

The Impact of Globalization on Industrial Relations: A Comparative Study of Korea and Japan

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Abstract

The trend of globalization since the early 1990s has had profound impact on industrial relations systems in Korea and Japan. It affected these two countries in both positive and negative ways. Trade unions in Korea and Japan showed similar reactions to globalization in some aspects, but at the same time, unions in these two countries showed different reactions.

Just like Korean unions, Japanese unions tried to counteract the forces of globalization by forming industrial unions. This strategy, however, was not as successful in Japan as in Korea because the associations of trade unions were more willing to accept demands from business in Japan. For example, Japanese unions were more willing to accept performance-based pay and use of contingent workforce. Whereas the Korean unions tried to challenge these changes, Japanese unions were more willing to accept these changes and increase productivity.

Also Japanese unions put more efforts in getting approval from the society in charting their strategies against the waves of globalization. Korean trade unions, however, did not actively seek public support.

Instead, Korean unions waged more strikes and used their power to draw better deals from negotiation with the government and the business.

INTRODUCTION

Trade unions in Korea and Japan behaved differently to the changes caused by globalization although these two countries have a high level of similarities in the culture and corporate HR policies. The differences in the stage of economic development and the strategies of the unions seem to have contributed to different outcomes in industrial relations.

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

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

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

In this study, we focus on changes in industrial relations systems in Korea and Japan. We first review the Korean case

and then the Japanese case. To conduct this research, we examined extensive official data and archival documents and materials from various sources, and conducted semi-structured interviews with representatives from the labor, business, and the government in Korea and Japan.

KOREA

The Economy and Industrial Relations

The Economy and Labor Market. Korea, with a population of approximately 47 million, has shown the most remarkable economic growth among newly industrialized countries. Growth rates, in terms of real GDP, of the Korean economy have averaged nearly eight percent per year during the period 1970-1997 (See Table 1). The remarkable economic growth has been associated with very low rate of unemployment. The unemployment rate dropped from 8.2 percent in 1963 to 4.4 percent in 1970, and since 1980 it has remained lower than three percent until 1997 (See Table 2). The financial crisis in the late 1990s, however, lowered the real wage growth substantially to 2.4 percent in 1997 and even -9.3 percent in 1998, and increased the unemployment rate to 8.6 percent in February 1999. As the economy recovers from the financial crisis, the growth rate of real wage reached again to 11.1 percent in 1999, and the unemployment rate lowered to 3.6 percent as of June 2000.

Government Policy on Employment and IR. During the period of rapid economic growth, the Korean government acted as a "benevolent dictator" through comprehensive and detailed legal frameworks and direct state intervention in the labor market. The rights of Korean workers were protected by detailed protective legislative measures. Korean laws and regulations covering individual workers' rights were more extensive in some respects than those of Western countries.

On the other hand, the government suppressed independent labor movement. While American-style labor laws were enacted in 1953 and guaranteed full-fledged trade union rights, throughout the 1960s and 1970s labor law was frequently

Table 1. Economic Indicators and Labor Statistics in Korea

Year	Growth Rates of GDP (percent) ^a	Employed Labor Force (1000 Persons) ^b	Union Members (1000 Persons) ^c	Union Membership Ratio (percent) ^c	Changes in Nominal Wage (percent) ^a	Changes in Real Wage (percent) ^a	The Ratio of employee compensation to GDP (percent) ^a	Weekly Actual Working Hours (All Industries) ^d
1986	11.0	8433	1036	16.8	8.2	5.3	52.8	52.5
1987	11.0	9190	1267	18.5	10.1	6.8	53.7	51.9
1988	10.5	9610	1707	19.5	15.5	7.8	55.2	51.1
1989	6.1	10390	1932	19.8	21.1	14.5	57.8	49.2
1990	9.0	10950	1887	18.4	18.8	9.5	59.1	48.2
1991	9.2	11405	1803	17.2	17.5	7.5	59.8	47.9
1992	5.4	11619	1735	16.4	15.2	8.4	59.8	47.5
1993	5.5	11793	1667	15.6	12.2	7.0	59.6	47.5
1994	8.3	12326	1659	14.5	12.7	6.1	59.5	47.4
1995	8.9	14583	1615	13.8	11.2	6.4	61.7	47.7
1996	6.8	12783	1599	13.3	11.9	6.7	64.2	47.3
1997	5.0	13226	1484	12.2	7.0	2.4	62.8	46.7
1998	-6.7	12190	1405	12.6	-2.5	-9.3	59.0	45.9
1999	10.7	12522	1481	11.9	12.1	11.1	59.8	47.9

a Source: Korea Labor Institute (Various Years) KLI Labor Statistics.

b Source: National Statistic Office (Various Years) Yearbook of Economically Active Population.

c Source: Korea Ministry of Labor (Various Years) Yearbook on Labor Statistics.

d Source: Korea Ministry of Labor (Various Years) White Paper on Labor.

revised to put substantial restrictions on union activities. For example, labor legislation was amended in 1972 to suppress unions, and strikes were prohibited until 1980. Since the late 1980s, there have been revisions of labor laws in the direction of providing some freedom for the labor movement. However, the current labor law, revised in 1998, still contains some restrictions on the labor movement, such as a prohibition of union activities by public employees and university professors and emergency arbitration of labor disputes in some industries by the Ministry of Labor.

