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## **COLLECTIVE BARGAINING IN TRANSITION: DISORGANIZED CENTRALIZATION IN SOUTH KOREA**

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### **INTRODUCTION**

The last three decades have witnessed the decentralization of collective bargaining in nearly all advanced industrial countries. Surely, there has been great variation among these countries in the ways in which the common trend of decentralization was unfolded. Some European countries maintained coordinated sectoral bargaining, which Traxler (1995) described as organized decentralization. In other countries, pressure for decentralization was associated with a lack of coordination among and within different levels of bargaining unit. Regardless of whether it was organized or disorganized, the dominant trend has been towards greater decentralization of collective bargaining,

South Korea (*hereafter* Korea), whose structure of collective bargaining has been centralized for the last ten years, is a clear anomaly in this trend. Unlike most European countries, enterprise unions had been dominant in Korea, and thus its bargaining structure was fragmented at the enterprise-level. The Asian financial crisis during the late 1990s, however, brought about a sea of changes in the industrial relations model. Realizing that enterprise unions could not adequately protect employment security of their members, union leaders began the organizational drive at the industry level. The Ministry of Labor estimates that 51.3 percent of all organized workers belong to industrial or regional trade unions in 2007 (MOL, 2008), which means that less than a half of organized workers belong to once dominant enterprise unions now. Among two national labor federations, militant KCTU (Korean Confederation of Trade Unions) was more successful in transforming its affiliated unions into industrial ones than moderate FKTU (Federation of Korean Trade Unions). Currently, over 70 percent of KCTU-affiliated union members belong to industrial unions, whereas it was only 35 percent for the FKTU. These new industrial unions strongly demanded industry-level bargaining. According to Lee (2009), about 25 percent of unionized workplaces in the manufacturing sector, 45 percent of finance and insurance sector, 56 percent of health and welfare sector, and 21 percent of

public administration sector were covered by industry-wide or region-wide bargaining.

It is certainly true that this exceptional case of centralization demonstrates the power and dynamism of Korean trade union movements (Kim and Kim, 2003). However, whether the Korean collective bargaining structure can be stabilized at the industry-level is still in question, due to severe employer resistance (Jeong, 2001), and limited coordination capacity of industrial unions. The purpose of this paper is therefore twofold. The first is to comprehend better the centralization process itself, which has been haphazard and disorganized. The second goal is to assess the extent and the outcome of collective bargaining centralization, based on a comparative analysis of three industrial sectors where industry-level bargaining began to take place in the early 2000.

### **WHY CENTRALIZE?: PREFERENCE FORMATION AS A POLITICAL PROCESS**

Important factors that contributed to the decentralization, such as an increase in management power and the rise in the importance of workplace issues (Katz, 1993), all came from the changed global economic context which weakens the logic of taking labor costs out of competition. Threatened by the global competition, employers adapted to the economic turmoil by decentralizing bargaining structure. It allowed them to enjoy greater flexibility to negotiate wages and working conditions suited to the particular needs of individual firms (Marginson *et al.* 2003, Poulsen, 2006). What has been mostly absent in this picture is the analysis of the role and interactions of industrial relations actors other than employers. As Korczynski (1997) points out, the state and trade unions can influence the vital process of interest definition of employers, and it can be applied to the Korean case as well.

The relative neglect of the role of the state is most problematic especially for a country like Korea, where the legacy of strong interventionist state still resonates. The fragmented enterprise-level bargaining was directly invented by the authoritarian state. The changed labor laws in 1980 reorganized industry-based unions into enterprise-based ones. Despite the subsequent amendments of labor laws that eliminated such authoritarian legacies, the decentralized bargaining structure remained intact until the financial crisis of 1997 (Lee and Lee, 2004). When inaugurated in 1998 with a mission to cure the ailing economy, President Kim Dae-Jung was not overtly hostile to labor unlike his predecessors. On the contrary, needing active cooperation from labor unions in order to implement neo-liberal reforms prescribed by the IMF (International Monetary Fund), he allowed the political space for trade unions to reorganize their union structure towards more centralized forms.

Inheriting the office from the President Kim in 2003, President Roh Moo-Hyun continued the policy of partial labor inclusion at least at the beginning of his presidency. He has pledged to institute a multi-level collective bargaining system, which implied that his regime would endorse industrial unions and industry-level bargaining that the trade union leadership aspired to establish, to reduce increasing gap between regular workers in larger firms and workers in nonstandard employment arrangements, and to refrain from interfering with conflicts between labor and management. Centralization of collective bargaining began to take place during this period. It should not be interpreted that the Korean state fully supported the progressive goal of democratic labor movement. As Kong (2006: 379) nicely put, authoritarian inclusion of labor meant "being selectively pro-labor

without being anti-business.” The Roh Administrations’ labor officials remained neutral regarding the issue of centralization, and that was enough to demoralize employers’ opposition to industrial unionism and industry-level bargaining temporarily.

