

# Reinforcement of Labor Market Dualism and Inequality in South Korea: The Legacies of State-led Coordination and the Dominance of Enterprise Unions

Jiyeoun Song

This article examines why South Korea has failed to mitigate labor market dualism and inequality, despite a series of the government's policy efforts over the past two decades. It argues that the legacies of state-led coordination and the dominance of enterprise unions reinforced dualism and inequality in the Korean labor market. The legacies of strong state-led coordination over its market economy, which had been institutionalized and consolidated during the authoritarian rule, substantially weakened economic and political incentives for business and labor to develop a strategic coordination mechanism based on mutual interests and cooperation even after democratization. The dominance of enterprise unions, whose organizational structure had been also established during the period of the authoritarian government, further restricted the coverage of collective bargaining only exclusively to union members and strengthened a division between labor market insiders and labor market outsiders. The lack of strategic coordination and enterprise union-centered industrial relations have strengthened labor market dualism and inequality in Korea, as opposed to reducing them.

**Keywords** Dualism, inequality, legacies of state-led coordination, dominance of enterprise unions, South Korea

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## INTRODUCTION

According to the varieties of capitalism (VoC) literature, South Korea (hereafter, Korea) is identified as one of coordinated market economies (CMEs) (e.g., Denmark, Germany, Japan, and Sweden), centered on non-market or strategic coordination (Hall and Soskice 2001). Although its developmental model was known as ‘rapid economic growth with equity,’ Korea has experienced the rapid rise of dualism and inequality in the labor market. Well-organized regular workers in large-sized chaebol firms and public corporations have maximized their economic interests in the workplace, such as job security, high wages, generous corporate welfare benefits, and decent working conditions. In contrast, non-regular workers (e.g., contract, part-time, and temporary workers), small and medium-sized enterprise (SME) workers, and subcontract workers have been unorganized and excluded from such privileges, while absorbing the costs of adjustment in economic downturns. A growing number of the workforce in the non-standard forms of employment has complicated the application of rules and regulations for employment contracts, working conditions, and collective labor rights.

This article examines why Korea has failed to mitigate labor market dualism and inequality, despite a series of the government’s policy efforts over the past two decades. It argues that the legacies of state-led coordination and the dominance of enterprise unions reinforced dualism and inequality in the Korean labor market. The legacies of strong state-led coordination over its market economy, which had been institutionalized and consolidated during the authoritarian rule, substantially weakened economic and political incentives for business and labor to develop a strategic coordination mechanism based on mutual interests and cooperation even after democratization. The dominance of enterprise unions, whose organizational structure had been also established during the period of the authoritarian government, further restricted the coverage of collective bargaining only exclusively to union members and strengthened a division between labor market insiders and labor market outsiders. The lack of strategic coordination and enterprise union-centered industrial relations have strengthened labor market dualism and inequality in Korea, as opposed to reducing them.

This article proceeds as follows. The second section outlines several analytical frameworks to explain the rise of dualism and inequality in comparative perspective. By evaluating the strengths and weaknesses of the existing literature, it claims that the legacies of state-led coordination and the dominance of enterprise unions provide a more comprehensive perspective to understand the political dynamics of Korea’s labor market dualism and inequality. The third section examines the exacerbation of dualism and inequality in the Korean labor market, especially after the 1997 Asian financial crisis, and explains the underdevelopment of skills formation system. The fourth section analyzes the government’s policy efforts to alleviate labor market dualism and inequality since the early 2000s and evaluates whether these political attempts have achieved the expected outcomes. The fifth section accounts for the ways in which the legacies of state-led coordination have weakened the incentives of business and labor to build up a mechanism of strategic coordination even after democratization, and the dominance of enterprise unions in industrial relations has accelerated the rising economic disparity in

the labor market, as opposed to narrowing down the gap. The conclusion summarizes the key findings and provides the implications for the future research on the labor market and industrial relations under the pressure of change in Korea.

## **EXPLAINING TRAJECTORIES OF LABOR MARKET DUALISM AND INEQUALITY**

In most advanced industrial countries, the business and labor have been searching for a model of the labor market and industrial relations to adjust themselves to recent challenges, such as sluggish economic growth, global production networks, technological innovation, and the rise of the service economy (Boix 2019; Frey 2019; Iversen and Soskice 2019; Wren 2013). Liberal market economies (LMEs) (e.g., the UK and the US), which is based on market coordination, have developed the labor market and industrial relations centered on flexible employment contracts, large wage disparity, and job growth in the private sector (Estevez-Abe, Iversen, and Soskice 2001; Hall and Soskice 2001; Iversen and Wren 1998). Given its market-based coordination already taken in place, LMEs have accelerated the adaptation of the labor market and industrial relations through the mechanism of further liberalization. In contrast, CMEs, which have relied on a set of strategic coordination in market economies, have confronted far more difficult challenges for the labor market and industrial relations under the intense pressure of liberalization (Martin and Thelen 2007; Palier and Thelen 2010; Thelen 2014). Thus, a growing number of scholars have closely examined the trajectories of changes in the labor market and industrial relations in CMEs.

First, several scholars have pointed out political coalitions for the institutional arrangements in the market economy as the key variable to explain the trajectories of changes (Busemeyer 2014; Häusermann 2010; Thelen 2014). In particular, by analyzing three labor market institutions—industrial relations, vocational education and training, and labor market policy—under the pressure for change, Thelen (2014) has elaborated the different trajectories of institutional changes in the degree and scope of liberalization, especially among CMEs. She focused on the interaction of the producer group politics (more encompassing vs. less encompassing) and the role of the state—the state capacity and power (stronger vs. weaker) to impose solidarism on resistant employers—as the driving force for changes in CMEs.