The process of political democratization since the late 1980s

Table 2. Unemployment Rates

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

a Source: Korea Ministry of Labor (Various Years) Yearbook on Labor Statistics.

b Source: National Statistic Office (Various Issues) Monthly Employment Trend.

has been accompanied by a surge of workforce militancy and violent labor disputes. Since the labor movement was suppressed by successive governments during the post-war period, political democratization was perceived by workers as an opportunity to remove the vestiges of past labor suppression.

Trade Unionism in Korea. The government recognized the Federation of Korean Trade Unions (FKTU) as the only legal national-level union federation. The FKTU, established in 1960, had received financial support from the government, and its policies and activities had been generally subordinate to the government. Since the late 1970s, a strong labor movement has emerged separate from the formal union organization. This movement was characterized by a proliferation of wildcat strikes in the late 1970s and early 1980s, and disputes over management-controlled company unions. The late 1980s witnessed a turning point. Initiated by the "Democratization Declaration" by the President Noh Tae Woo in June 1987, the union movement has underwent an unprecedented expansion. Union membership almost doubled during 1986-89 rising from

Table 3. Statistics on Labor Disputes and Unfair Labor Practices in Korea

Year	Number of Strikes ^a	Workers Involved in Strikes (1 0 0 0 Persons) ^a	Workdays Lost To Strikes (1 0 0 0 Days) ^a	Reason for Strikes: Unpaid Wages ^b (Number)	Reason for Strikes: Wage Increase ^b (Number)	Reason for Strikes: Employee and Working Conditions ^b (Number)	Number of Unfair Labor Practices Filed ^c (Number)
1986	276	46	72	48	75	153	323
1987	3749	1262	6946	45	2613	1102	657
1988	1873	293	5400	59	946	868	1439
1989	1616	409	6351	59	742	815	1721
1990	332	133	4487	10	167	145	1160
1991	234	175	3271	5	132	97	784
1992	235	105	1527	27	134	74	689
1993	144	108	1308	11	66	67	619
1994	121	104	1484	6	51	64	548
1995	88	49	392	0	33	55	566
1996	85	79	892	1	19	65	539
1997	78	43	444	3	18	57	495
1998	129	146	1452	23	28	78	787
1999	198	92	1366	22	40	136	950

a Source: Korea Ministry of Labor (Various Years) Yearbook on Labor Statistics.

b Source: Korea Labor Institute (Various Years) KLI Labor Statistics.

c Source: Korea Ministry of Labor (Various Years) White Paper on Labor.

16.8 to 19.8 percent (See Table 1) This, however, led to labor turmoil and indeed there were 3,749 disputes for 1987, a 13-fold increase from the previous year (See Table 3). In early 1990, a militant and illegal national federation, the Korea Confederation of Trade Unions (KCTU) was organized. After the biggest general strike in Korean history in early 1997 (see Bae et al., 1997), the Trade Union Law was revised to allow the KCTU to become a legitimate union federation.

Most Korean unions are organized at the level of the individual enterprise. Members of enterprise unions include only full-time, blue-collar, and some white-collar workers (excluding temporary or part-time employees). While collective bargaining was circumscribed severely by the government until the late 1980s,

it has become an increasingly important method of wage determination since the late 1980s. In the unionized sector, wages and working hours are determined by collective bargaining between enterprise unions and individual employers, while multi-employer bargaining practices exist in transportation, mining, and textile industries.

Globalization and Labor

This part examines the effects of globalization on industrial relations in three dimensions: (1) the impact of intensified competition and financial crisis on labor; (2) pressures to adopt internationally accepted labor standards; (3) labor's strategic responses to increasing competition.

Intensified Competition, Financial Crisis, and Labor. As the Korean economy has entered the advanced world economy, IR in Korea also became exposed to the worldwide environmental changes. In particular, because of the globalization-oriented economic policy of the government in the 1990s, both labor and management have experienced direct pressures from the world economy.

Since the early 1990s the labor market has responded to the slowdown of the economy. Mid-career employees even in large corporations have been forced to accept early retirement, and private firms and public employers have reduced substantially the number of job openings for new college graduates. After the 1997 IMF rescue package, several economic indexes changed rapidly. For example, the foreign exchange rate (Won/\$) changed from 921.85 in October 1997 to 1706.8 in January 1998 and the Korean Won fell by about 50 percent against the US dollar.

