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Overview of current economic conditions in South Korea

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Key Economic Indicators

Economic growth rate

The impact of changing economic conditions on Korea's labor movement and industrial relations is magnified by its trade union system and collective bargaining practices, which are decentralized and exist mainly at an enterprise level. Furthermore, the political left has no seat in parliament and is far from being in a position to increase its political power.

From 1987—the year when the labor movement grew in size and militancy—to 1997, gross domestic product (GDP) growth rates have exceeded 5% every year. In 1989 and 1992, when economic crises seemed possible, these rates held at 6.4% and 5.4%, respectively. Throughout the decade, GDP growth had fluctuated between 5% and 12% annually. But in late 1997, an economic crisis, which resulted from foreign exchange turbulence, caused GDP growth rates to plunge to -6.7% in 1998, at which point economic restructuring began. By the second half of 1999, the economy began to recover, and GDP growth hit 10.7% in 1999.

GDP grew at 9.3% in 2000, and it has been argued that another economic slump may begin in late 2000 (see **Figure 1**).

Unemployment rates

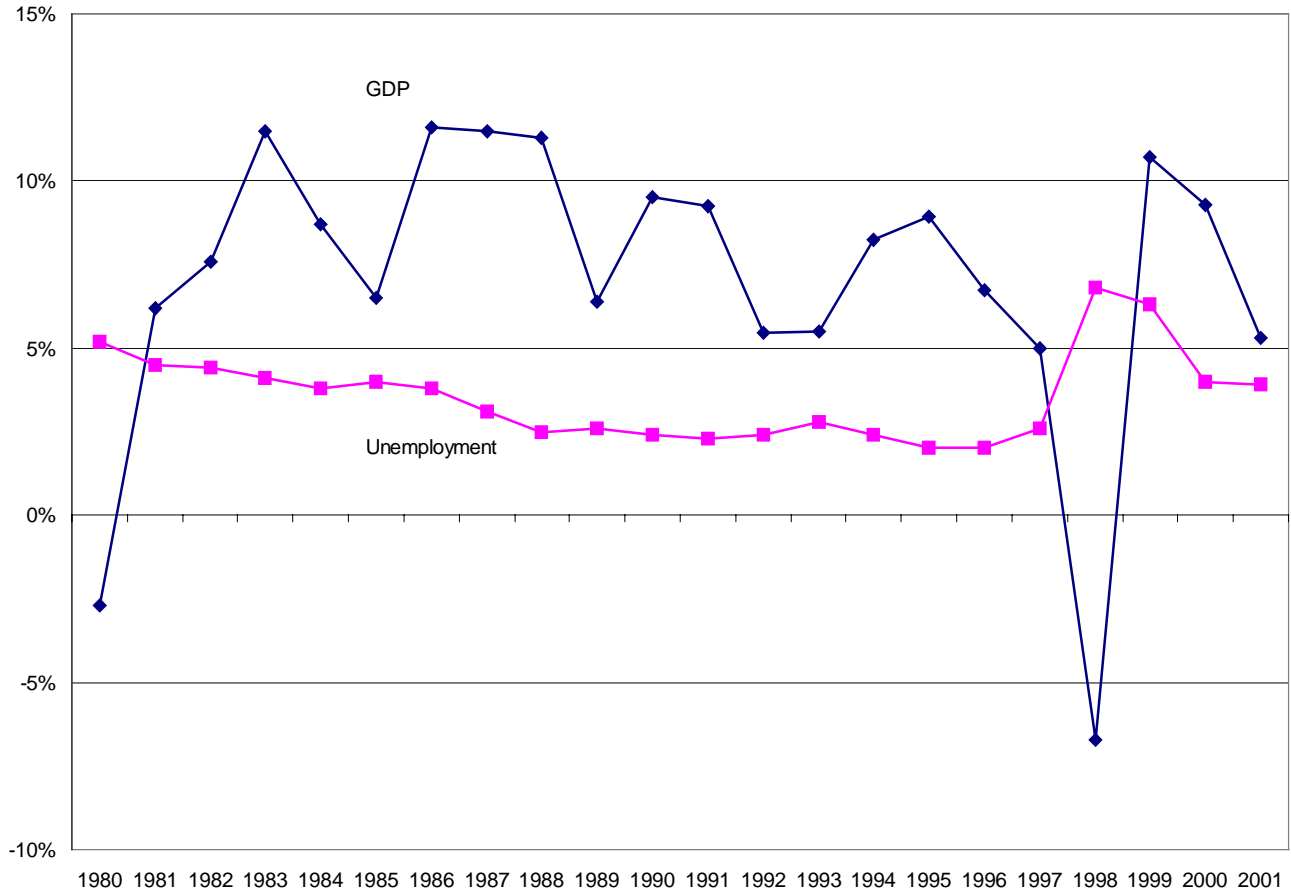
Korea essentially enjoyed full employment from 1988 to 1998, with an unemployment rate around 2%. However, it sharply surged to 6.8% in 1998 and 6.3% in 1999. From the second half of 1999 onward, the Korean economy started to recover, and unemployment decreased to 4% in 2000. For 2001, the rate is forecasted to be around 3.7% to 4.2% (see Figure 1).

The figure below shows that the mass unemployment crisis would not recur. However, there seems to be no chance of restoring the “low unemployment structure” Korea had before the economic crisis.

The economic conditions of high growth and low unemployment from 1987 to 1997 were beneficial for the Korean labor movement. But, the Korean economy has become more unpredictable and unstable, with negative growth and high unemployment in 1998 and then high-growth/high-unemployment conditions in 1999.

In short, the Korean economy is transitioning to an economic structure characterized by mid-level growth and mid-level unemployment.

Figure 1: Real GDP growth rate and unemployment rate, 1980-2001



Notes: In 2000-2001, GDP projections by BOK, unemployment rate projections by Korea Labor Institute

Growth rate of consumer price index

From 1988 to 1998, consumer price index (CPI) growth had fluctuated between 4.5% and 9.3%, indicating that since 1987 the economy had been based on a high inflation structure. This structure, combined with enterprise unionism and collective bargaining at an enterprise-level, forced the Korean labor movement to make the wage struggle its first priority.

With increasing consumer prices and deteriorating real wages and living conditions, a labor movement based on enterprise unionism could make no other choice but to push for increases in the nominal wage.

In the past decade, pushing for higher wages has contributed much to improving workers' living conditions and to boosting the trade union movement. It has, however, forced trade unions to mainly concentrate on wages, which naturally becomes a key obstacle to the

further development of the trade union movement.