Although these scholars offer an insightful framework to explain the diverging political pathways of the institutional changes, Korea's path does not seem to fit well with it. It is well known that Korea shares similar institutional characteristics of the market economy with those of Germany and Japan, both of which are identified as CMEs and have developed the strong and competitive manufacturing-based economies. More importantly, all these three countries have faced the rapid rise of dualism and inequality in the labor market over the past few decades. Yet, the underlying logic of Korea's trajectories of change is different from those of the two countries. In Germany and Japan, the institutional arrangements for strategic coordination have centered on shared economic interests between the business and labor in the core manufacturing sector (Thelen 2014; Thelen and Kume 2001; Thelen and Kume 2003). Both employers

and workers in Germany and Japan developed strong preferences for keeping strategic coordination in the competitive manufacturing sector intact. Neither employers nor workers in Korea have reached to shared economic interests over the labor market and industrial relations, whose institutional origins were imposed by the authoritarian Park Chung Hee regime (1961–1979), not by the political compromise between the business and labor (Song 2014). It is the political and organizational capacities of labor unions, composed of regular workers in large-sized chaebol firms, that have maintained a set of the institutional arrangements of employment protection but with no linkage to the specific skills formation system, as will be further elaborated.<sup>1</sup>

Second, related to the first strand of research, a group of scholars have emphasized the acceleration of dualism between insiders and outsiders, especially in CMEs, along the lines of the labor market and social welfare programs (Emmenegger et al. 2012; Rueda 2007). By highlighting the insider-outsider distinction in the labor market, they have articulated different groups of labor, as opposed to the homogenous one, and varying preferences for the labor market and social welfare programs along the lines of the different market position of workers. Rueda (2007) has claimed that the different policy preferences of insiders (e.g., full-time regular workers) and outsiders (e.g., non-regular workers and the unemployed) incentivized the social democratic party to prioritize the economic interests of insiders, its core political constituencies, while sacrificing the protection for outsiders.

The insider and outsider distinction provides an analytical framework to explain the reinforcing mechanism of dualism and inequality through the political linkage between the social democratic party and insiders. Nonetheless, it does not provide comprehensive answers to the different policy preferences of insiders and outsiders in the context of Korea. Its labor unions and workers, regardless of insiders and outsiders, put employment protection as the top priority, given its underdevelopment of social protection for the unemployed compared with those of other CMEs (Yang 2016). This can be demonstrated with a series of labor strikes and protests to secure employment protection in the Korean labor market. Thus, it is quite difficult to argue that insiders and outsiders have diverging policy preferences for employment protection in Korea, which would result in the increase in dualism and inequality, even if there is no social democratic party (or the labor-based party at least) that might represent the political and economic interests of insiders in the labor market.

Building upon the existing literature on the trajectories of the institutional change, this article aims to fill out the analytical gap to explaining the reinforcement of dualism

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<sup>1</sup> Estévez-Abe, Iversen, and Soskice (2001) has highlighted the importance of human capital assets by specificity (general or specific) as the key determinant for social protection. They point out that CME countries with specific skills are more likely to develop high degrees of employment and unemployment protection than LME countries centered on general skills; otherwise, workers in CMEs have no or very weak incentives to make long-term commitments to the formation of specific skills in the workplace. In particular, CME countries with firm-specific skills (e.g., Japan and Korea) tend to further strengthen employment protection, yet with less emphasis on unemployment protection because of a relatively low risk of unemployment for skilled workers. As illustrated, while both Japan and Korea have developed strong employment protection, the different political mechanism of social protection and skills formation explains the similar outcome.

and inequality in the Korean labor market. Contrary to other CMEs whose strategic coordination has been centered on the shared economic interests between the business and labor, Korea's coordination, which had been established and imposed by the authoritarian government, has not been fully supported by the business and labor.<sup>2</sup> The short-term time horizon over the labor market and industrial relations of various stakeholders has further weakened the institutional foundations of its coordination mechanism under the pressure for change. Moreover, the dominance of enterprise unions has confined the coverage of collective bargaining to the narrow boundary of the firm and workplace, as opposed to the industry or the national economy, greatly limiting the effectiveness of the role of organized labor to reduce the economic gap. By examining the trajectories of the redistribution of risk and income in postwar Europe, Nijhuis (2013) pointed out that the importance of the union's internal organizational structure (e.g., occupational unions vs. industrial unions) in explaining the varying outcomes. In the context of Korea, scholars also emphasize the presence of enterprise unions centered on large-sized chaebol firms as the critical variable to explain its labor market and industrial relations (Jung 2018; Yang 2006). The following section will analyze the rise of dualism and inequality in the Korean labor market over the past few decades, especially since the 1997 Asian financial crisis.