Overall, the globalization of Korean economy represented by the financial crisis in the late 1990s strongly influenced labor market outcomes, industrial relations, and human resource management in Korea. Right after the IMF crisis, the bargaining power of unions was weakened significantly, and concession bargaining was the norm. After 1999, the bargaining power of unions bounced back and, "give-back" bargaining is widespread, which led to over 10 percent wage increase in the subsequent period. Also, the ratio of employee compensation to GDP, which shows overall bargaining power of labor in a society, decreased

from 64.2 percent in 1996 to 59.0 percent in 1998, but reached to 59.8 percent in 1999 implying the recovery of labor's power in Korean society (Bank of Korea, 2000).

Other impacts seem to be more fundamental. The new trends in HRM focusing on increasing flexibility and efficiency seem to be a dominant method of managing human resources at least in large firms. The sharp increase of contingent labor force from 46 percent in 1997 to 53 percent in 2000 may influence industrial relations in a fundamental way. It would weaken the solidarity of labor, worsen income distribution in Korean society, and complicate the way to manage diverse labor force. Also unemployment in Korean society became a more chronic, entrenched social problem than it used to be. The proportion of long-term unemployed persons (longer than one-year) to the total number of unemployed labor force rose from 4.2 percent in 1996, through 10.6 percent in 1998 to 15.5 percent in 1999.

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

First, economic- and labor-related international organizations such as the ILO and the OECD have influenced Korean worker rights. Korea joined the ILO in December 1991, and the OECD in December 1996. Since 1992, successive Korean governments have experienced international pressures to fully adopt the ILO conventions. Korea has ratified only 11 conventions (including three "core" conventions), while on average OECD Members ratified 64 conventions and all 174 ILO member countries ratified 37 conventions (Kwon, 2000). Being aware of international concerns about the labor standards in Korea, the

current ruling party, National Congress for New Politics, made the ratification of ILO conventions one of the Top 100 Government Tasks.

International concerns regarding labor standards in Korea was one obstacle against Korea's joining the OECD in December 1996. Thus, the Korean government had to make a solemn commitment to "reform existing laws and regulations on industrial relations in line with internationally accepted standards, including those concerning basic human rights, such as freedom of association and collective bargaining." The pressure from international organizations has been strong and persistent. Indeed, the ILO has issued 7 official recommendations to allow and legalize teachers' unions in Korea since 1991, and OECD raised the issue of Korean labor standards five times at international forums (Korea Ministry of Labor, 2000). The recent report issued by the OECD mentioned "since the start of the monitoring process, there is no doubt that the legislative reforms have shifted Korean labor laws significantly in the desired direction." Major examples include the recognition of the principle of trade union pluralism, the legalization of teacher's unions, freedom of public servants to join workplace associations, the gradual reduction of the list of so-called "essential services" where compulsory arbitration applies, as well as the recognition of the KCTU in November 1999 as the second national trade union center. In addition, the government has decided to allow trade union pluralism at the enterprise level from 2002. The report, however, listed some outstanding issues including the prohibition of public servants from organizing and bargaining collectively; the prohibition of the payment of full-time union officials from January 2002; and arrest and imprisonment of trade unionists (OECD, 2000). Second, the movement toward linking labor standards to trade and investment decisions has put another pressure on newly industrialized countries (NICs) like Korea. With the advent of the WTO in January 1995, there have been voices advocating a link between international labor standards and the liberalization of international trade (called the "blue round"). The rationale behind this movement is that countries violating international labor standards take unfair advantage of labor exploitation, and it can be a ground for invoking trade sanctions. The labor

standards referred to "core" ILO standards are the freedom of association, the right to collective bargaining, the prohibition of forced labor, equality of treatment and non-discrimination in employment, and the minimum wage. Delegates from mainly developing countries argued that linking labor standards to trade is a disguised instrument of protectionism by raising labor costs in developing countries in order to reduce their international competitiveness (Lee, 1997). Although the idea was not realized mainly due to the opposition of developing countries, the movement was a formidable threat to countries like Korea whose labor standards are believed to be inferior to international standards.

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

In early 1996, the tripartite actors in the IR system began to arrange a new institutional arena in which most labor issues could be discussed in a formal way. The Presidential Commission on IR Reform was launched based on the agreement. One purpose of the Commission was to improve Korean labor standards up to the level required by international organizations, such as the ILO and the OECD. The Commission, comprising the representatives of labor, management and the stake, held a series of public hearings and panels of experts for six months in order to reach a consensus on the labor issues in question. In 1997, after experiencing some conflicts among the tripartite actors, the revision of labor law was completed. Among the major contents of revision, there was a significant

Table 4. The Major Steps Taken by Korea Since 1991

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

development in basic labor rights. The 1997 revision of labor laws aimed at improving workers' well-being by strengthening basic labor rights, while strengthening firm competitiveness by enhancing labor market flexibility. In return for the legalization of multiple unions, the legalization of layoffs (with a two-year reservation for implementation) and flexible working hours systems have been adopted.

