

**Labor and Management Relations in Large Enterprises in  
Korea: Exploring the Puzzle of Confrontational  
Enterprise-Based Industrial Relations**

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**Lee, Changwon**

Korean Labor Institute

Visiting Fellow, ILR School, Cornell University

## 1. Introduction

The most conspicuous characteristics of Korea's modern trade union movement and industrial relations are: 1) persistent development of enterprise-based unionism, which is not common in advanced and newly industrialized countries, 2) a militant labor movement, and 3) confrontational industrial relations, led mainly by large companies.

These characteristics emerged as a by-product of the rapid process of industrialization during the last half century, and they are clearly distinguishable from the cooperative enterprise-based industrial relations of Japan, which went through a very similar industrialization process (Dore, 1973; Cole, 1979). Enterprise-based trade unions in Japan have not always functioned cooperatively. In fact, the unions have often acted in contradictory and ambivalent manner to protect their members' interests when their interests are not in line with the companies' interests. Yet, in general, they have actively cooperated with the management toward improving mutual gains (Shirai, 1983).

Enterprise-based unions in Korea, compared with the generally cooperative behavior of Japanese trade unions, are highly pronounced in their confrontational stance, and such confrontational relations are often found in large companies. What makes the story more puzzling is that large Korean companies have traditionally provided their employees with very stable employment and exceptional wage increases amid continuous revenue growth backed by their monopolistic market position and export growth. So, one may wonder why there exist such high level of conflicts between the managements and unions of large firms,

One of the reasons, especially in comparison with other countries, is that Korean labor movement has developed not just to protect the workers' rights in industrial relations, but also to promote the social justice of the working class. This is similar to the situation in Brazil, Mexico, South Africa, and the Philippines, where the labor movement has come to be understood within the context of the whole society, not merely within the arena of labor-management relations. It must be regarded as a civil movement, in contrast to the "business unionism" of the U.S. (Johnston, 2001).

However, though the labor movement in Korea has rapidly expanded since

1987 buttressed by the national democratic movement and has strengthened its militant characteristics in bargaining for wage increases, it has largely failed to become a major political force. It is no exaggeration to say that the decade since 1987 has been almost exclusively spent on improving bargaining power at the enterprise level (Lee and Lee, 2004). This is where our attention is drawn. We want to investigate the strategic factors used by trade unions of large companies since 1987 to ensure their bargaining power.

Union movements grew explosively, boosted by the democratization movement that started in June 1987. The number of unit unions, numbering only 2,700 in June 1987, increased to 7,800 with 1.93 million members in just two years. However, since 1990, the membership continued to dwindle throughout the decade reaching just 1.14 million in 1998. There are two reasons behind the decline of membership. First, the union movement of small and medium enterprises (SMEs) has significantly weakened in the 1990s when the movement base has become seriously eroded due to business constraints that resulted in suspensions and shutdowns. Secondly, the number of regular workers eligible for union membership greatly decreased (Lee, 2003). The number of union membership has recovered to around 1.26 million in 2002, but large companies continued to lead the union movement. This is indicated by the fact that as of the end of 2001, the number of large-scale unions with 500 or more union members was 417 or 6.8% of the total number of unions, while their members numbered 1.15 million or 73.5% of the total population of unionized workers.

Thus, Korea has come to be known for its trade unions centered in large companies, its militant industrial relations, and its “world’s worst” title in terms of conflicts between labor and management, according to the ranking by the Institute for Management Development (IMD). In its 2003 Annual World Competitiveness Report, the IMD gave Korea’s industrial relations the 60<sup>th</sup> place, the lowest among 60 countries, after it was recorded as 43<sup>rd</sup> among 49 countries in 1998, 46<sup>th</sup> in 1999, 44<sup>th</sup> in 2000, 46<sup>th</sup> in 2001, and 47<sup>th</sup> in 2002 (See Table 1).

<Table 1> International comparison of cooperative industrial relations

Ranking	COUNTRY	
1	Singapore	8.52
2	Denmark	8.45

3	Switzerland	8.29
4	Austria	8.07
5	Japan	7.92
6	Iceland	7.92
7	Zhejiang	7.89
8	Malaysia	7.84
9	Hong Kong	7.84
10	Finland	7.82
51	Philippines	5.47
52	Ile-De-France	5.44
53	Israel	5.42
54	South Africa	5.42
55	Argentina	5.36
56	France	4.86
57	Venezuela	4.84
58	Poland	4.82
59	Indonesia	4.68
60	Korea	4.00

Source: IMD World Competitiveness Report 2004.

The IMD index, though based only on the assessments by businesses, undeniably shows that industrial relations in Korea are a very strong deterrent undermining the national competitiveness in the era of global economy. The main reason for the notoriety of the country's confrontational industrial relations is found in its unusually high frequency of industrial disputes. The National Competitiveness Report by IPS, which compares the actual numbers of working days lost due to industrial disputes, shows that industrial disputes in Korea are at a comparatively higher level (See Table 2).