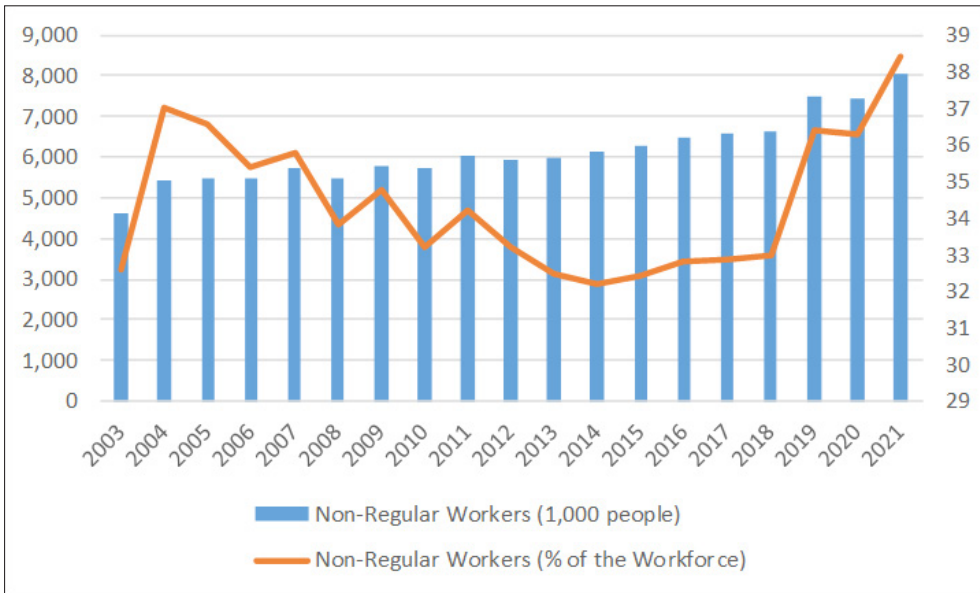
## **KOREA'S LABOR MARKET DUALISM AND INEQUALITY ON THE RISE**

### **Economic Disparity along the Lines of Employment Status and Firm Size**

The 1987 democratic transition was the first critical turning point for Korea's labor market and industrial relations, since the state-led coordination, which had been established by the authoritarian Park Chung Hee regime, became much weaker, if not collapsed. The democratic government was not able to employ its repressive labor control policies any longer to restrain wage increases and impose industrial peace on the workplace. A growing number of labor unions in large-sized chaebol firms strongly pushed employers to reluctantly accept high wage increases, generous corporate welfare benefits, and strong job security by raising a large scale of militant labor strikes. Labor unions' strong demand for economic compensations placed severe pressure on even large-sized chaebol firms to search for a new model of the production system that would save the labor costs, whose strategies included the transferring the costs of adjustment to subcontract companies, outsourcing production, and hiring non-regular workers

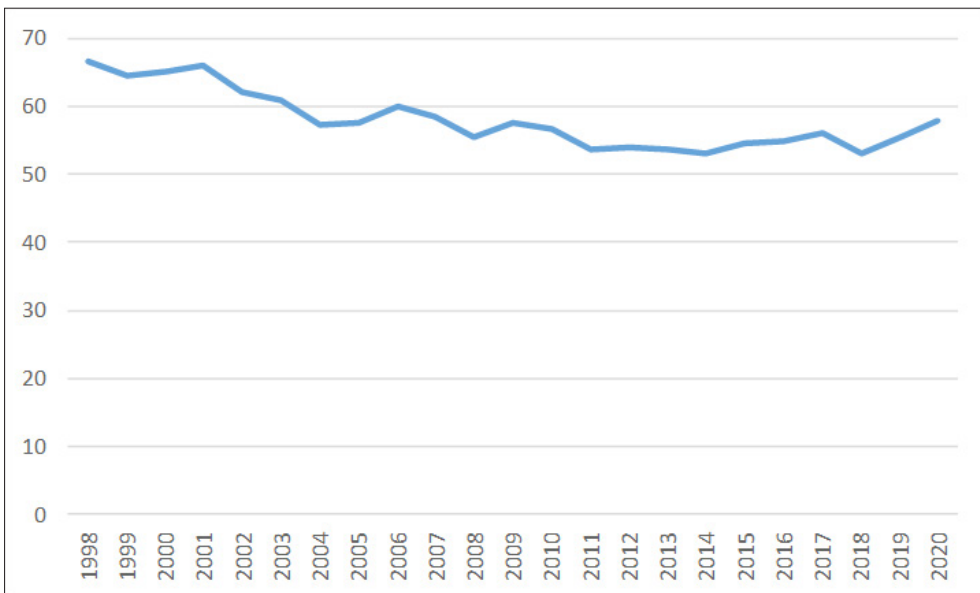
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<sup>2</sup> By taking into account two analytical dimensions of interest organization and the state-economy relations as well as extending the coverage to Central and Eastern European countries, Hancké, Rhodes, and Thatcher (2007) has proposed the four different types of market economy, which are identified as *étatisme* (France pre-1990s), compensating state (Italy, Spain, and some emerging market economies in Central and Eastern Europe), LMEs (UK, Baltics) and CMEs (Germany, Slovenia). According to this typology, Korea seems to be closer to *étatisme* than CMEs, given its strong state intervention in the market economy with fragmented interest groups, although more comprehensive comparison would be required in order to categorize Korea as a type of *étatisme*.



Source: Statistics Korea, e-country Index, “Non-Regular Employment.”

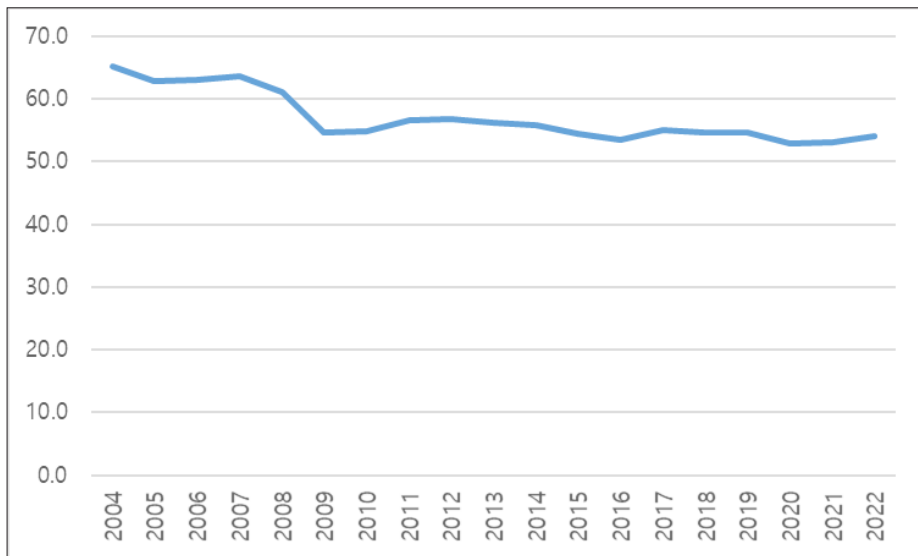
**Figure 1.** Non-regular Workers in the Korean Labor Market



Source: Statistics Korea, e-country Index, “Analysis on the Business Management.”