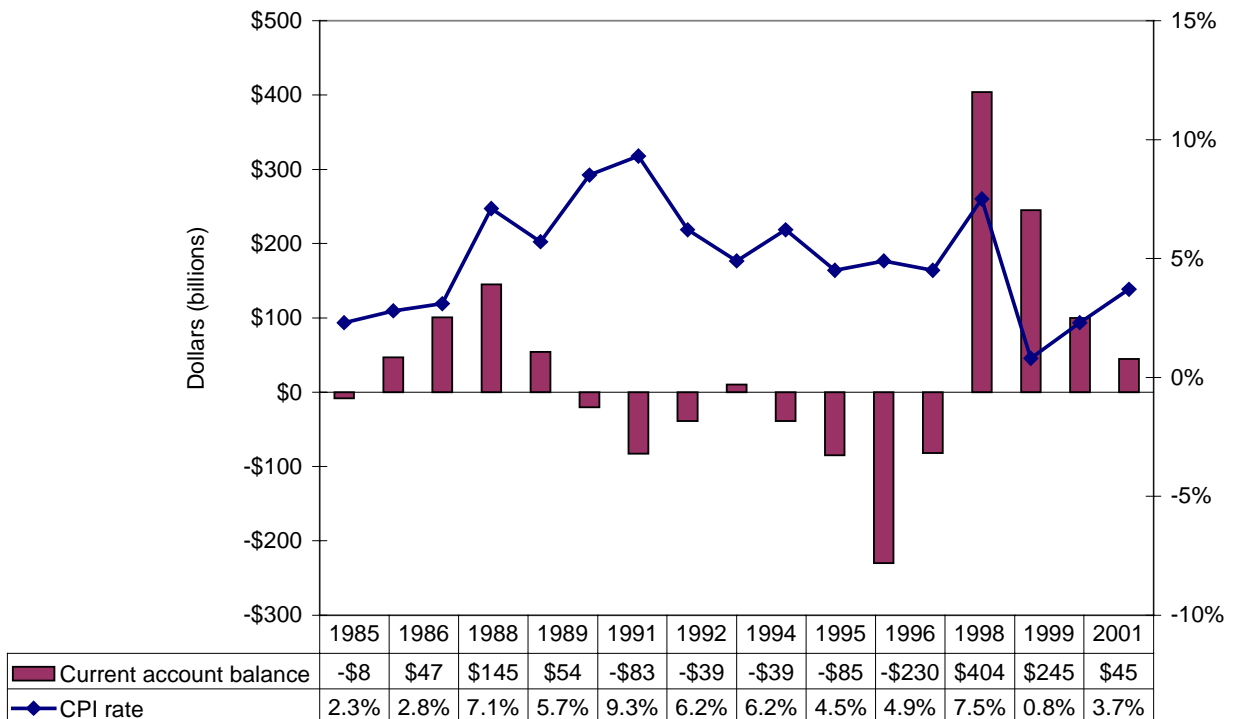
Since 1999, Korea's economic circumstances have changed, resulting in a low inflation structure. The growth rate of the CPI hit a record low of 0.8% in 1999. It is forecasted to rise to 2.3% in 2000 and 3.7% in 2001 (see Figure 2).

Current account balance

The current account balance ran a surplus from 1986 to 1989 but was in deficit most of the time between 1990 and 1997.

Although the Korean economy faced a financial crisis in 1997, current account balances have been in surplus since 1998. With Korea's foreign exchange reserves amounting to \$ 96.2 billion as of December 2000, the economy should be safe from another financial crisis like that of 1997. But, it should be noted that this surplus has been declining steadily since 1998, when it was at a record high of \$ 404 billion (see Figure 2).

Figure 2: Growth rate of CPI & current account balance



Note: 2000-2001 projections by BOK.

Managerial Conditions of Enterprises

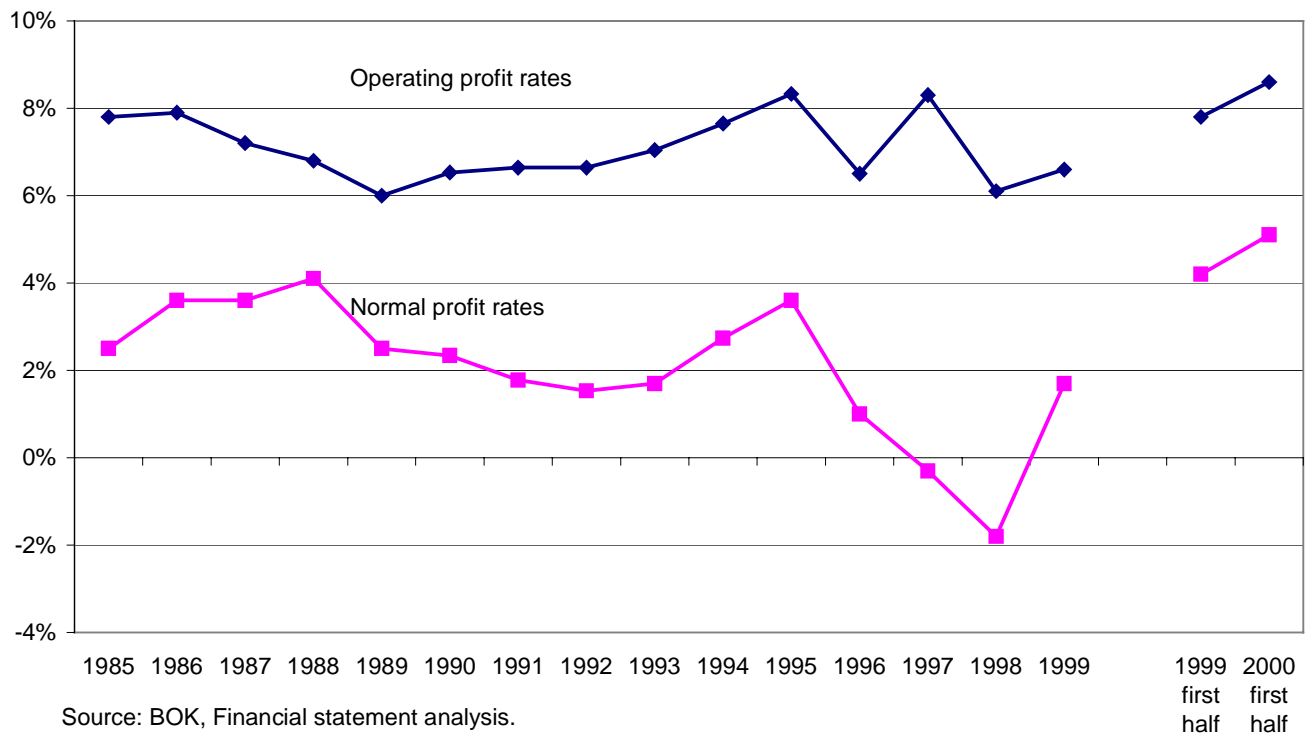
Profit (operating profit rate and normal profit rate)

Since 1987, when the labor movement blossomed, operating profit rates in the manufacturing sector were relatively high, fluctuating between 6% and 8%. Even in 1998 when Korea's economy faced a significant foreign exchange crisis, it still stood at 6.1% and went up to 6.6% in 1999.