<Table 2> Labor dispute working days lost per 1,000 inhabitants

RANK	COUNTRY	INDEX	DAYS
1	Singapore	100.00	0.00
2	China	100.00	0.00
3	Pakistan	100.00	0.00
4	Brazil	100.00	0.01
5	Venezuela	100.00	0.01
6	Egypt	100.00	0.02
7	Sweden	100.00	0.03
8	Colombia	100.00	0.10
9	Germany	99.99	0.13
10	Hong Kong	99.99	0.14
41	Sri Lanka	99.28	15.48
42	Denmark	98.92	23.33
43	Australia	98.88	24.20
44	Romania	98.83	25.25
45	Ireland	98.82	25.32
46	Taiwan	98.31	36.41
47	Korea	98.15	39.75
48	Israel	97.85	46.32
49	Finland	97.73	48.94
50	Canada	97.51	53.55
51	United States	96.66	71.91
52	South Africa	95.88	88.65
53	Spain	95.75	91.75
54	Norway	94.89	10.988
55	Argentina	92.17	168.50
56	Nigeria	0.00	2152.30

Source: IPS National Competitiveness Report, 2004

<Table 3> compares yearly changes in OECD countries' actual number of working days lost due to industrial disputes in recent years. Canada has the highest number of days lost to disputes,<sup>1)</sup> followed by Italy and Korea. Japan and Germany, with similar industrial characteristics as Korea in terms of the proportion of manufacturing industries within the whole economy, have remarkably low levels of industrial disputes. The U.K. and the U.S., which are often characterized as having confrontational industrial relations, show much lower level of industrial disputes than Korea. From a comparative perspective, while the number of disputes has generally decreased in most countries since 1998, Korea stands out with the number of disputes increasing sharply after the financial crisis of 1997.

<Table 3> International Comparison of Yearly Changes in Industrial Disputes: All industries, working days lost per 1,000 inhabitants<sup>1)</sup>

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Average <sup>2)</sup>		
												1993 ~ 1997	1998 ~ 2002	1993 ~ 2002
Australia	100	76	79	131	77	72	88	61	50	32		93	60	75
Canada	132	137	133	280	296	196	190	125	162	218		197	178	187
France	48	39	300	57	42	51	63	114	82	NA		98	NA	NA
Germany	18	7	8	3	2	1	2	0	1	10		8	3	5
Italy	236	238	65	137	84	40	62	59	67	311		152	110	131
Japan	2	2	1	1	2	2	2	1	1	0		2	1	1
Korea <sup>3)</sup>	110	119	30	68	33	118	108	142	79	111	90	71	112	92
Sweden	54	15	177	17	7	0	22	0	3	0		54	5	29
U.K.	30	13	18	55	10	11	10	20	20	51		25	23	24
U.S.	36	45	51	42	38	42	16	163	9	5		42	47	45
OECD	48	61	77	51	41	46	29	90	29	51		56	49	52

Sources: Monger, J. (2004) "International comparisons of labour disputes in 2002," *Labour Market Trends*, April, p. 146.

Annual Data from the Ministry of Labor.

"Economically Active Population," the National Statistics Office.

Notes: 1) "inhabitants" means those employed; a few numbers are estimates.

2) The annual averages of years for which data was available were weighted by the number of employed.

3) For Korea, data from the Ministry of Labor and "Economically Active Population" were used.

"NA" means "no data available."

Looking at the data, following questions can be posed: where did the trade-union militancy and the confrontational nature of industrial relations in Korea come from? Why are these characteristics found in industrial relations at large enterprises that provide stable employment and enjoy monopolistic market positions? Based on the premise that solving these questions is the purpose of this study, the following section will focus on the development process of enterprise-based industrial relations and militancy as a strategic choice of the Korean labor movement.

## 2. Development process of enterprise-based labor relations in Korea: systems and strategies

The size of the labor market in Korea expanded significantly in the process of economic development. Two of the notable characteristics of the Korean labor market that are most often pointed out are the very high turnover of the workforce and the difficulties of companies in securing workers needed for their businesses (Eoo, 1992; Park, 1992). Usually, rapid expansion of the labor market amid fast-paced economic development raises the rate of worker turnover due to the large-scale supply of jobs. However, given the phases of economic development, the labor turnover in Korea is still relatively higher than in other countries of comparable conditions. This is evidenced by the fact that the average years of service of Korean workers between 1979 and 1989 were much lower than those of Japan, which had already experienced industrialization from 1960 to 1970 (Park, 1992).

Another notable fact about the Korean labor market is that there was no difference in wage levels between SMEs and large companies in Korea until the mid-1980s, with human capital controlled, and that workers moved relatively freely between the two sectors (Jeong, 1991; Koo, 1990; Song, 1991). The main reason behind this is found in Korean companies' pursuance of mass production methods based on simple and general technologies (Song, 1991: 220-221). Moreover, the government's provision of a large number of semi-skilled workers to companies through directly operated vocational training centers, and its control over the labor movement and the wage levels of large companies, resulted in a relatively monotonous and stable labor market with small gaps in terms of turnover and wage levels between companies of different sizes (Steers et al., 1989; Bognanno, 1988; Kim, 1988).