Note: The wage gap refers to the proportion of workers’ wages in SME (with less than 300 employees) to those of large-sized firms (with more than 300 employees) in the manufacturing industry.

**Figure 2.** Wage Gap between Large-Sized Firms and SMEs in the Korean Labor Market



Source: Statistics Korea, KOSIS, “Survey on the Economically Active Population: Additional Research by Employment Status (Waged Workers’ Characteristics).”

Note: The average monthly wage was based on August of each year.

**Figure 3.** Average Monthly Wage Gap between Regular Workers and Non-Regular Workers in the Korean Labor Market

excluded from the coverage of labor unions (Song 2014).

After the 1997 Asian financial crisis, Korea’s labor market has further experienced the exacerbation of dualism and inequality through the reinforcement of protecting regular workers in large-sized firms and the liberalization of non-regular, SME, and subcontract workers.<sup>3</sup> As illustrated in Figure 1, the number of non-regular workers have continued to grow, although the proportion of non-regular workers has been rather fluctuating. In addition, more than 70% of non-regular workers were employed in small-sized firms with less than 30 employees (as of August 2011) (Keum 2012: 38).<sup>4</sup> The wage gap between large-sized firms and SMEs has also further widened, except for the past few years (see Figure 2), and the wage disparity between regular workers and non-regular workers still remained large (see Figure 3). The coverage of social insurance was

<sup>3</sup> Kim and Han (2008) analyzes the different trajectories of Korea’s labor market segmentation along the lines of firm size and occupational categories. They have demonstrated that the internal labor market composed of blue-collar workers in large-sized firms, most of whom were union members, remained relatively intact even after the 1997 Asian financial crisis, whereas the internal labor market comprised of white-collar workers was substantially weakened.

<sup>4</sup> Although the author made efforts to update the data by looking up the same survey, titled the ‘Survey on the Economically Active Population: Additional Research by Employment Status,’ there was no information about the hiring of non-regular workers depending on the firm size. For the survey, please check with the following link provided by Statistics Korea ([https://kostat.go.kr/portal/korea/kor\\_nw/1/3/2/index.board](https://kostat.go.kr/portal/korea/kor_nw/1/3/2/index.board), accessed September 21, 2022). Although it was not based on consistent data analysis, KCWC (2020) made a similar point that a majority of non-regular workers in the Korean labor market were employed in SMEs.



**Table 1.** Social Insurance Coverage along the Lines of Employment Status and Firm Size

	Firm Size	Unemployment Insurance	Health Insurance	National Pension	Occupational Injury
All Workers	Total	90.3	90.9	91.1	97.7
	Under 5 workers	72.7	77.3	77.9	90.9
	5-29 workers	94.4	91.9	92.1	99.7
	30-299 workers	97.8	97.3	96.9	99.9
	Over 300 workers	96.2	99.9	98.9	99.6
Regular Workers	Total	94.4	98.2	98.0	97.8
	Under 5 workers	81.9	92.4	92.9	90.7
	5-29 workers	97.9	99.6	99.3	99.7
	30-299 workers	99.0	99.9	99.6	100.0
	Over 300 workers	95.9	100.0	99.1	99.6
Non-regular Workers	Total	74.0	64.2	61.0	97.3
	Under 5 workers	50.4	42.2	39.6	91.3
	5-29 workers	81.6	66.5	62.9	99.5
	30-299 workers	91.1	84.2	79.9	99.3
	Over 300 workers	98.8	98.9	97.6	99.8

Source: Statistics Korea (2019) “Survey on the Economically Active Population by Employment Status”; recited from Lee, Ahn, and Kang (2020: 61, Table 4-11).

Note: Those in special employment contract was excluded from the category of all workers and non-regular workers.

different along the lines of employment status and the firm size as well (see Table 1).

The two dimensions of the labor market—employment status and firm size—have been attributed to the driving force of dualism and inequality in Korea. Other CMEs, such as Germany and Japan, have also faced the rise of dualism and inequality over the past few decades, which may indicate that it is not only the problem for Korea (Parlier and Thelen 2010; Thelen 2014). Nonetheless, there is a very slim chance for workers in the Korean labor market to change their employment status from non-regular, SME, and subcontract workers to regular workers in large-sized firms and public corporations, leading to the consolidation of labor market segmentation.<sup>5</sup> Despite a series of the

<sup>5</sup> Although there is no comprehensive survey data to evaluate the possibility of making a transition from regular to non-regular workers, the media reports the declining possibility of the transition in the Korean labor market over time. During the conservative Lee Myung-bak government (2008–2012), 16.3% of non-regular workers in both public and private sectors had a chance to change their employment status to regular workers. The following conservative Park Geun-hye government



government's policy efforts for narrowing down the economic disparity, Korea's labor market dualism and inequality have been exacerbated over the past few decades. Korea, once applauded as a successful model of high growth with equity, has been portrayed as the primary example of the increasing economic gap along the several overlapping lines of labor market segmentation.