Compared with the stability of operating profits, normal profit rates had fluctuated between 1.5% and 4.1% until 1995 before deteriorating to 1.0% in 1996, -0.3% in 1997, and -1.8% in 1998 (see Figure 3).

This resulted from an enormous proportion of costs coming from non-operating expenses, such as financial costs, losses by foreign currency transactions, etc. Normal profit rates, however, have been significantly improved since 1999, owing to stable exchange and interest rates.

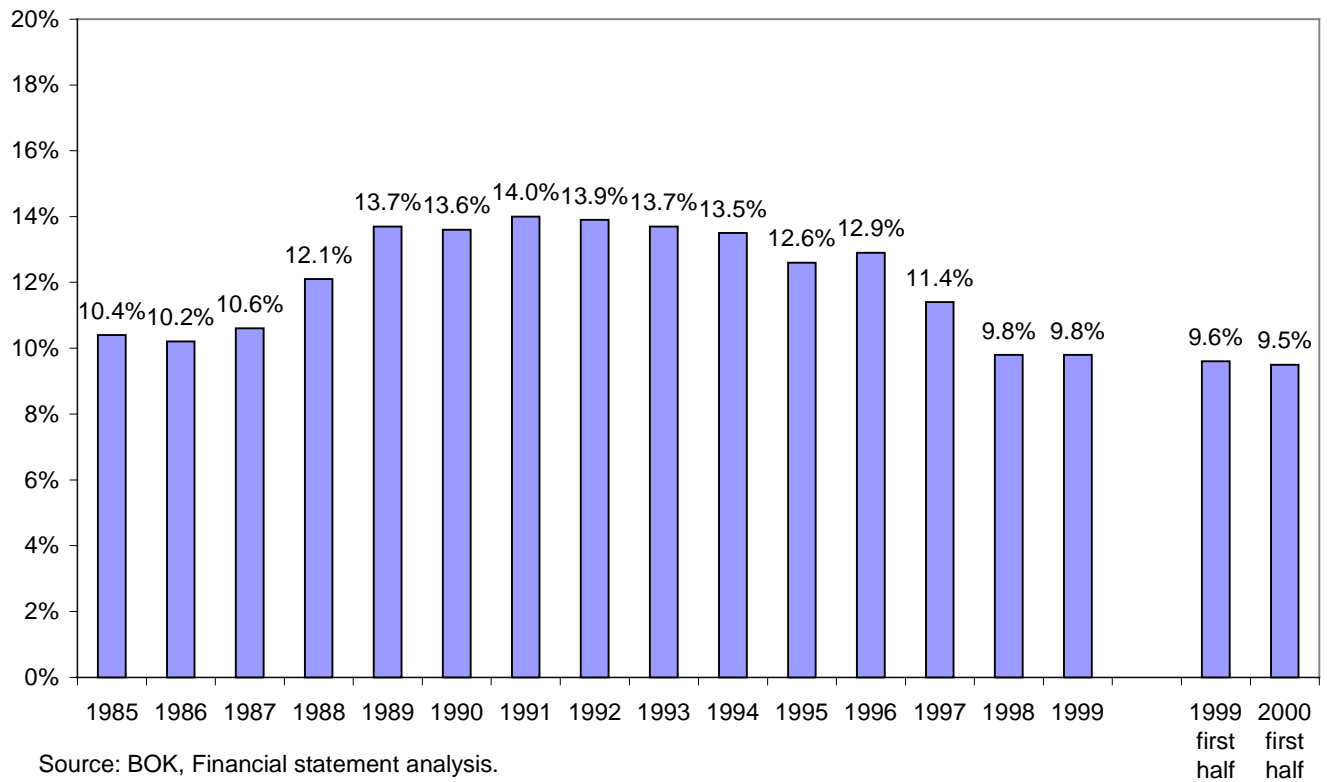
Figure 3: Operating profit rates and normal profit rates, 1985-2001 (first half)



Employment costs

During the economic crises, high operating profit rates resulted from enormous cuts of employment costs through the reduction of jobs and wages. While the proportions of employment costs to sales had been stabilized around 12% to 14% between 1988 and 1996, it declined to 11.4% in 1997 and to 9.8% in 1998. Even in 1999, when the economy recovered, it stayed at a relatively low 9.8% (see Figure 4). Accordingly, the proportion of employment costs-to-sales in the manufacturing sector has remained at its lowest level since the 1970s.