The Korean labor market started to show a sign of segregation from 1987, as wage increases and improvements in employment conditions were achieved at large companies through large-scale industrial disputes. The ratio of average wage between large companies with 500 or more employees and small ones with fewer than 99 employees increased to 122.5:100 in 1990 from 102.9:100 in 1987.

The difference is affected by the union movement, which exploded from 1987; or, to put it differently, it reflects the concentration of gains made by the union movement at large companies since the eruption of the labor movement. The long period of control over the labor movement by the government under military regimes and their recognition only of enterprise-based companies before 1987 somehow opened the path towards a segregated labor movement and industrial relations centered on large companies. However, considering that it clearly had rooms to move away from the enterprise-based labor movement to a more concentrated union structure or industrial relations, the Korean labor movement must have made strategic choices to remain at the enterprise level while the democratic movement was flaring in politics and society.

In other words, the changes in the environment toward a democratic society should not be considered a direct factor determining the characteristics of industrial relations. The way employers use such changes in the market environment strategically, and the way trade unions utilize the political environment for their strategies are what determines industrial relations. The main actors in industrial relations, faced with opportunities and pressures brought about by changes in the environment, made strategic choices amid many restrictions. According to the theory of strategic choices, the results of their choices are expressed as characteristics of the industrial relations (Meltz, 1985:315-334). This theory explains changes in industrial relations as a result of interactions between outside pressures and philosophy, values, and strategies of organizational actors at various levels of organizations (Kochan, Katz and McKersie, 1986).

From the viewpoint of this theory, large companies with monopolistic status guaranteed by the authoritarian regimes before 1987 saw the privileges, protection and regulations of the government against inter-company competition gave way to a principle of competition among large companies within the market, and made the choice to deal with issues of



industrial relations inwardly. They opted for more effective stability of business management by minimizing the influence of industry-wide and central-level industrial relations (as opposed to company level), and creating an internal labor market to realize employment stability and wage increases at the enterprise level.

Meanwhile, trade unions at large companies pushed the growth of trade unions as part of the social movement during the initial stages of the new political environment called “democratic society.” However, they came to realize that enterprise-based labor relations could be more effective in collecting the due wages--unpaid even in the monopolistic context. Moreover, they believed that the labor market inside their companies and the new system of collective bargaining could sufficiently provide both economic gains and support for the causes of union movement.

Ultimately, the trade unions of large companies in Korea chose decentralized, enterprise-based labor relations when given the strategic choice in the new environment after 1987. However, the unexpected outcome of that choice was that it led to frequent strikes and nearly constant conflicts during the following decade, instead of the kind of flexible and cooperative industrial relations commonly found in decentralized labor relations. This is explained – and will be discussed in the next section – as a result of the politicization of industrial relations, whereby enterprise-level labor relations were not developed as responses to the market environment, but rather as adjustments of different interests between labor and company management that were dependent on politics. What this phenomenon means is that while industrial relations at large companies in Korea since 1987 have outwardly appeared to be similar to the development process of industrial relations in advanced countries, inwardly, they have progressed in a totally different way.

In recent years, industrial relations in advanced countries are changing significantly. Above all, in terms of where industrial relation is going, there is an active movement toward greater flexibility in labor relations at the company level, directing the focus of labor and management to more micro-level matters. The decline of trade unions has become visible, driving attempts to find a new type of industrial relations at the enterprise level. Innovative production organizations and participation of workers in the process of production have been initiated by companies. High-performance

systems based on the technological development of workers are being established as a mainstream of industrial relations in advanced countries (Locke et al, 1995; Appelbaum and Batt, 1994).

In the U.S., until the mid 1980s, business management strategies resorted to mass production and price competition, disregarding the role of human resources. Consequently, workers were dependent on strong unions to protect their interests and concentrate their capacity on bargaining for distribution (Bluestone and Bluestone, 1992). The new economic environment of the 1980s, however, changed the goal of union movement to some extent, from a distribution-oriented to a production-focused principle (Freeman and Medoff, 1984; Kochan, Katz, and McKersie, 1986; Hecksher, 1988).

Employers' strategies are definitely a critical factor moving the focus of industrial relations. However, the responsive strategies of the labor movement are an equally important factor in shaping industrial relations. Changes towards decentralized labor movement will be possible only through the response of the labor movement to the shifting focus of industrial relations, or through the results of the shift itself. Decentralization of labor movement is expressed into two aspects. Under the first aspect, the consolidation of the union movement at the national level will be weakened but the independence of subsidiary organizations will increase (Baglioni, 1990). Usually, the power of a central organization at the national level to control industrial or sectoral unions is being diminished in Western countries (Crouch, 1994:268). On the other hand, working conditions which had been decided at the national or sectoral level are now being decided at the enterprise or workplace level. Certainly, the decentralization of union movement is not a uniform trend in advanced countries. In Norway and Portugal, bargaining structure is being more centralized. In the Netherlands and Italy, decentralization was the dominant trend in the 1980s, but in the 1990s, it was reversed (OECD, 1997). Nevertheless, it is undeniable that decentralization of labor movement and collective bargaining is a general trend in most highly industrialized countries.

It is important to note that decentralization of collective bargaining is manifested quite differently depending on countries and industries. So, it is important to distinguish between organized and disorganized decentralization, and between coordinated and uncoordinated decentralization (Traxler, 1995).

