, %

Schemes	Workers	August 2002	August 2003	August 2004	August 2005
National pension	Total wage workers	7,392 (52.7)	8,163 (57.7)	8,683 (59.5)	9,191 (61.4)
	Regular	6,405 (62.9)	6,757 (70.8)	6,659 (72.5)	7,184 (75.7)
	Non-regular	987 (25.7)	1,405 (30.5)	2,024 (37.5)	2,008 (36.6)
Health insurance	Total wage workers	7,785 (55.5)	8,422 (59.5)	8,945 (61.3)	9,264 (61.9)
	Regular	6,681 (65.6)	6,919 (72.5)	6,782 (73.8)	7,196 (75.9)
	Non-Regular	1,105 (28.8)	1,504 (32.6)	2,163 (40.1)	2,068 (37.7)
Employment insurance	Total wage workers	6,730 (48.0)	7,048 (49.8)	7,601 (52.1)	7,943 (53.1)
	Regular	5,722 (56.2)	5,701 (59.7)	5,655 (61.5)	6,050 (63.8)
	Non-regular	1,007 (26.2)	1,347 (29.2)	1,946 (36.1)	1,893 (34.5)

Source: *Supplementary Survey of the Economically Active Population*, various years.

SMEs and Non-Standard Employment

Results from the latest SEAPS also show that the share of non-standard workers is much higher among the SMEs. 50.4% of

them were working in very small sized establishments with fewer than 5 employees, while only 17% in establishment with 300 workers or more are non-standard workers (Ahn, 2004: 12). It is already acknowledged that wages and benefits are less favourable in the SMEs than in large enterprises.

The Policy Responses

Immediately following the financial crisis, the Korean government adopted a variety of policies to address and ease the negative impacts of flexible labour market reforms and the massive layoff. The minimum wage law was extended to cover all workplaces in 2000. Beginning in July 2000, industrial accident compensation insurance was available in all workplaces, regardless of size. The protection of daily workers has been strengthened. They became eligible for unemployment insurance in 2001. Measures have been taken to expand the former Livelihood Protection Act, which was enacted in 1961. The revision waived the eligibility criteria of an asset check, in order to give protection to those who are unemployed but not eligible for unemployment benefits. As well as strengthening its roles of providing protection to the people, the government also strengthened the employment training and placement services, and set up Job Centres nationwide.

The overall goals of the policy responses were to strengthen the flexibility of labour market, in terms of functional, skills, and numerical flexibility, while, at the same time, protecting a workforce that is facing an economic downturn, industrial restructuring, layoffs, and high unemployment rates. These goals were reflected in the two-pronged reforms adopted by Korean government that attempted to tackle the crisis and achieve a balanced development among political democratization, economic reforms, and social development - described by the term 'Productive Welfare'.

The Tripartite Commission set up the 'Special Committee on Measures for Non-regular Workers' in 2001 and eventually agreed on the following items in principle: to improve the measures to determine the size and scope of non-regular workers and relevant

statistics; reinforcement of labour inspection; expansion of social insurance coverage; and expansion of vocational ability development.

The Commission also reached a Social Pact for Job Creation on December 2003; and the Agreement on Vocational Training for SMEs and Non-regular Workers in March 2005. The participating parties call for actions to narrow the gap in working conditions by asking the large companies not to transfer their own labour cost to their subcontractors without justifiable reasons; business not to unfairly discriminate against non-regular workers; improvement of vocational ability programmes; and the government to take active measures to redress unfair discrimination between standard and non-standard workers.

The current Roh government declared the protection of non-standard workers from abuse and discriminatory treatment as its labour market policy basic principles, while accepting the existence and function of non-standard employment. The most controversial step was the new bill – ‘The Act on the Protection of Fixed Term and Part-time Employees’ and amendment to the ‘Act on the Protection of Dispatch Employees’, presented to the National Assembly in November 2004.

The main content of the bills include:

1. Unjustifiable discriminatory practices against workers with fixed-term contracts, part-time employees and temporary agency workers are prohibited.
2. Firms must establish a written contract when hiring fixed term and part-time workers.
3. The maximum duration of fixed term contracts is extended from one to three years (not applicable to aged 50 and above). Firms cannot dismiss workers after three years of contract work, even when their contract expires.
4. Overtime work by part-time employees is limited to 12 hours a week.

5. The maximum period for employing temporary agency workers is extended from two to three years (no maximum period for aged 50 and above).
6. The use of temporary agency workers is expanded from 26 occupations at present to all occupations.

The government repeatedly argued that these bills could protect the job security and improve the working conditions of non-standard workers. Nevertheless, this proposal met with criticism from the trade unions, employees and the opposition parties, and was postponed repeatedly for decision at the National Assembly. The trade unions argued that the bills would only increase the number of non-standard workers and make their job status more unstable. They called for equal treatment of regular and irregular workers.