Figure 4: Employment costs to sales in the manufacturing sector



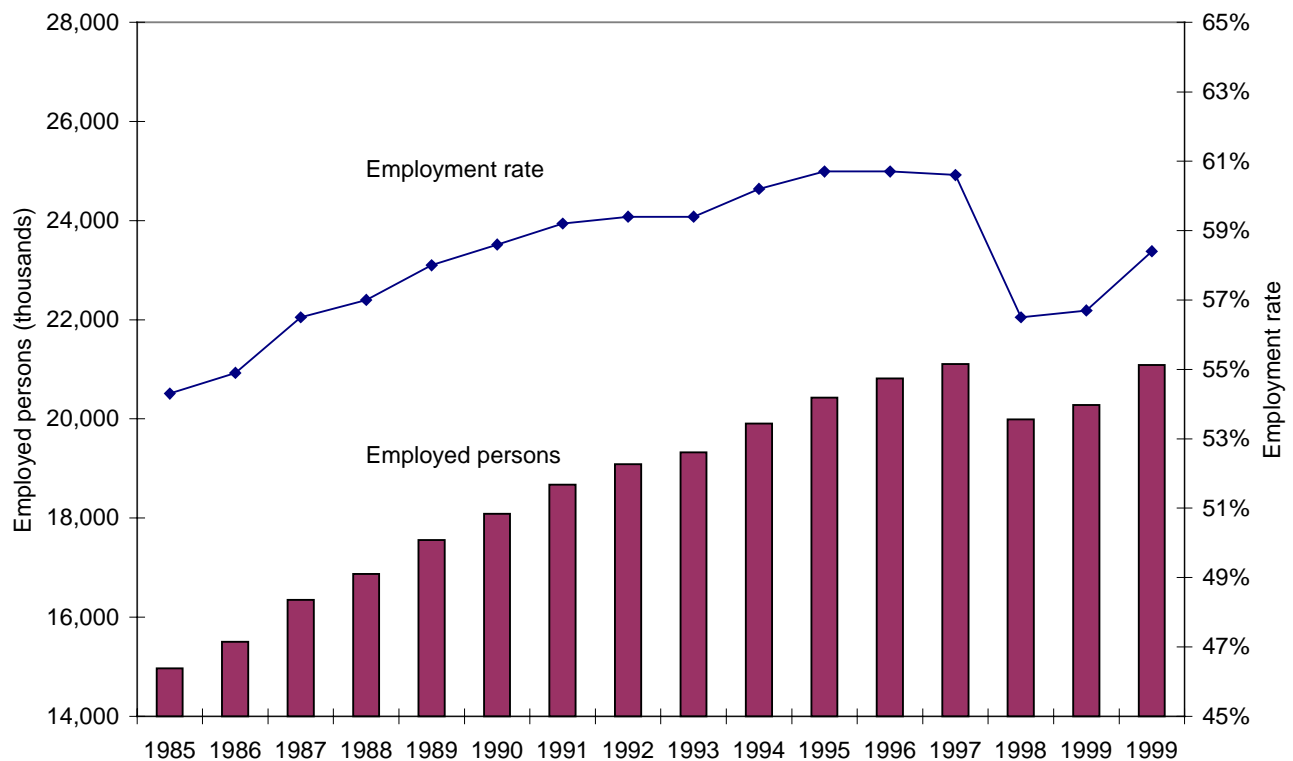
The Labor Market

Employment

The number of employed persons continuously increased through 1997, with 21.1 million workers, or an employment rate of 60.6%. But, the advent of economic recession and full-scale implementation of structural adjustment after the 1997 crisis reduced employment by 1.1 million in 1998, shaving 4.1% off of that rate.

By 1999, however, the economic recovery was under way, and in 2000 the *number* of employed persons recovered its pre-crisis level. Even so, the employment *rate* in 2000 stayed at 58.4%, which is far beneath the 1997 level (see Figure 5).

Figure 5: Employed persons and employment rate



Note: The figure for 2000 is the projection by the KLI.

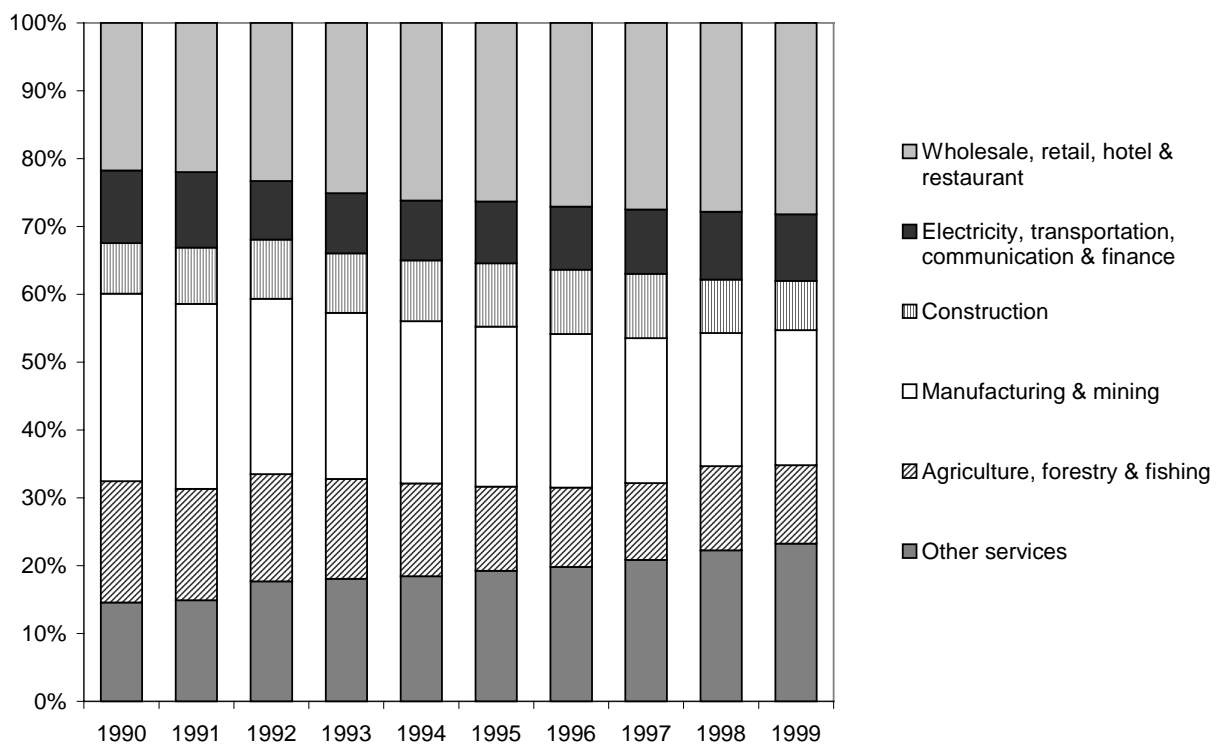
Considering employed persons by industry, the share of employed persons in agriculture/forestry/fishing and in mining/manufacturing had decreased continually through the 1990s (see Figure 6).

Employment shares in agriculture/forestry/fishing increased from 11.3% in 1997 to 12.4% in 1998, and in mining/manufacturing, employment increased from 19.6% in 1998 to 19.9% in

1999 (temporary phenomena due to the scarcity of job opportunities in other sectors at that time).

The number of employed persons in wholesale/retail trade/hotels/restaurants and other community/social and personal services continued to increase even in 1998. The share of employed persons in these industries among all industries increased from 42.0% in 1990 to 51.5% in 1999.