The analysis of decentralization trends must include decentralization with coordination, and consider this at the collective bargaining level as well. In this respect, decentralization since 1980 can be divided into disorganized and organized decentralization. The former is found in the U.K., New Zealand, and the U.S., and the latter in Austria, Denmark, and Germany (Traxler, 1995: 3-15).

Then where does Korea stand? Since 1987, labor relations in large companies centered around the issue of distribution, and were rarely interested in the paradigm of the high-performance workplace. Labor movement and collective bargaining have developed towards disorganized decentralization from their inception. Nowadays, though there is an effort toward consolidation at some industry-level unions, it still is not attracting enough interest among labor leaders and management at large companies. Trade unions of large companies only come together, though very loosely, when political issues affecting their welfare arise. When they are dealing with issues of wages or working conditions at the industry or central level, they remain disaggregated. To make matters worse, the union movement in Korea has experienced a second wave of decentralization, whereby the group consolidation and continuation are diluted through the formation of different factions within their organizations and the grouping or dismembering among themselves during the process of developing into enterprise unit trade unions since 1987.

In summary, labor and management relations and union movement at large companies since 1987 has developed enterprise-level industrial relations in terms of the structure of the system, but failed to take advantage of the decentralization by building flexible and cooperative industrial relations in strategic terms. As time progressed, labor and management at large companies became used to the strategies of putting pressure on each other rather than coordinating their mutual interests. Union movement also resulted in a second decentralization, where the factions of trade unions, rather than the hard work to provide an adjusted system beyond the enterprise level, became the force for change in the lines of the unions.

The main culprit of such abnormalities is the uncompromising nature of strategies by both labor and management, under which militant political actions are employed to resolve the conflicts of interest, notwithstanding the specific issues between employees and employers of individual companies.

The following section will discuss the reasons as to why the labor and management at large companies have taken the uncompromising course of politicization.

### 3. Growth of *chaebol* and democratic labor movement: twins of politicization

The Korean economy developed rapidly from the mid 1960s to the mid 1990s, as illustrated by the 9% average GNP growth rate during that time, and the high rate of growth has more or less been maintained until now. Two notable aspects of this breakneck development have been the remarkable growth of the private-sector economy, though backed by the active intervention of the state, and the control of the economy by a few *chaebol*.

Though there is no existing categorization of business types in which Korean *chaebol* fall under, *chaebols* are similar to the corporate groups of Japan. However, in contrast to their Japanese counterparts, they are directly operated by owners and their families, and established business groups networked through financial institutions. *Chaebol* is a large-scale business group developed under the sponsorship of the nation and directly operated and controlled by owners and their families.

The particular background contributing to the rapid development of *chaebol* during the industrialization process included several elements. For one thing, the pillar of economic development during the last several decades has been the export-oriented industrialization led by the government. From the early stage of the economic development, Korean government intensely supported and nurtured large companies through its exports-first policy; and to this end, it provided favors related to exports and imports, loans, and various tax breaks to the *chaebol* (Chang 1991; Jones and Sakong, 1980; Hamilton and Biggart 1988).

Secondly, the *chaebols* were able to minimize failure in the market through the practice of mutual investment and through diversifying their businesses to unrelated industries (Cheong and Yang, 1992). The majority of the 30 largest *chaebols* in Korea are engaged in a number of diverse sectors, not only in manufacturing but in a vast array of other sectors such as trade, distribution, construction, banking, and transportation. This expansive array of businesses is interconnected and brought together under the direct control of the owners.

The government's direct and indirect assistance to the *chaebol*'s business activities, and owners' direct control over their various activities in the market, have resulted in the *chaebols* having the least professionalized

business structures. The need for the division between ownership and business management, characteristic of the growth of large companies in modern times (Chandler, 1977), did not emerge as a priority in Korea.

Due to the high risk of failure in the market, to some extent, the *chaebol* owners could not help managing and controlling their companies as a family matter without depending on professional managers. In a situation where informal and sometimes illegal transactions with the government were key to the growth of companies, and where secret mechanisms had to be maintained to secure management rights in the business group, they needed to fill the upper ladders of the companies with family members and associates who would guarantee a mutual trust (Shin and Chin, 1989; Kim, 1992).

This background on how *chaebol* and their affiliates developed provides a clue as to why they dealt with labor relations in a particular manner. For the most part, top managers--*chaebol* owners, their families and associates--did not have to make innovative industrial relations and high-performance workplaces their priority goals in business management. Negotiating with or persuading trade unions was a waste of energy; and even performance was a matter of no little importance, because company growth, mergers & acquisitions, and even success or failure itself were determined by the environment outside of the market. Consequently, the interest of chief executive officers was focused on political deals.

At the same time, union participation in business management and democratization of corporate organization were more than just important variables influencing management performance. The voices of trade unions were a matter of concern because they could threaten the maintenance of the current ownership structure or lead to the exposure of business secrets that companies needed to keep. Thus, the *chaebol* moved to preempt or quell the voices before they grew, except for wage demands. As a result, the functions of collective bargaining were limited to increasing the wage level, and corporate social responsibility and business innovation were exempted as subjects of bargaining. Many large-company managers abhorred the existence of trade unions or their expanded influence not for the reason of their negative effects on company productivity but because they were a force threatening the controlling power of management.