### **Underdevelopment of Specific Skills Training System**

The vocational training system has been identified as one of the core institutional arrangements of the market economy that would shape the different patterns of coordination. The firm's reliance on the characteristics of skills (either specific or general skills) in the production system has provided the varying political and economic incentives of the business and labor for investing in human capital development and forming a political coalition. After the 1987 democratic transition, some chaebol firms attempted to establish the in-house skills training system, with a high hope of achieving productivity growth and cooperative industrial relations (Song 1991), emulating the Japanese model of the labor market and industrial relations that is defined as the segmentalist model of skills training system (Thelen 2004). Yet, most chaebol firms were not very serious about developing the vocational training system for specific skills; rather they decided to rely on the external labor market to supply the workforce in demand, whose trajectories of skills formation system were rather very similar to those of LMEs, represented as the general skills training system (Song 2014). Chaebol labor unions and workers also fiercely opposed the introduction of the skill-based or task-based wages (Kim 2016). They were more concerned about the possibility of weakening solidarity among union members in the case of introducing the evaluation and compensation standards based on skills and productivity. The lacking interests of both business and labor in building up the specific skills training system further shortened the time horizon for coordination and cooperation in the labor market. Assessing Korea's skills training system, Jung (2011) argued that the underdevelopment of skills training system led to the inefficiency of the production system and the weakening of the sustainability of the internal labor market centered on employment protection and seniority-based wages, which contributed to employers' growing concern for labor market rigidity with no numerical and functional flexibility in the allocation of human resources.

As a way of minimizing the reliance on human skills, Korea's business extensively utilized the industrial robot on the production sites, especially in the automotive and electronics sectors, reaching the highest density of using the industrial robot (932 robots per 10,000 workers as of 2021), followed by Singapore (605 robots), Japan (390 robots), and Germany (371 robots) (Kwak 2021). Hyundai Motor Company, one of the country's leading manufacturing firms, decided to utilize industrial robots on the production sites to save labor costs and reduce its dependence on skilled workers in very conflictual and

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(2013–2017) showed 13.1% of the transition from non-regular to regular workers. Interestingly, the progressive Moon Jae-in government (2017–2021) presented only 10.7% of the employment status change (as of 2020), demonstrating the reinforcement of labor market dualism between regular and non-regular workers (Kim 2021).

confrontational industrial relations (Jo and Baik 2010: 283–284). Similarly, scholars, who conducted in-depth research on Hyundai Motor Company as the pattern setter of Korea's industrial relations, agreed that neither business nor labor had any strong interests in improving skills, which resulted in the reinforcement of decomposing the skills formation system (Baek and Jo 2009; Jo and Baik 2010; Park 2014). The single case of Hyundai Motor Company may not represent a general pattern of Korea's skills training system. Considering its important status in the country's economy, however, several labor practices of Hyundai Motor Company should be taken into account more seriously to delve into the political dynamics of the labor market and industrial relations in Korea.<sup>6</sup>

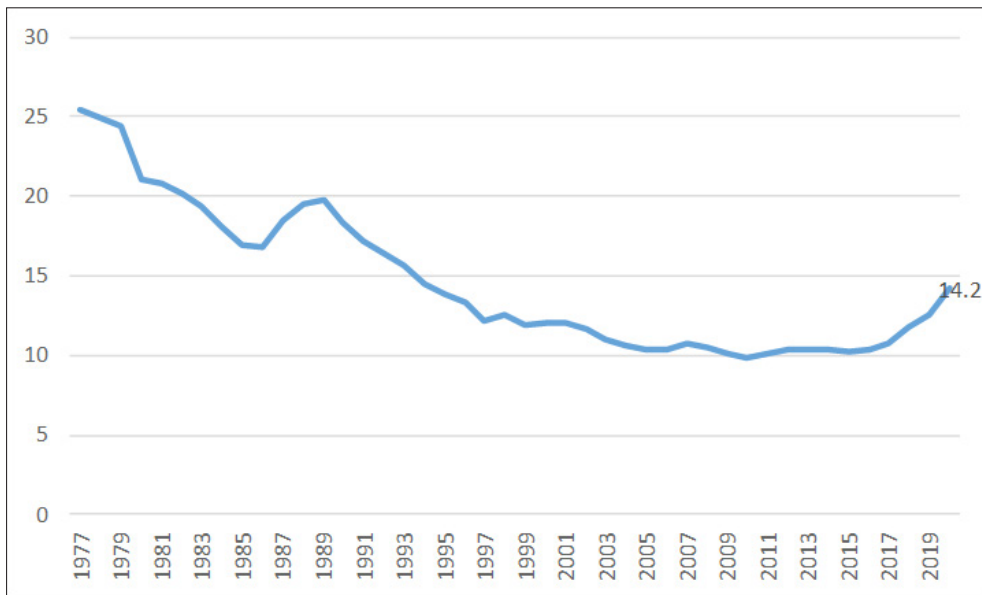
Contrary to other CMEs, Korea has failed to develop the specific skills training system, whose characteristics of skills formation look much similar to those of LMEs, such as the UK and the US. Under the pressure for changes in its market economy, the weak (or even the lacking) institutional foundations of Korea's skills formation has affected the trajectories of the labor market and industrial relations, represented as dualism and inequality.