Figure 6: Proportion of employed persons by industry, 1990-99

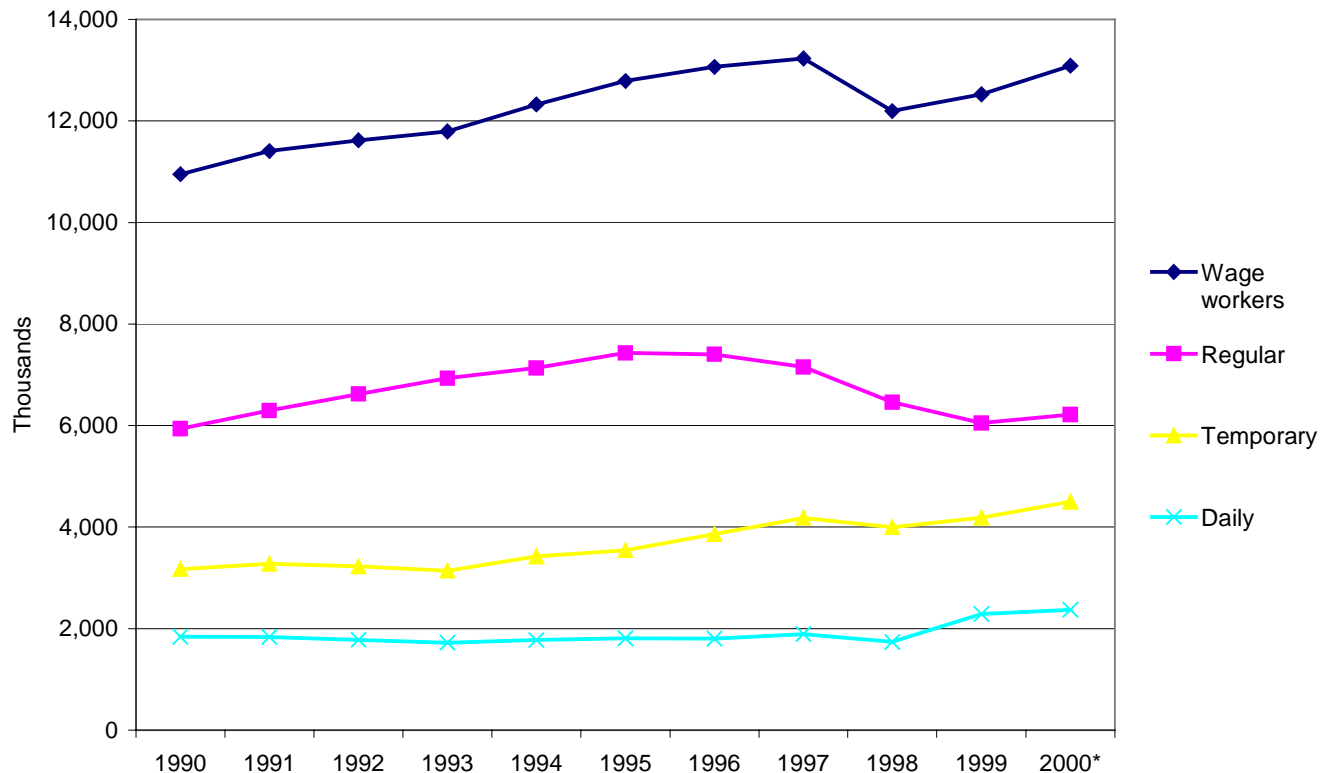


Wage workers

While the number of wage workers had been increasing continuously, it decreased by 1.04 million in 1998. Since 1999's economic bounce back, the total number of wage workers began to increase again and recovered its pre-crisis level in 2000.

While the total number of employed workers generally continued to grow, the number of regular workers has kept decreasing since 1995 after hitting a record high of 7.43 million workers. In 1998, it decreased by 690,000 year-on-year. And in 1999 when the economy recovered, it decreased by 410,000 year-on-year; Korea had to wait until 2000 for this trend to reverse (see Figure 7).

Figure 7: Wage workers by status



Note: Data for 2000 is for the first nine months.

The number of temporary and daily workers actually shrank to its lowest level in 1993—4.86 million—before beginning to increase again every subsequent year except in 1998.

As a result, the number of temporary and daily workers began to outnumber that of regular workers after 1999, reaching 52.5% of all wage workers in 2000 (January-September). As of September 2000, 6.87 million workers are employed on a temporary or daily basis in Korea.

Among 5.68 million workers employed in companies with five or more employees, the number of workers employed in the small- and medium-sized enterprises reached 3.35 million (58.9%), while the number of workers employed in the large-sized enterprises with over 499 employees stood at only 1.13 million (19.8%) (see Table 1).

Thus, as temporary and daily workers outnumber regular workers, and the majority of the latter is employed in small- and medium-sized enterprises, the Korean labor movement must protect and organize regular workers in small- and medium-sized enterprises as well as temporary/daily workers.

Distribution of regular workers in enterprises with over four employees, by industry/size

	Total	5-9prs.	10-29 persons	30-99 persons	100-299 persons	300-499 persons	Over 499
All Industries	5,682	777	1,305	1,264	923	289	1,125
Mining	21	2	7	5	2	No Data	6
Manufacturing	2,344	194	435	536	386	135	658
Electricity, Gas, Water	44	1	3	12	14	4	9
Construction	342	75	100	66	38	10	53
Wholesale/Retail, Hotels, Restaurants	773	234	254	120	79	24	62
Transport, Storage, Communication	502	30	62	107	199	50	55
Finance, Insurance	1,026	127	329	260	108	43	159
Social & Personal Services	629	114	116	156	97	22	123

Source: MOL, 'Report on Monthly Labor Survey', December 1999.

Furthermore, in order to cope with the rapid transition of the labor market's structure from an internal labor market to an external one, the trade union movement needs to replace enterprise unionism with industrial unionism.

Work hours

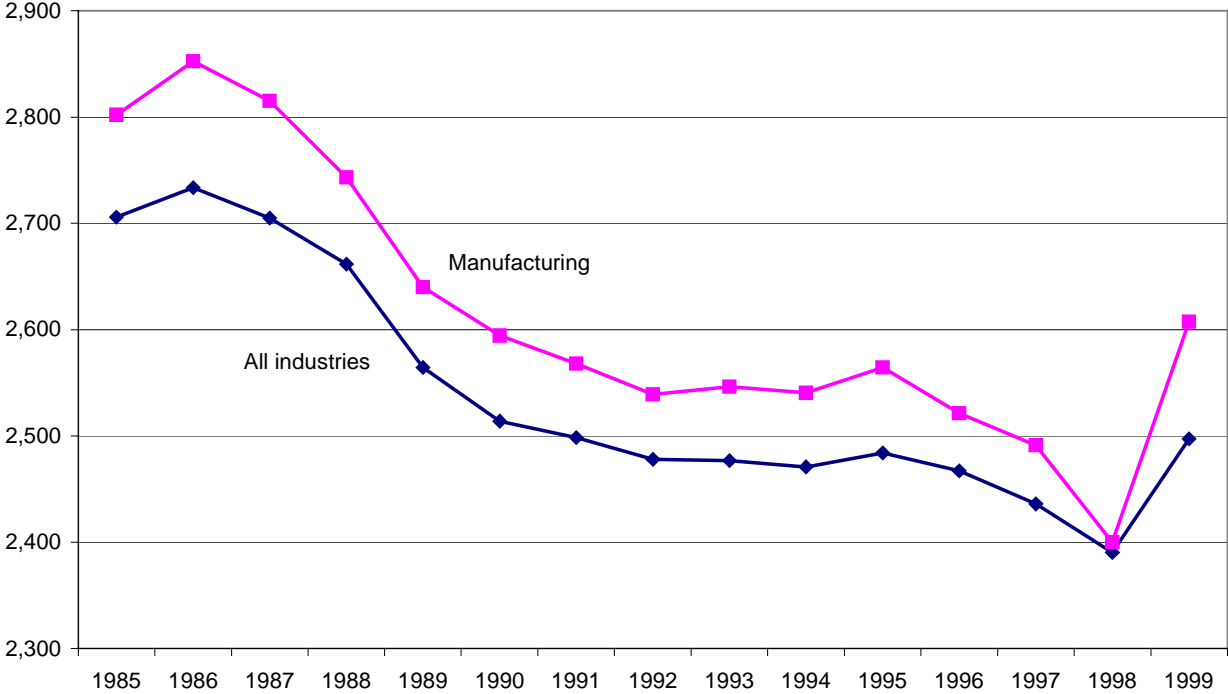
When the Korean labor movement became more active in 1987, legal work hours in the labor standard act were reduced to 44 hours per week in 1989, and real working hours had been reduced in 1993.