As such, the role of trade unions demanded by the companies was to focus on wage increases and to restrain themselves from raising their voices on

other issues. Such demands appeared to be accepted by the trade unions, whose responsive strategies were matched to the strategies of the companies. Large company trade unions in Korea formally played this role from 1987 on. To be clear, however, the trade unions of large companies and their umbrella unions did raise many important issues in the process of political democratization and struggle for social reform. However, these attempts were diluted to some degree the negative impressions caused by the monopolistic position of the unions with regard to wages and welfare. However, one issue that continued to be pointed out most strongly by trade unions of large companies was the outdated model of “ownership management,” which served as the best leverage by which the trade unions could put pressure on employers. Employers could not easily control the unions when they kept raising their voices on ownership management as the source of many issues between labor and management.

The state-led economic development, the authoritarian control over the labor movement, and the government’s interventions in industrial relations were unarguably behind the politicization after 1987 of the labor movement at large companies (Lee, 2000; Kang, 1998). Despite the effects of this politicization, the union movement in the 1990s, based on enterprises, bore fruit in the form of wages and benefits at the enterprise level, while neglecting preparations for social reforms or macroeconomic adjustment.

For that matter, some argue that the labor movement in Korea in the late 1990s was isolated at horizontal, vertical, and societal levels. They were isolated at horizontal level because of their fragmentation and failure to achieve solidarity among workers. They were also isolated at vertical level because their objective was compromised by capitalists and lost their independence. Lastly, they were isolated at the societal level because of the marginalization of the labor movement (Kim, 1993:239). Politicization was expressed as militant labor movement, while the bargaining structure and union system at the enterprise level remained unchanged. Employers lacked either cause or determination to suppress militant trade unions’ actions inside companies, which means that both labor and management have played political games.

How are political deals made between labor and management? First of all, trade unions send signals to employers through strikes. The strategy of “first strikes, then negotiations” has led of frequent and often illegal strikes. The

logic behind such high frequency of strikes is that it will be more effective for unions to push the employer into corner by elevating what they want as social issues rather than talking with the employer.

The idea that trade unions bring about wage increases has already become an established theory (Freeman and Medoff, 1984). However, different opinions exist on the strategies as to how unions induce wage increases. Wage increases have the effect of winning support for the “labor market inside the companies” from trade unions, but it is clear that strikes by trade unions are a valuable means to raise wages. Conventional wisdom tells us that strikes for the purpose of wage increase are a basic strategy that trade unions will resort to. Nevertheless, a school of Neo-classical economics including Hicks tends to regard strikes as an unreasonable choice (Hicks, 1963; Reder and Neumann, 1980). They believe that reasonable negotiating partners, considering costs and damages of strikes, can settle on the wage level before strikes happen.

Then, how should strikes for social and political purposes be understood? Some critics point out that labor movement fascinated by the power to control the workplace and driven by social issues will disperse the capacity of trade unions to focus on wage increases, making it difficult to deliver the reasonable wage increases that the members desire (Cochran, 1977). In fact, the wage issue has been singled out by many to explain strikes in advanced industrialized society (Edwards, 1981; Shorter and Tilly, 1974; Walsh, 1983). Few attempts, however, have been made to explain why trade unions bear the costs of strikes by launching strikes driven by political and social issues instead of strikes confined to the wage issue and other issues that are directly beneficial. According to neo-classical or institutional theories, strikes for purposes other than wage increases have been regarded as unintended or uncontrolled collective action not strategically chosen by trade unions, or as the result of the failure of reasonable bargaining.

According to theories explaining the politicized strike structure, the best strategy of the labor movement is to have more strikes. Whether that type of strike succeeded or failed, or what issues the strike upheld is not important. What is important is simply to have a large number of strikes. Frequent strikes will send the message to the other bargaining party that workers are very much interested in the strikes themselves until their demand is met regardless of the cost (Cohn, 1993). This theory supports the arguments of



Piven and Cloward (1977), who posit that frequent social disruption by the poor class will guarantee redistribution of wealth from the upper class.

Though the theories arguing for the usefulness of economically practical labor movement hold that the concentrated attention of trade unions on social issues will result in deterring the trade unions from achieving their ultimate objective of monetary gains, there is no evidence that social issues and monetary gains are completely unrelated. In fact, strikes by trade unions over issues of working-hour reduction or industrial safety often led to high wage increases with little improvement regarding the issues on table. In a word, union movement for political purposes and its show of militancy using strikes has been a very useful strategy for achieving economic gains.

Strikes were good leverage to raise the political status of labor movement in the society. They were an effective means to break the control over the labor movement by the authoritarian government that abhorred strikes, and to achieve a democratic society. Government policy before 1987 banned any “destructive” action, and the policy was successful in minimizing the number of such actions, with some side effects. The drawback of the policy was the huge impact of labor disputes that might have amounted to nothing in a situation with less or no control on policy makers as well as the general public. The more state officials tried to minimize disputes, the bigger the impact became on politics and society. Labor disputes were often considered as indices pointing to the state of crisis in overall industrial relations, and induced government officials take immediate actions such as providing new policies or laws with a view of preventing the recurrence of similar types of disputes (Choi, 1988:281-282).