## **THE GOVERNMENT'S POLICY EFFORTS TO ALLEVIATE DUALISM AND INEQUALITY**

There is no dispute that dualism and inequality have been one of the most serious concerns in the Korean labor market, especially after the 1997 Asian financial crisis. Regardless of the political partisanship of the government, Korea's policymakers have striven to narrow down the economic gap in the labor market. The progressive Roh Moo-hyun government (2003–2007) advanced to improve job security for non-regular workers, most of whom served as a buffer zone in economic hard times, by legislating the non-regular worker protection law (effective as of July 1, 2007). This law dictated employers to change the employment status of non-regular workers to regular workers with indefinite employment contract after the initial two-year long employment contract term. The following two conservative governments also attempted to enhance employment and working conditions for non-regular workers, although they simultaneously promoted the further liberalization of the labor market. The Lee Myung-bak government (2008–2012) expanded the employment insurance program as a social safety net to cover non-regular workers and even the self-employed. Aiming to progress the employment and working conditions for part-time workers, the Park Geun-hye government (2013–2017) proposed to advance the good quality part-time employment policy as a way of incentivizing more female workers to participate in the labor market. Despite such policy efforts, ironically, the dualism and inequality have been further increased in the Korean labor market.<sup>7</sup>

<sup>6</sup> Regarding the solidarity politics between regular and non-regular workers at Hyundai Motor Company after the 1997 Asian Financial Crisis, see Lee, Hong, and Kwon (2014) and Yoo (2012).

<sup>7</sup> Regarding the overview of Korea's labor politics and the government's policy efforts, please see Kim (2017) and Roh (2020).



Source: Source: Statistics Korea, e-country Index, “Union Organization Rates”; for the union organization rate in 2020, Korea Ministry of Employment and Labor (2021b).

**Figure 4.** Korea’s Union Organization Rates during the Period of 1977–2020

The progressive Moon Jae-in government (2017–2021), which replaced the conservative Park Geun-hye government amidst the large-scale candlelight protests against the political scandals during the winter of 2016–2017, strongly advocated for enhancing non-regular workers’ employment and working conditions as one of the highly imminent policy concerns in the labor market. Only two days right after his inauguration on May 10, 2017, President Moon chose the Incheon International Airport Corporation as his first site visit to have a conversation with non-regular workers, demonstrating his top policy priority. This symbolic event, but with clear message, pushed ministries, government agencies, and public corporations to change employment status of non-regular workers (e.g., temporary and fixed-term contract workers) to regular workers with indefinite employment contract terms.<sup>8</sup>

In contrast to the declining union organization rates in most advanced industrial countries, Korea’s union organization rates have increased after reaching 9.8% as the lowest point in 2009 (Statistics Korea, e-country Index, “Union Organization Rates”; see also figure 4). This trend has become more salient after the Moon government came to power in 2017. During the period of 2017–2020, its union organization rates increased from 10.7% to 14.2% and the number of union members expanded from 2,089,000

<sup>8</sup> More precisely speaking, these workers are located in between regular and non-regular workers in terms of employment status and compensation. By ensuring indefinite employment contract terms, this policy guaranteed job security for them. However, it created another tier of employment status in the labor market, so-called the ‘contract worker with the indefinite employment contract term.’

to 2,805,000. The Moon government's 'zero non-regular worker in the public sector' initiative substantially contributed to the rising union organization rates in the public sector (Park, Lee, and Kang 2019: 263).<sup>9</sup> Labor union organization rates in the public sector expanded more rapidly from 63.2% to 69.3% between 2017 and 2020, compared with those in the private sector increasing from 9.0% to 11.3% during the same period (Korea Ministry of Employment and Labor 2021b). The Moon government's policy initiative has made a huge impact on the employment and working conditions for non-regular workers in the public sector under the direct supervision and evaluation systems of the government. Nevertheless, its policy implications for the non-regular workforce in the private sector have been rather limited.

More recently, non-standard forms of employment, which refer to the four different categories of various forms of employment (i.e., temporary employment; part-time and on-call employment; multiparty employment relationship; disguised employment and dependent self-employment), have been widespread around the world (ILO 2016). Korea is not an exception. An increasing number of the workforce in the non-standard forms of employment have raised significant policy issues, such as the legal recognition of the three labor rights (i.e., the right to organize, the right to bargain collectively, and the right of collective action) for them as well as the expansion of social safety nets for the non-standard employment. Such debates have been more critical especially in the context of Korea's industrial relations centered on enterprise unions with the very limited coverage of collective bargaining.

In response to such challenges, the Moon government recognized the labor rights of those in the non-standard forms of employment, such as parcel delivery service persons and driving service persons, whose legal status was not recognized as 'workers.' Although there are still several restrictions on the application of the legal status of workers, the labor standards law and labor union law have entitled those in the non-standard forms of employment to have the basic collective labor rights as workers, with the expectation of enhancing better economic compensations (Kang 2021). In December 2017, the Moon government allowed drivers in the parcel delivery service to organize labor unions, even if they were categorized as independent contractors, not as workers. This decision has made an important turning point by granting them to organize labor unions and participate in the collective bargaining for wages, working conditions, and social welfare benefits beyond the boundary of the workplace and firm.

The Moon government's labor market policy provided a great opportunity for the two national labor federations—the Federation of Korea Trade Unions (FKTU) and the Korea Confederation of Trade Unions (KCTU)—to expand their memberships towards non-regular workers and those in the non-standard forms of employment over the past

<sup>9</sup> The Moon government was not the first government that supported the 'zero non-regular worker in the public sector' initiative. In fact, the two conservative predecessors also proposed a similar policy to improve employment and working conditions of non-regular workers in the labor market, ranging from weak employment protection, and low wages and benefits to harsh working conditions. Compared with the two conservative governments, the Moon government more strongly pushed the policy implementation by closely monitoring and evaluating the performance of the 'zero non-regular worker in the public sector' initiative, which served a very strong institutional mechanism of incentives and punishments for the public sector.

few years. Several scholars have highlighted that Korea's labor unions have recently taken more solidaristic approaches toward outsiders, like non-regular workers, than before (Durazzi, Fleckenstein, and Lee 2018; Fleckenstein and Lee 2019; Kang 2023). Yet, Korea's organized labor has not successfully addressed the persisting problems of dualism and inequality, due to the dominance of enterprise unions.