From 1994 onward, when the effect of work hour reductions diminished to almost nothing, real annual work hours stood at about 2,500 in the manufacturing industry, specifically, and 2,470 in all industries. Between 1997 and 1998, annual work hours were reduced to around 2,400 hours, as a result of the economic recession.

After the recovery in 1999, annual work hours again surged to 2,608 in manufacturing and 2,497 in all industries (see Figure 8). This resulted from management's decision to minimize

the recruitment of new employees and overwork requirements for existing employees. Working hours, in essence, returned to levels typical of the 1990-92 period.

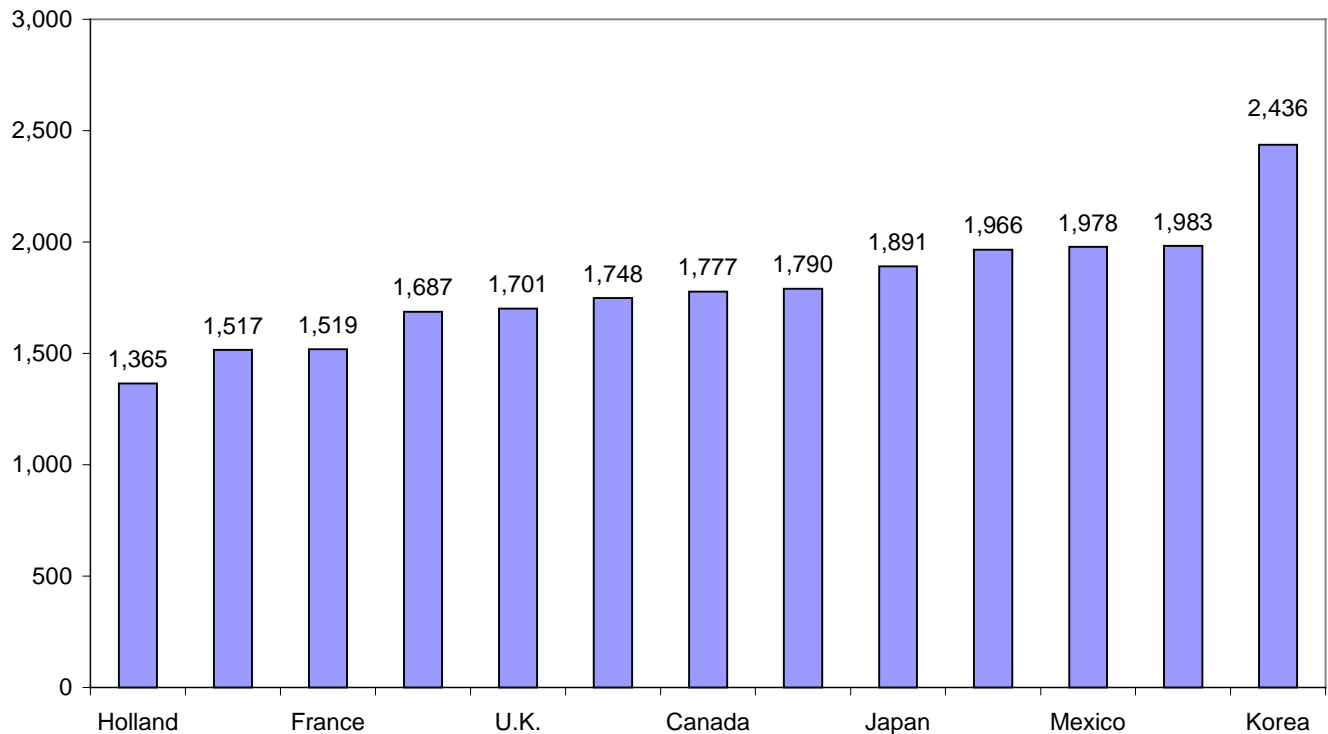
Figure 8: Yearly working hours



Source: MOL, Report on Monthly Survey.

Figure 9 shows average annual work hours in Korea. Among OECD countries, the Republic of Korea is the only country where yearly work time exceeds 2000 hours.

Figure 9: Comparison of yearly working hours in OECD countries, 1997



Source: OECD, Employment Outlook 1999.

Wages

In Korea, wage statistics are mainly based on the *Report on Monthly Labor Survey* issued by the Ministry of Labor (MOL), which surveys regular workers employed in companies with 10 or more employees.

But because temporary and daily workers outnumber regular workers and the wage gap by employment form has widened, the MOL's report fails to reflect the actual wage conditions of all of Korea's workers.

As a result, alternative surveys on wages -- data from the *National Accounts* by the Bank of Korea (BOK) and the *Survey on Economically Active Population* by the National Statistical Office (NSO) -- are required to identify actual wage conditions and to establish a wage policy.¹

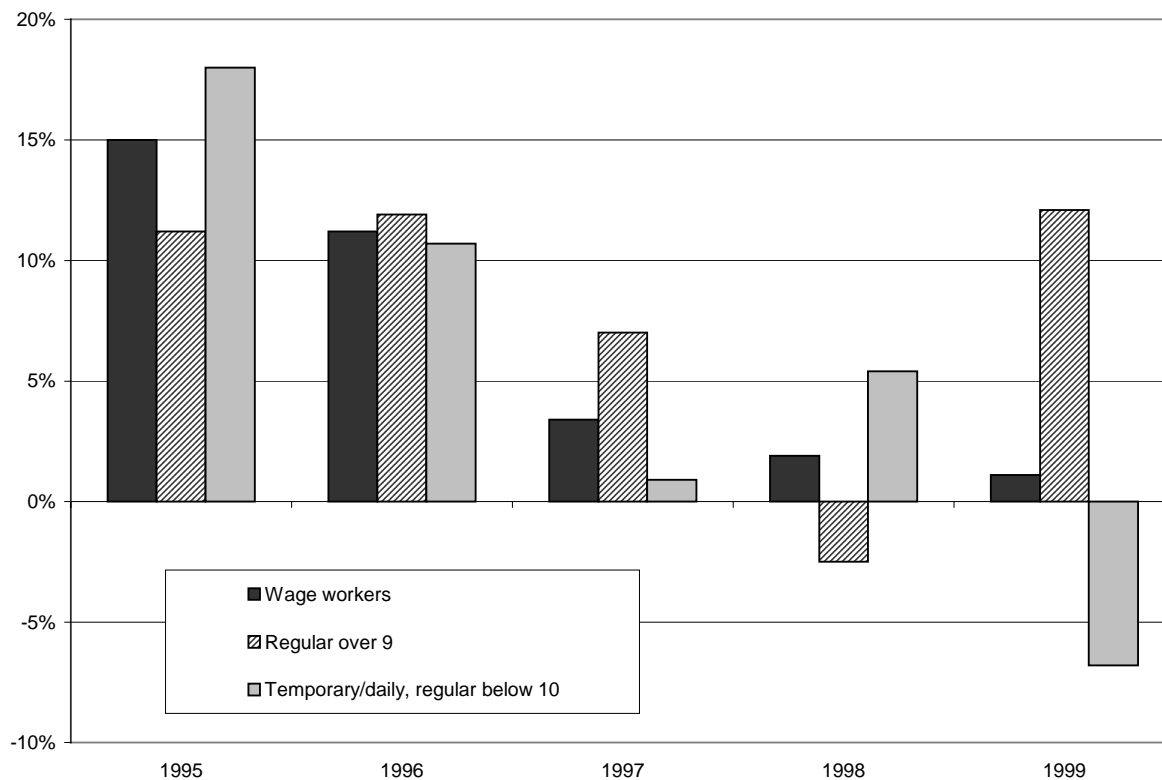
According to the MOL data on wage rates, wages increased at more than a 10% rate through