Enterprise-based labor movement with politicized lines was closely aligned with politicized movement at upper and lower levels, and thus often expanded and reproduced. At the upper level was the Korean Confederation of Trade Unions (KCTU), which emerged in the 1990s, and at the lower level there were factions or workplace organizations developed within the enterprise-based unions.

The union movement at large companies has been closely related to the democratic labor movement, which began in earnest in 1987. The fact that most trade unions of large companies belong to the KCTU, and not the Federation of Korean Trade Unions (FKTU) that existed prior to 1987, shows that the strategies of large company trade unions are in compliance with the

policy lines of KCTU.

The policy lines set by FK TU are tilted toward economic unionism in the broader context. Its movement methods are based on economic struggle including collective bargaining, and when necessary it has actively participated in national decision-making processes. In contrast, KCTU's movement lines reject cooperation between labor and management, target social reforms, and prioritize the integration of economic and political struggle (Kang, 1998). For KCTU, comprised mainly of large companies and the public sector, strikes are considered as an effective means through which democratic movement will develop and monopolistic gains of large company managements will be distributed through wages, and also as an important engine of organizational growth.

It is an irony that the confrontational, militant labor movement of KCTU, having emerged as an alternative to the traditional labor movement of FK TU, has made it possible for the existing enterprise-based union structure and the labor market inside companies to remain. Though KCTU set the establishment of an industry-level union system as an ultimate goal, it maintained the labor market structure at the enterprise level and focused on the struggle to achieve the three basic labor rights. As KCTU movement was mobilized, its recognition by the government became a fundamental issue. Other related issues have surfaced at the same time are the prohibition of multiple unions and third-party intervention, and the scope of essential public services.

Different from the lines of KCTU at the upper level, informal workplace organizations at the lower level became strongly segregated, turning enterprise-based unions into a battleground between the organizations. Such informal workplace units were directed by the movement of the Committee to Pursue Democratic Unions with an objective of stopping trade unions from becoming bureaucratic or yellow unions. Their function of preventing labor unions from becoming bureaucratic organization and resist the domination of capitalists over labor is becoming more and more important. With the increase of their influence, the need for better organization of these workplace units also emerged.

The democratic labor movement that lasted from late 1987 to the early 1990s, led to the solidifying of "workplace organizations" by labor activists at unit workplaces. These activists continued to lead strikes, accumulating

achievements that would benefit the democratic operation of trade unions. These workplace organizations have held nationwide gatherings since the late 1990s. They are developing in an ongoing situation of cooperation, tension and conflict with executives of trade unions, depending on particular political lines and policies.

The workplace units, which started as a check-and-balance against union executives, have reshaped themselves since democratic executives took office. Especially in the case of large-scale factories, as the union movement was being revitalized, workplace activists were growing in large numbers. Some of them were self-taught activists, but others were trained in alliance with student activists.

In the case of the Hyundai Motors Company Union, which is one of the most representative large-enterprise unions of Korea, there are more than 10 affiliated field organizations with more than 1,000 total members. When a decision is made at the representatives' assembly, the existence of more than 1,000 union activists is a great force as far as the union is concerned (Jin, 2004). On the other hand, from the perspective of the company, field activists are threats, as they are a force capable of stirring up the workers' opinion and atmosphere in the field. However, the limitation of such field organizations is that they are buried in the internal activity of the corporation. The power within a company is limited to the union executives and representatives. Popular leaders, who rose through in-company activity, have no choice but to run for union officials in order to engage in political activity. This caused overheated and excessively competitive elections for the union president and representative positions.

As a result, the enterprise-based unions of Korea have continuously received demands to reproduce political lines, under the controls and connections from above and below. The main officials and activists of KCTU are linked not just by structure, but also by human connections to the officials of enterprise-based unions. Moreover, the union officials and executives have either very close connections with the various factions or are influenced by them. Thus, the structural arrangement of unions makes it hard to maintain the stability as a unit union or consistent leadership.

Under such unstable political lines, the most fundamental means through which a union leadership could receive support from the majority of its

members was to win higher wage increases from the employer. This satisfied the interests of the enterprise-based unions and all the connected groups, and in long term, it was the only way that unions could achieve the dual objectives of consolidating the unstable leadership and receiving recognition of its capabilities from the government.

#### 4. Change in Enterprise-Based Industrial Relations: Weakening of the Voice and Strengthening of the Monopoly

The so-called '87 labor regime, which effectively attained higher wages by demonstrating its militant and confrontational side, faced a great environmental change due to the structural adjustments that began following the 1997 foreign currency crisis. This produced a sense of crisis and the concern that by maintaining the previous strategy of militancy, workers would lose their face as well as their actual interests. According to a survey that KCTU carried out as part of its efforts to reform its organization in October 2004, targeting officials of central, industry-wide and unit union organizations, 63.6% of the respondents replied that KCTU faced a crisis. At the time, the two major trade union centers of Korea had declared a joint struggle to oppose dispatch work, call for the guarantee of public servants' basic labor rights and block the Korea-Japan FTA. It was a time for elevation of the struggle. Even so, almost two thirds of the respondents considered it a crisis situation.