## **THE LEGACIES OF STATE-LED COORDINATION AND THE DOMINANCE OF ENTERPRISE UNIONS**

This section examines the two variables to explain the reinforcement of dualism and inequality in the Korean labor market, focusing on the legacies of state-led coordination and the dominance of enterprise unions. By taking into account the institutional legacies of the past on the trajectories of change (Caraway, Cook, and Crowley 2015; Pierson 2004), it elaborates the ways in which these two institutional constraints have shaped the incentives and strategies of business and labor in response to the pressure of changes in the labor market and industrial relations.

### **The Underdevelopment of Strategic Coordination after Democratization**

Despite various political efforts, Korea has failed to institutionalize a mechanism of strategic coordination to replace its state-led coordination in the market economy after democratization. The origins of Korea's state-led coordination can be traced back to the era of the authoritarian Park Chung Hee regime. Pursuing the state-led industrialization, the Park regime intervened in all institutional domains of the market economy, ranging from corporate governance, education and training system to the labor market and industrial relations. In particular, it allocated the financial resources to a few strategically chosen large-sized firms, expecting that they would lead to the country's rapid economic growth (Kim 1997; Woo 1991). Such political choice of the Park regime shaped the country's large firm-centered economic structure, which has contributed to labor market dualism and inequality along the lines of firm size.

The Park regime approached to the education and training system as a tool to provide a quality workforce for the industrialization, emulating the German model of the vocational training system, and simultaneously expanded the vocation training high school since the 1960s (Song 2020). In addition, it severely restricted organized labor from exerting the collective labor rights and endeavored to prevent any possibility of industrial disputes by utilizing the law enforcement agency (Koo 2001; Lee 2011). Due to the legacies of state-led coordination, Korea's business, including large-sized chaebol firms, did not have any political and economic incentives to consult with labor about the establishment of strategic coordination based on mutual economic interests and cooperation even after democratization in 1987, which has further undermined the weak institutional foundations of Korea's CMEs.

As illustrated in the previous section, a very small segment of the workforce—composed of regular workers in large-sized chaebol firms and public corporations—have been able to exert its organizational and political power over employers, securing job

security, high wages, and generous social welfare benefits after the 1987 democratization and the 1997 Asian financial crisis. In contrast, a large proportion of the workforce, referring to non-regular workers, SME workers, subcontract workers, and those in non-standard form of employment, has been exposed to much higher pressure on job security, wages, and welfare benefits during the same time period.<sup>10</sup>

Korea's business and labor have confronted an institutional vacuum of the state-led coordination, but with no experience or intention of building up a new coordination mechanism. Neither employers nor workers had the political and organizational capacity or willingness to construct a mechanism of strategic coordination over the labor market and industrial relations. Instead of building solidarity across the industry and national economy, Korea's key players have taken more myopic approaches, maximizing the economic interests defined by the very narrow scope of the organizational boundary, namely the firm and workplace. Under the pressure of liberalizing the market economy, Korea has confronted far severer challenges than other CMEs, represented as the exacerbation of the labor market dualism and inequality.

### **The Characteristics of Union Structure: The Dominance of Enterprise Unions in Large-sized Firms**

In Korea's industrial relations, as of 2020, most union members (88.7%) were hired in large-sized firms with more than 300 workers. A majority of labor unions (90.5%) were organized at the enterprise level, although other types of labor unions organized at different levels (e.g., industry or region) had a larger proportion of union members (60.4%) compared with that of enterprise union members (39.6%) (Korea Ministry of Employment and Labor 2021b). While there have been various political efforts to discuss employment and working conditions beyond the boundary of the firm and workplace, the voice of enterprise unions and their union members has been the most critical in the process of the collective bargaining. The primary concern for enterprise unions and regular workers has lied in the realm of short-term economic benefits at the firm and workplace levels, such as job security, wage increases, and corporate welfare benefits. They rarely put emphasis on investing in human capital development for upgrading skills and extending the coverage of collective bargaining beyond the organizational boundary of the firm and workplace. Rather most regular workers and enterprise unions were reluctant to expand the union membership to labor market outsiders (e.g., non-regular workers and subcontract workers), who were previously excluded from the coverage of enterprise unions, since the former regarded the latter as a buffer zone in economic downturns (Cho et al. 2004; Lee et al. 2014).

Meanwhile, the two national labor federations (i.e., FKTU and KCTU) have made efforts to recruit more diverse groups of workers, who previously were excluded from

<sup>10</sup> During the 1990s, large-sized manufacturing firms (e.g., those in the automotive and shipbuilding industries) utilized the in-house subcontract system in order to control the labor costs as well as to increase the employment flexibility (Cho et al., 2004; Lee 2016). Although the hiring of non-regular workers was employed by large-sized firms to some extent, Korea's dualistic labor market along the lines of employment status was rather consolidated after the 1997 Asian financial crisis.



the coverage of labor unions, into their organizations, experiencing declining union organization rates and the increasing number of labor market outsiders. Although they needed to serve the interests of core union members (e.g., regular workers in large-sized chaebol firms and public corporations), the industry and national labor federations confronted the very demanding tasks of expanding the membership and organization. They considered the increase in the number of union members as a way of enhancing the political and organizational capacities of organized labor vis-à-vis the government and business.