However, this neutral stance of the state did not last long. Due to the tougher measures aimed at facilitating labor market flexibility and structural adjustments, his presidency was marked by a relatively high level of labor disputes. The priority of the government’s labor policy switched back to enforcing the law to prevent illegal strikes, and the state withdrew the lukewarm support for industrial unions.

Along with the ambivalence of the state, the decentralized structure of the industrial unions imposed additional difficulties on the process of centralization. Larger local unions, especially rank-and-file members, were not always supportive of the leadership’s efforts to establish sectoral bargaining, as they were still under the strong influence of the structure and practices of enterprise bargaining, such as “enterprise consciousness” and financial autonomy. As a result, a particular two-tier model of bargaining has developed in Korea, where industrial unions wield little power over the decisions made by locals.

Korean employers in organized sectors have always preferred to negotiate with their own enterprise unions, as some of them were able to establish collaborative relations with union leaders. They in general abhorred political industrial unionism even when their own enterprise unions were militant. The disorganized industry-level bargaining was not generating any collective goods, such as standardized employment terms and reduction of transaction costs, and the value of such goods themselves have been diminished in the context of globalization. In addition, conflicts over a proper bargaining structure were a major cause of a large number of labor disputes.

Although employers failed to resist the changes in formal collective bargaining structure, a lot of them refused to participate in sectoral bargaining. Most successful in blocking centralization were larger employers in heavily export-oriented metal sector. The other employers in protected service sectors maintained interests in sectoral bargaining, as it could allow them to avoid powerful enterprise unions’ whipsawing tactics. Trade Union strategies also mattered. When industrial unions were willing to accommodate employers’ need of greater flexibility, the process of centralization was much smoother.

Thus it was the combination of strong desire of the democratic labor movement to establish industrial-level organizations and policies of partial incorporation of labor of the state that developed the formal structure of centralized bargaining, but whether the formal structure can lead to actual practice of industry-level bargaining is mostly decided by the severity of employers’ resistance and the capacity of industrial unions and employers in coordinating diverse interests among sub-groups within them.

## **RESEARCH METHODS**

This study is designed to be cross-sectoral. The three industrial sectors chosen are metal, finance, and hospital. These sectors were selected not just because sectoral bargaining is most progressed, but also because they reflect diverse market situations and trade unions’ and employers’ strategies. Table 1 summarizes the major characteristics of the three

sectors analyzed in this study.

Table 1. List of Sectors and Basic Description

	Metal	Finance	Hospital
Trade Exposure	High	Medium	Low
No. of Union Members	146,000	80,000	38,000
Date of Establishment	2001	2000	1998
Affiliated National Center	KCTU	FKTU	KCTU
Union Strategy	Radical/Militant	Moderate/Collaborative	Moderate/Militant
No. of Firms	240	34	116
No. of Employers	95	34	102
Association Members			
% Sectoral Bargaining	14%	100%*	88%

Ever since the mid-1990s, the relevance of national-level industrial relations system as a unit of analysis has been questioned (Hollingsworth *et al.* 1994; Locke and Kochan, 1995), and many researchers began to focus on the sector as the key unit for comparative analysis (Wailes, 2007). That is mostly because economic globalization put enormous pressure on highly exposed sectors, making them more similar across national borders. At the same time, however, diversity within the national systems is at the rise due to the different level of exposure to the trade and international competition. Based on a comparative framework, this study also demonstrates such diversity among three sectors with different levels of trade exposure, which in turn affected preferences and strategies of major industrial actors in the process of bargaining centralization.

The data for this study come from primary and secondary document analyses, and interviews with key union and employers' association members. The primary documents examined include trade unions' internal documents, bargaining agreements, and minutes of executive committee meetings. Presentation of these cases begins with the case of most disorganized centralization, the metal sector, and ends with the case of least disorganized centralization, the hospital sector.

## **DISORGANIZED CENTRALIZATION: A CROSS-SECTORAL COMPARISON**

### **The Metal Sector**

The metal sector is composed of diverse industries, including auto, metalworking, electronics, shipbuilding and steel, but the auto industry is most dominant in the Korean Metal Workers Union (KMWU). Over 78 percent of KMWU members belonged to auto plants in 2007. Enterprise size varies considerably, from Hyundai and the other three big auto companies, to numerous small and medium-sized firms, which are frequently in

subcontracting relationships with the larger enterprises. In the sector, while the vast majority of firms were those employing less than 300 workers (76 percent), the number of union members employed by these small and medium sized firms comprised only about 7 percent of the KMWU's membership in 2007(KMWU, 2008).