The unionization rate has been stationary at around 11% to 12% for 7 years since 1997, in spite of the strong determination and efforts by the two major trade union federations and their affiliates to recruit new members. Mobilized struggles such as general strikes or rallies have lacked supports, and their function as "weapons" has been weakened as public opinion turned its back on the union movement. Struggle for social reform also has not been able to trigger either field workers' interest or their anger.

Wage struggle, which was the central axis for the union movement until the mid-1990s became an issue of secondary importance, and the issues of economic crisis and IMF relief, and the unemployment issue has become the primary social concern. Because unions had difficulty in pushing the agenda of employment stability of regular workers forward, they used small and medium enterprises (SMEs) or non-regular workers as a protective barrier to

guard their narrow interest. As economic bipolarization deepens, wage gaps between large enterprises and SMEs, and between regular and non-regular jobs are increasing. Even though the labor movement has made closing the gaps as its primary task, no significant advancements have come out so far. It definitely seemed that the democratic voice and influence demonstrated by the unions of large enterprises since 1987 had reached their limits. So, instead, a line of movement that used the monopolistic status of large company unions to its advantage was reinforced.

When it comes to the pattern of disputes, the transition from voice role to monopoly role can be confirmed with data on labor disputes. Labor disputes in Korea increased explosively since 1987, but reached stabilization since the '90s. Then, they began to rise again following the economic crisis in 1997 (See <Table 4>). In terms of the number of participants in the disputes, 400,000 participated disputes in 1989, but the number decreased by about one tenth to 40,000 in 1990. Recently the number increased again to around 100,000. In this sense, the period from '95 to '97 was a short but very stable period. This was because the unions could enjoy the negligence of the enterprises, which were managed laxly relying on the economic boom and did not need to exert special efforts for their struggle. This laxity contributed partially to the economic crisis in 1997.

<Table 4> Main Labor Dispute Indices

	No. of Disputes	No. of Participants	Lost Days of Work
1988	1,873	293,455	5,400,837
1989	1,616	409,134	6,351,443
1990	322	133,916	4,487,151
1991	234	175,089	3,271,334
1992	235	105,034	1,527,612
1993	144	108,577	1,308,326
1994	121	104,339	1,484,368
1995	88	49,717	392,581
1996	85	79,495	892,987
1997	78	43,991	444,720
1998	129	146,065	1,452,096
1999	198	92,026	1,366,281

2000	250	177,969	1,893,563
2001	235	88,548	1,083,079
2002	322	93,859	1,580,404
2003	320	137,241	1,298,663

Original Source: Ministry of Labor.

Source: KLI, 「Monthly Labor Trends for each year」.

<Table 5> Strike Tendency by Year

	Days of Work Lost	Wage Earners	Strike Tendency
1988	5,400,837	9,610	562.0
1989	6,351,443	10,390	611.3
1990	4,487,151	10,950	409.8
1991	3,271,334	11,699	279.6
1992	1,527,612	11,910	128.3
1993	1,308,326	11,944	109.5
1994	1,484,368	12,479	119.0
1995	392,581	12,899	30.4
1996	892,987	13,200	67.7
1997	444,720	13,404	33.2
1998	1,452,096	12,296	118.1
1999	1,366,281	12,663	107.9
2000	1,893,563	13,360	141.7
2001	1,083,079	13,659	79.3
2002	1,580,404	14,181	111.4
2003	1,298,663	14,402	90.2

Source: Ministry of Labor.

Note: Strike Tendency=(Work Days Lost/Number of Wage Earners) 1000.

The strike tendency index by year, which is measured by dividing work days lost by number of wage earners (<Table 5>), demonstrates a low strike tendency only from '95 to '97, and a high tendency for strike before and after that period.

If we analyze the cause of labor disputes according to phenomena, following 1987, the main objective of disputes was wage increases, however, after the mid 1990s, the number of disputes concerning other collective agreements exceeded those related to wages. Recently the disputes have been over qualitative issues such as structural adjustment, employment stability, working hours, welfare, etc., rather than simply distribution-related issues (See <Table 6>).

<Table 6> Trends of Labor Disputes by Cause

(Unit : cases)

	Total	Deferred Wage	Wage Increase	Dismissal	Collective Agreement	Other
1990	322	10	167	18	127	
1991	234	5	132	7	90	
1992	235	27	134	4	49	21
1993	144	11	66	1	52	14
1994	121	6	51	3	42	19
1995	88	-	33	1	49	5
1996	85	1	19	-	62	3
1997	78	3	18	-	51	6
1998	129	23	28	3	57	10
1999	198	22	40	-	89	47
2000	250	7	47	2	167	27
2001	235	6	59	-	149	21
2002	322	2	44	8	249	19
2003	320	5	43	3	249	20

Source : Internal material of Ministry of Labor, for each year.