The financial crisis in November 1997 resulted in crisis consciousness among the three actors, and led them to form the Tripartite Commission, which otherwise would not be possible because of the history of hostile labor relations. Due to anticipated international pressures, the Korean government could not rely on its traditional authoritarian and oppressive labor policy to impose economic restructuring agendas on labor, but the government had to resort to a more consensual system of industrial relations. It means a fundamental change in the government labor policy. In the past, the Korean government considered labor as an obstacle to economic development, tried to subordinate official labor unions to the state, and suppress any independent labor movement. The creation of the Tripartite Commission implied that the Korean government regarded labor

as a partner for mutual negotiations and compromise. The Tripartite commission has two purposes: to accomplish restructuring of the Korean economy and the labor market in a more consensual way, and to revise Korea labor law according to the OECD and ILO standards.

On January 20, 1998, all parties of the Tripartite Commission announced the first Tripartite Joint Statement identifying the goal of economic reform and the principle of fair burden sharing. On February 9, 1998 the Tripartite Commission agreed upon some major agenda and declared its Social Agreement to the public. The major agreed-upon issues of the Social Agreement were enormous in terms of their impacts on the society and their relations to the other fields. In particular, in return for accepting the immediate implementation of legal redundancy dismissals, unions and workers gained additional legalization of basic labor rights. This point has been regarded as the main content of the Social Agreement. Tripartite representatives, with regard to basic labor rights, have agreed:

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

To strengthen the legal status of the Tripartite Commission, the Tripartite Commission Law was enacted in May 1999. Although recent repeated withdrawals by both labor and business representatives from the Tripartite Commission make the future of the Commission uncertain, the positive impacts of the Tripartite Commission cannot be overemphasized. Indeed, the "Great Compromise" in February 1998 (as popular press calls the Social Agreement) was the first genuine agreement

made by labor, management, and the state in a autonomous manner in Korea.

Labor's Strategic Responses. Previous discussions on the impact of globalization on labor mainly focus on the negative outcomes (Frenkel and Peetz, 1998; ILO, 1999a; Lee, 1997). Contrary to such discussions, however, globalization and financial crisis do not seem to reduce necessarily the power and activities of labor in Korea. The financial crisis actually stopped the declining trend of union membership, whereas the grass-root organizing of small- and medium-sized firms was strengthened since the financial crisis. Furthermore, strike activities have actually risen since 1997. The movement to transform traditional enterprise unions to industrial unionism was also revitalized since the economic crisis.

As shown in Table 1, the unionization ratio in Korea reached the highest level, 19.8 percent in 1989. Since then the ratio has declined to 11.9 percent in 1999. Financial crisis temporarily increased unionization ratio in 1998 (from 12.2 percent in 1997 to 12.6 in 1998) because the number of employed labor force fell disproportionately (from 13,226,000 in 1997 to 12,190,000 in 1998) more than the number of union members (from 1,484,000 in 1997 to 1,402,000 in 1998). However, the unionization ratio fell again in 1999 to 11.9 percent as the economy recovered and the overall employment (especially nonunion, contingent labor force) was expanded. Notably, the number of unionized workers increased by about 75,000 in 1999 mainly because teachers' unions were made legal.

The financial crisis and resultant waves of massive layoffs sent mixed signals to unionized and nonunion workers. Over the period of financial crisis and employment restructuring, the FKTU, which was traditionally more cooperative in following government labor policies than was the KCTU, became more independent from state influence. When the number of union members sharply declined due to massive layoffs in 1997, it was imperative for FKTU to voice its own agendas to protect its members. Indeed, the FKTU was in a position to compete with the KCTU to obtain members' loyalty and support. Thus, since 1997, both FKTU and KCTU have called a series of general strikes to stop the waves of downsizing by aggressively opposing government-sponsored restructuring programs. Despite these

activities, some union members became disappointed by the failure of unions to protect their members. Indeed, even workers at unionized Chaebol companies became victims of massive layoffs and unions could not protect them (Jung, 1999).