¹ Wage per worker equals total compensation of employees divided by number of wage workers.

1987 to 1996. But, after dropping to 7.0% in 1997, the first-ever wage cut occurred in 1998. This wage cut was a new challenge that the Korean labor movement had not had to face since 1987. However, wage growth increased to 12.1% in 1999 when the economy recovered, and it is expected that the rate of wage increases will be 8%-9% in 2000 (see Figure 10).

Wage growth in terms of total compensation had exceeded 10% from 1987 to 1996, which is the same trend as with regular workers employed in companies with over nine employees. However, the rate steadily declined from 3.4% in 1997 to 1.9% in 1998, finally dropping to 1.1% in 1999.

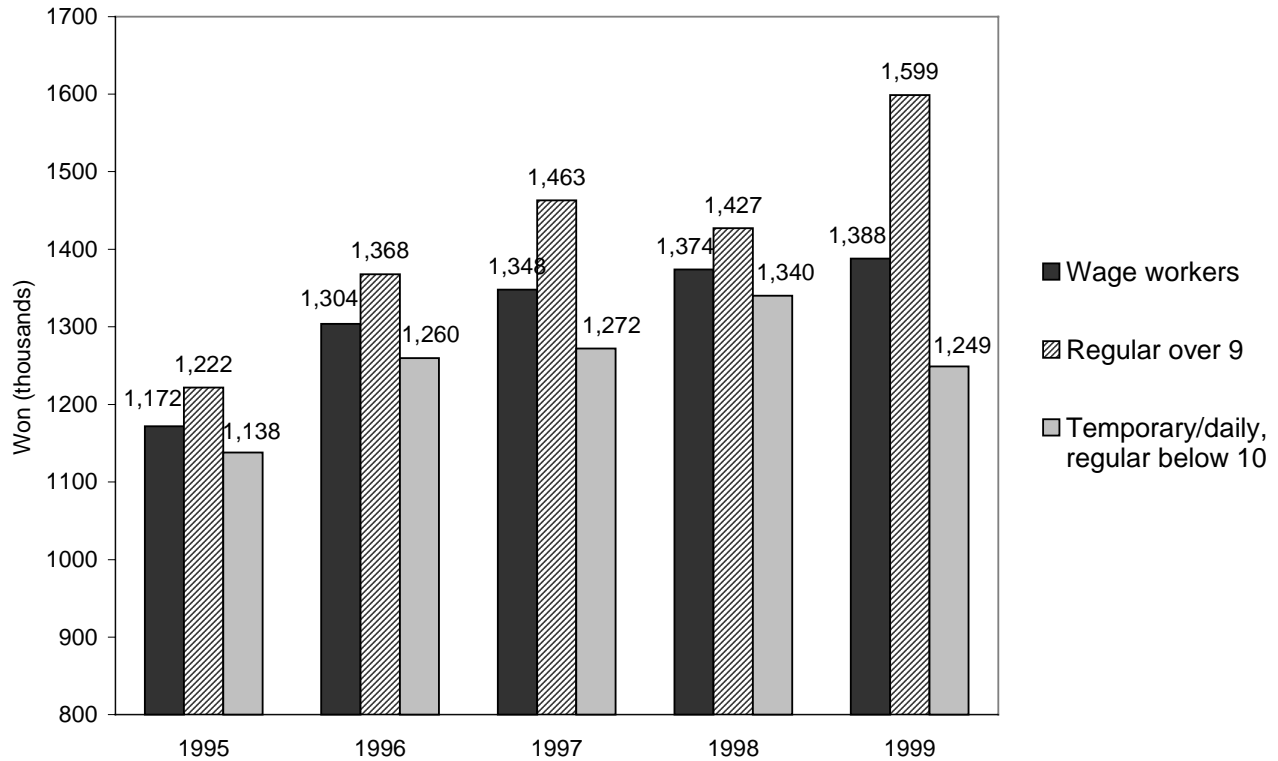
Figure 10: Rate of wage increase



These findings clarify how inappropriate the wage survey is by only covering relatively bigger-sized enterprises with over nine employees. For example, In 1999, while the rate of wage increases for regular workers amounted to 12.1%, that of general wage workers was only 1.1%. This means that, in spite of an economic recovery, temporary and daily workers and regular workers employed in enterprises with below 10 employees suffered from wage cuts, and that the wage gap by employment form has sharply widened. Furthermore, while wage growth had generally exceeded 10% through 1987 and 1996, growth for regular workers employed in companies with below 10 employees and temporary/daily workers stood at 0.9% in 1997, 5.4% in 1998, and -6.8% in 1999, resulting in an 18.9% wage gap between

regular workers in companies with 10 or more employees (12.1%) and temporary/daily workers and regular workers in companies with less than 10 employees (-6.8%) (see Figure 11).

Figure 11: Wage levels



This wage gap by employment form results from management's freeze on new hires and increased worked hours for current employees. While management fully restored the special payments for regular workers, temporary and daily workers were forced to find low-paid jobs.

Income distribution

The rate of wage increases between 1987 and 1996 had been close to the level of GDP's growth rate plus the CPI growth rate. And, as the number of wage workers had increased, employment costs-to-gross value added was improved.

However, as wage growth in 1997 was 6.1% less than GDP growth plus CPI growth, and the number of wage workers decreased in 1998, the employment costs-to-gross value added hit a record high of 64.2% in 1996 before beginning to decline.