The KMWU was established in 2001 with a pressing political goal of obstructing neo-liberal labor reforms. After two years, the KMWU began centralized collective bargaining, and forged the first sector-level agreement in 2003. Despite the persistent occurrence of sector-level agreements, however, these agreements did not prescribe even minimum employment standards in the metal sector. Negotiating actual pay-level and important workplace regulations were still left to labor and management at the enterprise-level. Institutionalizing bargaining structure was also in disarray. Sometimes local enterprise bargaining began even before a sectoral agreement was forged. Furthermore, only 14 percent of union members were covered by the industry-level bargaining, as many employers in larger firms have not joined the Metal Sector Employers Council and refused to bargain at the sector-level.

The reasons for these difficulties are manifold. Union bargaining power in the metal sector has been decreased as employers have left the country in search for low cost production facilities, especially those in China. Extremely heterogeneous internal composition of the metal sector did not help either. As export-oriented big *Chabol* auto companies imposed cost-cutting measures on their supplier chain, the wage gap between the larger and smaller firms was getting even worse. Both employers and local union members in large firm sector wanted to maintain the flexibility and autonomy of the enterprise-level bargaining.

In an effort to undermine "enterprise-consciousness" of its members, the KMWU decided to disintegrate enterprise-based locals and reorganize them as regional locals by September, 2009. The decision angered and frustrated rank-and-file members who were accustomed to the enterprise unionism. Long debates regarding this issue created much discord inside the union (Hah, 2009). The KMWU also failed to promptly respond to some employers' demand to negotiate at a single industry-level like auto, instead of conducting sectoral or regional bargaining. Employers were searching for the ways in which their own collective action problems could be overcome. Creating smaller and homogeneous bargaining units, however, was not acceptable to the KMWU as it could erode the principle of one industrial unionism.

It is ironic that the more the KMWU emphasizes the class solidarity of the metal sector, the more the collective bargaining structure gets disorganized. Due to the lack of coordination within and between labor and management, the widening gap between larger and smaller firms, and between regular and nonstandard workers are increasingly getting worse. So far, the radical strategies of the KMWU have not paid off.

### **The Finance Sector**

Unlike the metal sector, the finance sector is smaller and more homogeneous, as it is mostly composed of banks and financial institutions. In addition, the Korean Financial Industry Union (KFIU) is one of very few Korean industrial unions that had the experience

of industry-level bargaining. Whereas the KCTU affiliated metal and hospital sector locals used to be relatively new enterprise unions that were established after the transition to democracy in the late 1980s, the FKTU affiliated KFIU locals used to be members of the first industrial union in this sector, the National Finance Union (NFU) founded in 1961. The role of the state was critical in establishing the industrial unionism of the period. The military junta which took over power formed fifteen nationwide industrial unions including the NFU in a top-down manner, and united them at the top in the then opportunistic and collaborative FKTU. The NFU was slowly disintegrated into several enterprise unions by the law that decentralized trade union structure in 1980.

Although the KFIU was born amid intense conflicts produced by the Asian financial crisis of the late 1990s, the finance sector demonstrates most advanced formal structure of collective bargaining. Sectoral bargaining has taken place without interruption since the formation of the industrial union in 2000. In the other two sectors, industrial unions had to struggle for several years just to start negotiations with employers. Since 2003, Korea Federation of Banks, a trade association of Korean banks, has taken the role of employers' association, which helped consolidating the process of centralization. In 2009, the official employers' association was finally established.

In addition to the institutional memory of previous sectoral bargaining, the finance sector was blessed with collaborative employers. The tradition of labor-management cooperation in the financial sector went back to the foundation of trade unions in 1959. At the time, some employers actively endorsed the formation of unions (Gong, 2006). Despite privatization and deregulation, the finance sector has been subject to unofficial intervention and regulation by the government until recently (Lee and Park, 2007). Due to this "quasi-public" character of the banks and the financial institutions, the government directly or indirectly influenced the appointment of CEOs. As a confrontational labor relations record can harm their prospective career advancements, these employers do not usually take anti-union stance. It is also the result of government regulation that wages and working conditions are similar across locals.

Compared to the formal system of centralization, however, actual practice is much more decentralized. Frequently, collective bargaining issues are identical in both sectoral and local bargaining. For example, wage increase rates are recommended at the sector-level negotiations, but individual banks are free to decide lower or higher increase rates at the local bargaining. It could be this kind of flexibility that actually allowed both locals and employers to maintain a formality of sectoral bargaining.