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

Along with these developments, all dimensions of strike activities have risen since the financial crisis. As shown in Table 3, the number of strikes increased from 78 in 1997 through 129 in 1998 to 198 in 1999. The number of workers involved in strikes rose from 43,000 employees to 146,000 in 1998, and 92,000 in 1999. Also, the number of working days lost due to strikes jumped from 444,000 days to 1,452,000 in 1998, and 1,366,000 in 1999. In addition, the number of employer's unfair labor practices filed by employees with Regional Labor Committees has risen from 495 in 1997 to 950 in 1999 (Korea Ministry of Labor, 2000), which has traditionally been positively correlated with the magnitude of labor disputes in Korea. Interestingly, as shown in Table 3, the number of strikes due to employment and working conditions occupies almost two-thirds of the total strike activities in the late 1990s (much greater than that of strikes due to wage issues), which suggests that

employment-related issues have been more important bargaining subjects than wage issues in this period.

Another recent trend is a movement toward industrial unionism. The IMF crisis and the massive layoffs led union leaders to realize inherent limitations of enterprise unionism. Enterprise unions tend to tie individual unions to firms' labor relations policy, have weaker bargaining power than that of employers, and limit the incentive and resources for existing unions to organize workers across firm and sector lines, and emerging sectors (Freeman and Rebeck, 1989). Since the financial crisis, union leaders have increasingly realized that enterprise-based unions cannot effectively respond to industrial- and national-level employment issues, such as industry-level restructuring plan forced by the government.

The movement toward industrial unionism existed before the financial crisis. Korean labor laws, however, enforced enterprise unionism by prohibiting other forms of unions until 1987. Two revisions of labor laws in 1987 and 1997 made it legal and easier to establish industrial unions. Thus, both increasing needs for industrial unionism and the changes in labor laws accelerated the movement towards to industrial unionism. For example, the formation of the Banking Employees' Industrial Union seemed to be a direct outcome of the first round of restructuring in the banking industry in 1998, which laid off approximately 40 percent of employees in the banking industry. The immediate purpose of transforming existing enterprise unions into one industrial union, the Banking Employees' Industrial Union, was to protect job security of remaining employees against the expected second round of employment restructuring in 2000.

The transformation to industrial unionism has been decisive and swift. In the two-year period (1998-2000), several industrial unions have been already formed. Examples include the University Employees Union, the Health and Medical Employees Union, the National Teachers' Union, the National Transportation and Longshoremen Union, and the Banking Employees Industrial Union. The combined membership of these industrial unions is 11.3 percent of the total union membership in Korea as of September 2000 (Ministry of Labor, 2000a). Although industry-level bargaining does not occur mainly due to

employers' refusal, the sudden advent of industrial unions is expected to alter the landscape of Korean industrial relations in a significant way. Also there are federations of enterprise unions in the process of transforming themselves to industrial unions. They are the Media Employees Union Federation, the Office and Bank Employees Federation, and the Metal Industrial Federation (KCTU, 2000). In one or two years the membership of industrial unions is expected to be roughly 30 percent of the total union membership in Korea, which will influence significantly power balance and interactions among IR actors in Korea.

In sum, the effects of globalization have been mixed in Korea. The positive impacts are mainly found in the areas of improved worker rights and labor standards. The negative impacts are found in deteriorated working conditions and employment practices. First, the negative effects of globalization in Korea were clearly seen in the deterioration in real wages and unemployment rate. However, the wages and unemployment rate recovered quickly after the financial crisis. In contrast, changes in corporate HR policies that focus on flexibility and performance are expected to continue and even be stronger. This will increase use of contingent labor force and widen income inequalities. These changes will challenge the power and the very survival of trade unions in Korea. The positive effects of globalization include improvement in labor standards in Korea. The ILO and the OECD have urged the Korean government to change labor laws and labor standards to meet the requirements in the global standards. It will take at least a few years before we can determine whether the positive effects would be more pronounced than the negative effects.

JAPAN

The Economy in Transition

One of the reasons that the Japanese economy was able to grow fast after the Second World War was because of the stability in the industrial relations system. Companies actively sought industrial peace for continued growth: Unions took cooperative stance in return for employment security and wage

increases. Under these arrangements, work places were characterized by high organizational commitment, work place innovations, flexibility, and change (Inohara, 1990).

This system, however, was criticized for its inflexibility, mainly in employment adjustment. Companies in Japan continuously modified the system to counteract rigidities. Examples include limiting employment security to employees aged 55 or below: by changing criteria for wage adjustment from age to seniority: and by instituting skill-based wage system to foster knowledge-building and productivity.

These changes made it possible for Japanese firms to compete in the global market place. However, extended recessions in the 1990s and the Asian financial crisis, involving South Korea, Thailand, Malaysia, and Indonesia, dramatically reduced domestic and international demand for Japanese products and services. The Asian financial crisis produced very harmful effects for Japan because this was a region that had high demand for Japanese capital goods. Also the USA, the World Trade Organization, and the European Union mounted increasing pressures to open up Japanese markets.