In 1999, when the number of wage workers again increased, the rate of wage increase was 10.5% less than GDP and CPI growth combined. As a result, employment costs-to-gross

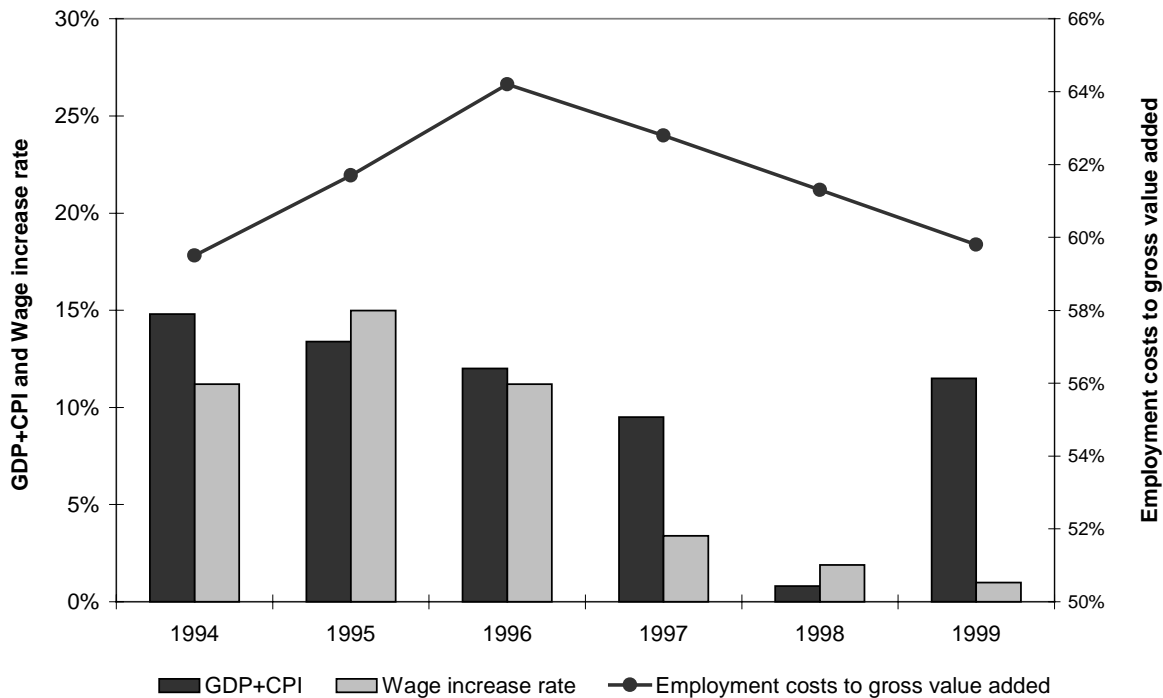
value added declined to 59.8% (see Figure12).

Furthermore, as the number of contingent workers in Korea's labor market has increased, the wage inequality between workers by employment form continues to widen.

Since 1993, the GINI coefficient and the proportion of the bottom fifth's income to the top fifth's income (top 20% income ÷ lowest 20% income) have continued to increase.

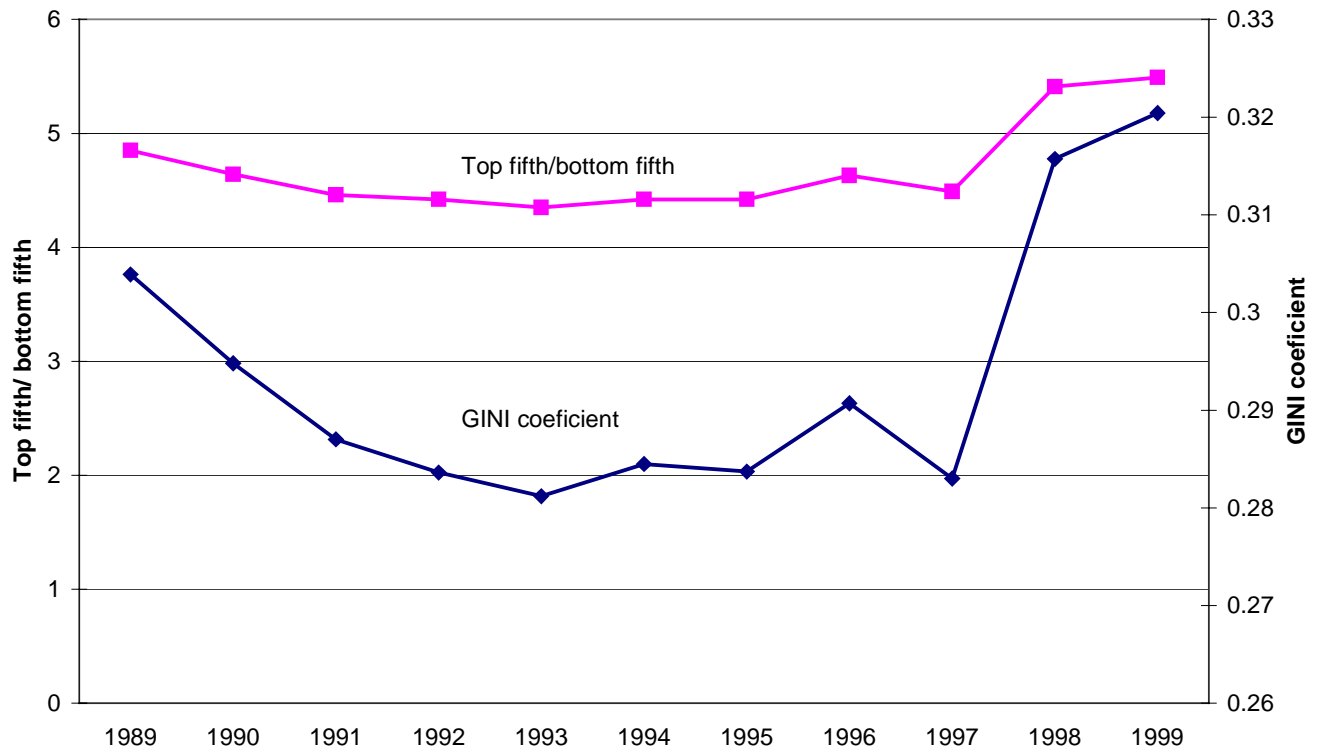
As the number of contingent workers has sharply increased and the wage gap has widened, the GINI coefficient reached 0.3294, and the proportion of the bottom fifth's income to the top fifth's income has stood at 5.49 (see Figure 13).

Figure 12: GDP growth rate, wage increase rate, employment costs to gross value added



Source: NSO, BOK.

Figure 13: Income distribution



Source: NSO.

References

- BOK** The Bank of Korea (<http://www.bok.or.kr/>)
- KLI** Korea Labor Institute (<http://www.kli.re.kr/>)
- MOL** The Ministry of Labor (<http://www.molab.go.kr/>)
- NSO** National Statistical Office (<http://www.nso.go.kr/>)