The collaborative and decentralized sectoral bargaining in the finance sector was not very successful in representing and defending the interests of the whole workforce. After the financial crisis, the finance sector lost almost 60,000 union members, and about 30 percent of its current workforce is in nonstandard employment arrangements. However, the KFIU has organized just about 50 nonstandard workers, in a separate local, and its activity is rather limited. "When we needed them to participate in the strikes, we told these nonstandard workers that we would organize them and represent their interests, but afterwards, nothing happened. That's all. I guess the other industrial unions have had similar experience" (Interview with a KFIU official, 2008).

## **The Hospital Sector**

Some of the characteristics of the hospital sector gave the appearance of the finance sector. It is composed of a single industry, mainly hospitals, and it is a service sector with public traits. However, employers in the hospital sector do not share similarities with employers in the finance sector. On the contrary, it is closer to the metal sector. About 90 percent of hospitals in Korea are in the private sector, whereas national or public hospitals comprise just 10 percent of all medical institutions (Lee, 2007). There are also large wage gaps and differences in working conditions between large hospitals and small and medium sized hospitals.

Although established in 1998, the Korean Health and Medical Workers Union (KHMWU) began sectoral bargaining in 2004. But since then, centralization in the hospital sector has progressed well, and bargaining rules and regulations were rapidly institutionalized. Unlike the industrial unions in the other two sectors, the KHMWU had control over the bargaining of its locals. Wage increase rates negotiated at the sectoral agreements are relatively well observed in the local bargaining. Only bonuses and special payments is the subject of negotiations at individual hospital level.

The reason that the hospital sector has maintained stable and centralized coordination could be found in the fact that employers did not resist sectoral bargaining as much as those in the metal sector. Labor relations in the hospital sector used to be very contentious, as militant KCTU affiliated enterprise unions in individual hospitals were frequently in conflict with the top management who did not have proper labor relations expertise. Some employers, especially those in smaller hospitals, began to see the benefit of unified response (Interview with a KHMWU official, 2009). Employers in the larger hospitals also enjoyed reduction in labor costs, since the KHMWU restrained wage demands in its effort to lessen the widening gap between larger and smaller hospitals.

Therefore the hospital sector displays the least discrepancy between the formal system of centralization and actual practice among the three sectors. The KHMWU, through sectoral bargaining, was able to improve solidarity of workers as well. In 2007 sectoral bargaining, it allowed a certain portion (1.3~1.8 percent out of 4.0~5.3 percent) of wage increases for regular workers to be used to improve the welfare of nonstandard workers. However, the KHMWU is also not free from the general organizational dilemma of the industrial unions in Korea. Compared to the union members in small private hospitals, those members employed in more profitable public or private university hospitals with higher employers' ability to pay were less likely to sympathize with the KHMWU in its demand for more centralized collective bargaining structure<sup>1</sup> (Lee, 2005; 2006).

## **CONCLUSIONS**

Industrial unionism has been a long-term goal of the democratic labor movements in Korea.

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<sup>1</sup> Actually, the local union at the Seoul National University Hospital, along with several other national university hospitals, has left the KHMWU, protesting against the KHMWU's control over wage increase rates.

The threat of high unemployment and redundancies persuaded enterprise union leaders that enterprise union system could not adequately protect their own employment security, let alone represent the interests of all workers. However, centralization of collective bargaining structure in Korea would not have been possible had it not been the neutral stance of the state regarding industrial unionism and industry-level bargaining. The following three findings of this study help to expand our understanding of changes in collective bargaining divergent from advanced industrial countries of the West.

First of all, collective bargaining structure can be centralized despite the changed global economic context which weakens the rationale for multiemployer bargaining. In the process of centralization, the strategies of industrial relations actors, especially those of the trade unions and the state which have been relatively neglected in the decentralization literature, are critical.

Second, it is important to recognize sectoral diversity within a national industrial relations system. Different levels of trade exposure affect preferences and strategies of industrial relations actors during the process of bargaining centralization. In the case of Korea, whether the formal structure of sectoral bargaining could lead to actual practice was largely determined by the degree of employer resistance to sectoral bargaining, and the capacity of employers and industrial unions to coordinate diverse interests among various factions within them.

Third, the extent to which a collective bargaining structure is centralized can also be judged by the outcomes of such centralization. Overall, disorganized centralization in Korea, where important decisions regarding wages and working conditions are mostly negotiated at company level, did not bring about real changes in its dualistic structure of the labor market, and thus failed to improve the solidarity of the working class in a given industry.

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