Globalization forced the labor, management, and the government to search for new ways of coping the challenges and maintaining global competitiveness that Japan was once known for. In reacting to these challenges, the Japan Federation of Employers (Nikkeiren), the key employer group, the government, and private companies all pointed to the need to break away from an enterprise-centered approach to a more market-driven approach (MITI, 1995).

In the following, the effects of globalization on the Japanese economy are examined. Then trade unions' responses to the challenges posed by globalization will be presented.

The Impact of Globalization on the Japanese Economy

Long before the current wave of globalization, the Japanese economy embraced the global dimensions deep into the system. Economic reconstruction after the war was based on the strategy of mass exports of consumer goods to the American and European markets. As Table 5 presents, the growth rates of GDP was very good until 1991 because of Japanese companies'

Table 5. Economic Indicators in Japan

Year	GDP per Capita (\$)	GDP Growth Rate (%)	Growth in Manufac-turing(%)	Unemploy-ment Rate(%)	Changes in Consumer Price(%)	Trade (\$Billion)		Interest Rate(%)	Exchange Rate (\$1)
						Export	Import		
1996	36,624	2.5	3.4	3.4	0.1	447.3	379.9	2.5	116.00
1997	33,438	0.1	1.2	3.4	1.8	509.4	409.6	2.3	129.94
1998	30,137	0.8	-7.1	4.1	0.6	506.5	366.5	2.2	115.20
1999	34,374	0.7	3.4	4.7	-0.3	475.5	352.7	2.2	102.04

Source: Japan Institute of Labor (Various Years). White Paper on Labor.

performance in the global marketplace. However, GDP growth began to fall fast after the economic “bubble” burst and the recession continued in the 1990s and beyond. Also as the labor costs increased in Japan, companies began to set up offshore production centers, first in the USA and Europe, then in Asia. These changes happened in a period of strong domestic and international demands.

The impact of globalization on the Japanese economy was initially judged to be positive. Trade surplus was strong and the impact of offshore production was very small because of a shortage of skilled labor in Japan. However, with increasing international competition, the need for cost-cutting intensified. This put smaller companies belonging to the *keiretsu* (Japanese conglomerates) in direct competition with foreign suppliers. Moreover, many of these smaller companies followed their larger clients to Asia, but the decline in the Asian economy has jeopardized the destiny of these companies. All of these developments had seriously negative effect on employees in Japan, especially in times of extended recessions in the 1990s (MOF, 1998).

Another problem for the Japanese economy was declining competitive advantage of key sectors in the country. Japanese economy historically depended on a limited number of industries for growth such as electronics, automobile, steel, and machinery. These industries produced most of the trade surplus for several decades after the Second World War and the situation continues until now. However, developing countries such as South Korea, Taiwan, Singapore, China, and Thailand caught up with the technological advances and pose serious threat to

Japanese dominance in the global market. A related problem in this regard is relatively little possibilities of growth in these industries. These are the sectors where global demand has been growing at a very modest pace amid fierce price competition from developing countries. This is reflected in slow GDP growth in the 1990s. Table 5 presents major economic indicators including GDP growth and growth in manufacturing output.

Therefore, the wave of globalization has initially been beneficial for the Japanese economy, but since mid-1980s, it has not been so positive for Japan. These challenges posed by globalization weakened the traditional idea of strong state leading industry and labor. Rather the role of government as a regulator and leader gave way to industry and labor. The role of the government bureaucrats was confined to issues related to reducing barriers to international trade, increasing enterprise flexibility, and eliminating institutional barriers in the financial and labor markets that have become outdated (MITI, 1998).

Elimination of institutional barriers in the labor market has significant implications for trade unions, employment, and industrial relations system in Japan. One area that has significantly changed is sharp rise in unemployment. Because of the increase in offshore production, demand for domestic labor has been adversely affected over years. Also decline in competitiveness in the manufacturing sector meant steady rise in unemployment. Also prolonged economic recession in the 1990s seriously cut demand for labor in almost all industries, causing steep rise in unemployment in Japan (MITI, 1997).

In response to these challenges, trade unions and the society in general actively sought solutions. The first measure agreed upon by the government, business, and labor is that a profound restructuring is needed and the Japanese firms must develop competitiveness in "new industries" that have better growth potential domestically and globally. New industries here include bio-technology, computer technology, telecommunications, and information technology. Japan has traditionally been lagging behind its industrial competitors in investing in research and development in bio-technology, computer technology, telecommunications, and information technology. The society as a whole also has been slowly accommodating new technologies, especially internet, and the use of fast connection services such

as ADSL has been lagging behind its competitors worldwide. The Japanese government, business, and trade unions formed a coalition to increase investment in the vital technologies that will generate employment in the future. However, tangible effort is yet to come out of this coalition.

Another initiative of this coalition is to push for a nation-wide education program to upskill workers so they can be employable in the new industries. Private companies and trade unions welcomed such measure because of the expectation that this will increase employees' productivity and employability once they are laid off.