Given the very fragmented industrial relations centered on enterprise unions, however, it is still challenging to make a social contract that would encompass the entire workforce in Korea, whose difficulties have been exacerbated by the structural change of the market economy and the diversification of employment in the labor market (e.g., deindustrialization and platform economy) (Cheon and Shin 2016; Lee, Baek, and Kim 2017). The union structure centered on enterprise unions, mostly those in large-sized chaebol firms and public corporations, has played a critical role in explaining dualism and inequality in the Korean labor market (Jung 2018; Yang 2006). As illustrated in Lee (2017), the three key institutional dimensions of the labor market—firm size, employment status, and unions—have reinforced the economic disparity among the workforce. The exacerbation of dualism and inequality in the Korean labor market was based on the implicit consent by employers, regular workers, and labor unions, especially in times of economic crisis, such as the 1997 Asian financial crisis and 2008 global financial crisis (Lee 2017: 136–137).

During the summer of 2022, two hundred subcontract workers of Daewoo Shipbuilding and Marine Engineering (DSME) raised a strike on the shipbuilding site, demanding wage increases by 30%, whose wages had been substantially cut since 2016 a period during which the shipbuilding industry had begun to restructure the workforce due to the business downturn. However, most subcontract companies did not have such financial capacities to increase wages up to 30%, considering the characteristics of the labor intensive industry, even if the shipbuilding industry showed a sign of the business boom. In addition, DSME regular workers raised a serious concern that subcontract workers' sit-in strike would substantially disrupt and delay the shipbuilding procedure. After almost 50 day long industrial dispute, union leaders of the Metal Workers' Union under the KCTU, on behalf of these subcontract workers, and subcontract companies' association of DSME reached to an agreement that employers would raise a wage by 4.5% and pay for 150% bonus, including the succession of employment in the case of business closure and exemption from workers' responsibility for damage during the strike (Kim and Kim 2022). The strike of DSME subcontract workers, most of whom were regular workers in SMEs, demonstrated poor working conditions and very low wages, and provided a source of conflicts between workers in the main contract company and those in subcontract companies.

The various types of employment contracts and working conditions have made Korea's industrial relations far more complicated than before. The rise of the platform economy with technological innovation, such as the information and communication technology (ICT) development, has also contributed to the complexity of the problems



in the labor market and industrial relations.<sup>11</sup> Traditionally, the government's labor market policy targeted for outsiders, such as non-regular workers, SME workers, and subcontract workers, most of whom were hired as workers, but excluded from the coverage of employment protection, decent wages, safe working conditions, and generous welfare benefits. By doing so, Korea's policymakers attempted to reduce the economic disparity between insiders and outsiders. Yet a number of the people located in the gray zone of employment contract has been rapidly growing, which has raised another policy concern since most of them are excluded from the coverage of the labor law. To fill out this gap, the Moon government endeavored to promote the individual and collective labor rights for those in the gray zone of employment contract, even if they were not identified as workers, as illustrated in the previous section. Such political efforts have facilitated the establishment of labor unions along the lines of the region and the industry since late 2017, leading to the improvement of employment and working conditions for those in the non-standard form of employment. Nonetheless, the locus of the key decision making in collective bargaining has still remained at the firm and workplace, not the industry, region, or national levels, which has not yet effectively reduced the labor market dualism and inequality in Korea.

As emphasized by Rehm (2011) and Alt and Iversen (2017), the levels of unemployment risk and the degree of labor market segmentation are important factors to determine the different policy preferences for the level of generosity of social protection and redistribution. Korea's highly segmented labor market but with low possibility of unemployment for regular workers in large-sized firms has resulted in the underdevelopment of social safety nets that would encompass the industry and national economy, which has left a large number of the workforce unprotected during economic downturns. Korea's labor union structure has exacerbated the dualism and inequality under the pressure for changes: the persisting protection for core regular workers in large-sized firms and the extensive liberalization for most other workers in the labor market.

## CONCLUSION

Most advanced industrial countries have opted for the adjustment of the labor market and industrial relations in response to quickly changing market economies. CMEs based on strategic coordination have faced more difficult challenges for labor market liberalization than LMEs; however, there have also been diverging trajectories of changes even among CMEs. Similar to some CMEs, like Germany and Japan, Korea has undergone the rise of dualism and inequality along the lines of employment status and firm size, especially since the 1997 Asian financial crisis. Only a small segment of the

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<sup>11</sup> The size of the workforce in the platform economy was estimated at around 2,200,000 (8.5% of the workforce aged 15–69) as of 2021. The core size of the workforce in the platform economy was estimated at around 660,000 (2.6% of the workforce), whose work and compensation were determined by the platform and whose job applications and assignments were open to everyone (Korea Ministry of Employment and Labor 2021a).

workforce has benefited from the privileges of job security, high wages, generous welfare benefits, and decent working conditions, whereas a majority of the workforce has been directly exposed to much higher risks in the labor market than before. The Korean government's policy efforts were not very effective in reducing the economic gap in the labor market.

The legacies of the state-led coordination and the dominance of enterprise unions are the two key determinants for explaining the exacerbation of dualism and inequality in the Korean labor market over the past few decades. The underdevelopment of strategic coordination that would replace with the state-led coordination has substantially weakened the institutional foundations of CME in the face of the pressure for liberalization. The union structure centered on enterprise unions has further consolidated the dividing gap between insiders (e.g., unionized regular workers in large-sized firms) and outsiders, accelerating the economic disparity along the lines of labor market segmentation, such as employment status, firm size, and labor unions. By taking into account the path-dependent and long-term process of the institutional development, we may have a better understanding of trajectories of dualism and inequality. This paper does not preclude any possibility of changes in the labor market and industrial relations, yet it highlights that it would require much stronger forces to overcome the embedded institutional legacies in the market economy even under the pressure for change. In addition, the analytical focus on the political dynamics of market coordination beyond firm's economic interests has shed light on the trajectories of institutional change.

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