The employers argued that the proposal would only make the labour market more rigid. The Korea Employers Federation threatened the government with a mass exodus of businesses if it continues to favour trade unions (as a matter of fact, the overseas direct investment has increased from USM\$ 3,686 to USM\$ 6,398 from 2002 to 2005). It insists that if salaries of non-regular workers are raised by law to the level of regular workers', businesses will have to shoulder an additional W42.6 trillion (US\$42.6 billion) in cost, of which 93.2% will have to be borne by SMEs. The Federation's chairman, Lee Soo-young, warned that "If the government and politicians favour only trade unions, as they do now, business people will go on a strike. In other words, we will shut down and leave for China, India and Bangladesh, which will result in a shrinking job market and increasing unemployment". (*Chosun Ilbo*, 10 February 2006)

The ongoing debate was also focused on the period that temporary workers can be hired freely and the protection of them after that period. Trade unions (e.g. KCTU) demanded the companies to hire the temporary staff freely for one year (in some cases, two years), and they should be converted as permanent staff after this. But, the employers argued that companies should be allowed to hire

temporary workers for up to three years freely and then restricted in laying off temporary workers after that. Though the government proposed a compromise of two years in March 2006, the employers say they cannot bear the burden of turning non-regular workers to regular workers. (*Korea Herald*, 2 March 2006)

The latest effort by the government to get the bills passed through the National Assembly was to promulgate the ‘5-Year Plan of Comprehensive Measures for Non-Regular Workers’, making promises to improve the protection,¹ if the National Assembly passed at its extra-ordinary session last April. However, the bills were once again postponed, this time due to opposition from the Grand National Party.

The Dilemma of Reform and Protection

The use of non-standard workers may have its own merits both to the employers and employees (though to a lesser extent the latter). The use of non-standard workers can enable businesses to cope flexibly with fluctuations in the market. The use of part-time workers may also allow the workers to balance their own personal needs and their work. The flexible labour reform has attempted to modify the rather rigid labour market in Korea. The financial crisis has helped to accelerate the reforms that could not be achieved before 1997.

Nevertheless, flexible labour market policies have produced a more uncertain employment prospect in Korea. The massive layoffs and new employer-employee relationship have weakened the ties between companies and employees and there is a lower level of loyalty (Park & Yu, 2001, p. 2). Although the rising proportion of non-regular workers helps to contain the labour costs and increases employment flexibility, it has a negative impact on both equity and efficiency over the long term due to polarization (Jones, 2005).

¹ Including loan and extended benefit; expansion of the application of the Labor Standards Act to enterprises with fewer than 4 employees and introduce the retirement pension system in enterprises with fewer than 5 employees; promotion of healthy use of non-regular workers if that fit to the workers’ need (e.g., child care) ; improve unfair trade practices between contractors and subcontractors.

While regular workers enjoy better protection, irregular workers are increasingly in a vulnerable position (Choi, 2000). As revealed above, a dual and segmented labour market has been formed, even though the number of non-standard workers remains stable in the past two to three years. The non-regular workers face a rather low rate of moving to regular employment, i.e. 15%, compared to an average of 30% in advanced OECD areas, and over 40% in Ireland, Portugal and Denmark (*Labor Today*, Issue No.336, April 13, 2006).

As argued by Kim and Cheon, “regular workers in unionized companies receive legal protection under the employment protection laws and the internal labour market practices of corporations. On the other hand, the turnover rate for irregular workers and employees of small and medium sized companies is getting very high and their wages respond sensitively to economic situations” (2004:4). They concluded that flexibility in Korea was achieved not by reforms in legal mechanisms, but by the wider utilization of irregular workers. An assessment by the IMD and the World Economic Forum on the formal legal and regulatory framework showed that the labour regulations and hiring and firing practices in Korea have in fact been becoming more rigid from 2000 to 2003 (Table 7)

Table 7: IMD and World Economic Forum Assessment of Flexibility in Korea

Year	Labour regulations (1)	Hiring and Firing Practices (2)
2000	4.57	--
2001	4.08	4.0
2002	3.74	3.8
2003	2.61	3.6

(1) 0 = not flexible enough; 10 = flexible enough

(2) 1 = impeded by regulations; 7 = flexibly determined by employers

Source: Kim & Cheon, 2004: 9-10

The current government’s move to enact the bill on protecting irregular workers reflects the reality of having more and more unprotected non-standard, fixed term contract workers in Korea. Yet, the difficulties of getting the bills passed in the past 19 months also

reflects the deeply divided interests among the different stakeholders on these issues.

Nevertheless, considering the increasingly global competition and volatility of the market, a more flexible labour market in Korea is preferable, even though at the expense of a stable employment. While further relaxing the clause protecting the regular employees seems unrealistic, at least in the coming years, to expand and improve the protection for those who might face difficulties in the uncertain labour market is desirable. Legislation against abusing non-standard employment through repeated contracting, expanding social insurance coverage, and rectifying unfair treatment (e.g. salary, bonus, overtime allowance, etc.) are all necessary. The direction might not be equalize the treatment, but at least to narrow down the gap.

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