Finally, the impact of globalization is strongly felt at a higher level-corporate governance. The Japanese system of *keiretsu* increasingly came under attack because of the lack of transparency in the governance system. This system also puts more emphasis on the interests of employees, consumers, and the government than a purely shareholder-based system would. The interests of shareholders were undermined according to the evaluation of westerners in Japan. Current economic recession is also blamed partly because of the lack of transparency in the corporate governance in Japan. The proposed changes call for much more emphasis on profits and the interests of shareholders; increased use of outside directors on the corporate board of directors; tightened standards in preparing financial statements; and empowerment of the boards of directors so objective monitoring of executives would be possible. These changes are partly at odds with the traditional industrial relations system where labor was viewed as a critical stakeholder in the governance of corporations. However, under the new system where shareholders have much higher status than employees, the traditional model of enterprise union and its influence would be less strong than before.

Trade Unions and Globalization

New Employment Strategies As the economic recession persists in Japan, numerous corporations began to employ part-time or temporary employees because of the need to reduce labor costs and the need to reduce employment without difficulty. Major surveys confirm that Japanese companies will increase their use

of contingent employees in the future. Another way to cut costs was increased use of outsourcing. Janitorial staff, cleaning staff, catering services, and other miscellaneous clerical services are increasingly being outsourced to outside vendors. Even some important professional services, marketing services, and information technology services are being outsourced with much increased frequency and depth.

Another set of employment practices aimed at increasing flexibility is to transfer employees from one location to another instead of dismissing them. Large corporations have begun to use this employment policy and often used this as a way to nudge incompetent employees out of the company.

A more important change is increased use of performance-based compensation. Traditional Japanese compensation was based on seniority and competence building. This encouraged employees to stay with a company for a long period and invest in firm-specific knowledge that are not easily transferable to other companies. However, in an effort to increase productivity, corporations are asking employees to show performance instead of competency building. For example, Hitachi reduced the portion of compensation determined by seniority from 60 percent to 40 percent in 1999. These changes have not been well-received by the Japanese employees and has been a source of major dissatisfaction among employees. Also it clashed with the traditional use of seniority, causing incompatibility with organizational and societal culture in many organizations. One of the companies that strongly pushed for performance-based pay was Fujitsu. However, after an eight-year long experimentation with performance-based pay, which often caused major employee complaints, the company finally decided to drop its performance-based system and use more traditional model.

These changes inevitably weakened job security and the influence of trade unions. Trade unions tried to resist the performance-based pay, but they were not successful in most cases. In the following, strategies and reactions from the trade unions are presented.

Union Strategies The biggest challenge for Japanese trade unions was the shift from seniority and competency-based pay to performance-based pay. After years of debate and research,

the Japanese Trade Union Confederation (Rengo) decided to positively accommodate the change to performance-based pay. The position taken by Rengo affected other key industrial unions such as the Japanese Service People Union and the Japanese Electrical, Electronic and Information Union. These industrial unions decided to accept merit pay at their conventions in 1998.

This is a complete reversal of traditional stance taken by trade unions, which was to pursue seniority and competency-based pay. Key labor leaders in Japan agreed with management that result-based pay is critical to maintain competitiveness in the global market and that it is a way for both labor and management to win. Instead, trade unions in Japan asked in return an acceptable level of minimum wage and equal employment opportunities for women.

Unlike its position to the performance-based pay, Japanese unions are trying to keep minimum wages as high as possible for each job categories. In return for the concessions made in the performance-based pay, trade unions felt the need to set up some kind of safety net in minimum wages.

Regarding the lifetime employment practices, the Federation of Japanese Corporations (*Nikkeiren*) declared that the core-periphery model should be adopted by its member companies because of the need for flexibility and cost control. Under this model, employees classified as core group will enjoy strong job security whereas those classified as periphery would not have that kind of job security. Unions tried to force companies to uniformly apply the lifetime employment principle to all the employees, but prolonged recessions and increasing global competition made unions' demands look unrealistic and eventually had to accommodate much weakened employment principles.

One of the most powerful union influence was achieved through the Spring Offensive (*Shunto*). *Shunto* was originally concerned with wage increases and was quite successful in achieving this objective. As trade unions increased their membership and acceptance in the Japanese society, *Shunto* evolved into a 'People's Offensive' where trade unions became the central force with coalition with other social, economic, and political groups demanding changes in the Japanese economy, society, and the political structure. At this stage, *Shunto* receive

quite an attention from the domestic and overseas observers, but not much was gained out of this movement partly because of the divisions in the trade union movement and the division in the Japanese socialist parties. Also the power and popularity of the Liberal Democratic Party (LDP) prevented any socialists or labor groups to gain anything substantial.

This trend persisted and perhaps was strengthened during the prolonged recessionary period in the 1990s and the present. Therefore, trade unions strategies to fight for the betterment of workers' welfare have not been successful.

Unions' Trial and Error in Multi-Dimensional Strategies As the growth of GDP stagnates and the recession persists (Table 5), Japanese corporations are slowly reducing not only wages but also other benefits such as pension schemes, health benefits, etc. In response to these, the Japanese unions tried to not only to negotiate with the employers but also with the government. Trade unions actively pursued changes in the public social insurance system so individual unions don't have to fight with employers to get this. Over the years, social welfare system improved to the benefit of employees.

Table 6. Labor Statistics in Japan

Year	Number of Strikes	Number of Workers Involved in Strikes (1000 Persons)	Growth Rates of GDP (in percent)	Number of Trade Union Members (1000 Persons)	Trade Union Membership Ratio (in percent)
1986	1,439	463	4.0	12,343	28.2
1987	1,202	351	4.7	12,272	27.6
1988	1,347	430	6.1	12,227	26.8
1989	1,433	485	6.9	12,227	25.9
1990	1,698	699	6.9	12,265	25.2
1991	935	345	5.7	12,397	24.5
1992	788	410	3.3	12,541	24.4
1993	657	247	2.7	12,663	24.2
1994	628	263	2.6	12,699	24.1
1995	685	222	1.6	12,614	23.8
1996	695	178	2.5	12,451	23.2
1997	782	213	0.1	12,285	22.6
1998	526	165	0.8	12,093	22.4
1999	419	106	0.7	11,825	22.2
2000	na	na	na	11,539	21.5

Source: Japan Institute of Labor (Various Years). White Paper on Labor.

As the Japanese unions resorted less to the conventional methods, the number of strikes has declined. Table 6 present related statistics. In the last 15 years, the number of strikes peaked at 1,698 in 1990, but has continuous declined since then. As of 1999, the number of strikes shrank to 419.

Trade unions also tried to have the wider society to be involved in unions' situations and actions. For this, unions tried to polish up their images in the public and to participate in activities that increase corporations' productivity. Thanks in part to these activities, unions were able to enhance their images in the Japanese society.

CONCLUSION

In this paper we reviewed the backgrounds of Korean industrial relations and examined recent changes with special focus on globalization issues. Also we examined transformations occurring in the Japanese industrial relations. It will be premature to gauge the effects of globalization because it is a long process. However, at this point, we can point to the directions the industrial relations systems are headed. In Korea, the effects of globalization have been mixed. The positive impacts are mainly found in the areas of improved worker rights and labor standards. The negative impacts are found in deteriorated working conditions and employment practices.

First, the negative effects of globalization in Korea were clearly seen in the deterioration in real wages and unemployment rate. However, the wages and unemployment rate recovered quickly after the financial crisis. In contrast, changes in corporate HR policies that focus on flexibility and performance are expected to continue and even be stronger. This will increase use of contingent labor force and widen income inequalities. These changes will challenge the power and the very survival of trade unions in Korea.

The positive effects of globalization include improvement in labor standards in Korea. The ILO and the OECD have urged the Korean government to change labor laws and labor standards to meet the requirements in the global standards. The positive and the negative effects that will play out in the Korean labor market

remain to be seen.

Whereas Korean trade unions took advantage of the globalization process to force the government and business to conform to the global standards in industrial relations, Japanese trade unions were not able to take this kind of advantage during the globalization process because the Japanese industrial relations system was already meeting global standards. Therefore, the positive effects seen in Korea did not happen in Japan whereas the negative effects were unavoidable. Just like the case of Korea, changes in corporate HR policies that focus on flexibility and performance seriously reduced employment security and the general level of worker welfare. Also increased use of contingent workforce happened in Japan.

Just like Korea, Japanese unions tried to counteract the forces of globalization by forming industrial unions. This strategy, however, was not as successful in Japan as in Korea because the associations of trade unions were more willing to accept demands from business in Japan. For example, Japanese unions were more willing to accept performance-based pay and use of contingent workforce. Whereas the Korean unions tried to challenge these changes, Japanese unions were more willing to accept these changes and increase productivity.

Also Japanese unions put more efforts in getting approval from the society in charting their strategies against the waves of globalization. Korean trade unions, however, did not actively seek public support. Instead, Korean unions waged more strikes and used their power to draw better deals from negotiation with the government and the business.

Trade unions in Korea and Japan behaved differently to the changes caused by globalization although these two countries have a high level of similarities in the culture and corporate HR policies. The differences in the stage of economic development and the strategies of the unions seem to have contributed to different outcomes in industrial relations. Further studies are needed to understand why trade unions in these two countries have different strategies and behaviors towards globalization. Also more studies are needed as to how the industrial relations systems in these two countries will change in the future.

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