Note : The “Other” category includes improvement of working conditions, shortening working time, lay offs, dismissal following company transfers, opposition against receiving voluntary retirees, opposing the “small president system”, opposing mergers, personnel transfers, etc. Particularly, in 1990 and 1991, a separate category for “collective bargaining” was not created, resulting in a high proportion of “others.”

Meanwhile, by the size of business, while the rate of disputes in large enterprises, particularly those with 1,000 or employees, have decreased, the share of disputes occurring in smaller enterprises with less than 300 employees has increased (See <Table 7>). But when considering the fact that the number of employees of large enterprises is significantly smaller than those of medium-sized enterprises, 40 strikes per year in businesses with 1,000 or more employees is by no means a small number, and the influence is quite large as well.

In terms of solution methods of disputes, while most disputes were solved



through labor-management agreements since 1987, recently there has been a tendency that the number of conclusions through mutual agreement has decreased, while the number of voluntary ending of the dispute by unions has increased (<Table 8>). This suggests that many of the strikes were initiated based on unions' unreasonable evaluations and objectives. These unreasonable demands simply end up in self-termination, without mutual agreement between labor and management. Interestingly, more of such withdrawals have been seen in strikes that were carried out for purposes concerning social reform or political objectives, compared to strikes for wage increases.

Mulling over these recent changes, we finally have reasons to hope that a fundamental change that can radically improve Korea's imbalanced industrial relations is in the foreseeable future. The fact that the issues of wage hikes, which so far has been the dominant motivation for bargaining and strike, is becoming less important as the cause of industrial action indicates that a soil is ripe for more mature collective bargaining situation that does not involve unilateral strikes. The recent phenomena in which certain unions of large firms engaged in strikes in an attempt to raise the wages to an unreasonably high level faced negative public opinion as well as loss of support even within the labor movement demonstrate that, unlike in the past, society does not want to be bothered with firm-specific issues like wages. It can be said that the newly formed social consensus around wage issues does not tolerate wage issues to be brought out to the societal level, but encourages it to be dealt with between the concerned parties internally. Today in Korea, the issue of wage is establishing itself as a normal industrial relations topic, based on rational negotiation and compromise among the concerned parties.

<Table 7> Incidence of Strikes by Size of Business

	Total	Fewer than 100 Employees	100~299	300~999	1000 or More
8	137	465(33.7)	448(32.5)	297(21.5)	169(12.3)
9	131	498(37.8)	431(32.7)	235(17.8)	155(11.8)
199	320	84(26.3)	122(38.1)	63(19.7)	51(15.9)

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1	199	238	43(18.1)	81(34.0)	61(25.6)	53(22.3)
2	199	237	64(27.0)	79(33.3)	59(24.9)	35(14.8)
3	199	150	28(18.7)	51(34.0)	37(24.7)	34(22.7)
4	199	104	26(25.0)	35(33.7)	17(16.3)	26(25.0)
5	199	88	22(25.0)	23(26.1)	29(33.0)	14(15.9)
6	199	85	14(16.5)	23(27.1)	23(27.1)	25(29.4)
7	199	78	19(24.4)	26(33.3)	18(23.1)	15(19.2)
8	199	129	27(20.9)	35(27.1)	34(26.4)	33(25.6)
9	199	198	44(22.2)	55(27.8)	38(19.2)	61(30.8)
0	200	250	75(30.0)	57(22.8)	63(25.2)	55(22.0)
1	200	235	82(34.9)	67(28.5)	52(22.1)	34(14.5)
2	200	326	107(32.8)	112(34.4)	64(19.6)	43(13.2)
3	200	327	101(30.9)	124(37.9)	62(19.0)	40(12.2)

Source: Korea Labor Institute 「Labor Dispute DB」 .

Note: Numbers in ( ) indicate component ratio.

<Table 8> Number of Disputes by Resolution Methods

	Overall	Labor- Management Agreement	Judicial or Administrative Procedure	Voluntary Resolution	Other
1988	1379	1345(97.5)	29(2.1)	0(0.0)	5(0.4)
1989	1319	1257(95.3)	62(4.7)	0(0.0)	0(0.0)
1990	320	230(71.9)	8(2.5)	68(21.3)	14(4.4)
1991	237	176(74.3)	9(3.8)	38(16.0)	14(5.9)
1992	235	161(68.5)	6(2.6)	48(20.4)	20(8.5)
1993	150	131(87.3)	5(3.3)	10(6.7)	4(2.7)
1994	97	61(62.9)	0(0.0)	36(37.1)	0(0.0)
1996	85	84(98.8)	0(0.0)	1(1.2)	0(0.0)
1997	78	55(70.5)	0(0.0)	23(29.5)	0(0.0)
1998	129	82(63.6)	1(0.8)	46(35.7)	0(0.0)
1999	198	150(75.8)	0(0.0)	48(24.2)	0(0.0)
2000	235	189(80.4)	1(0.4)	44(18.7)	1(0.4)
2002	317	236(74.4)	1(0.3)	64(20.2)	16(5.0)
2003	310	201(64.8)	0(0.0)	97(31.3)	12(3.9)

Source: KLI 「Labor Dispute DB」.

Note: Data for years 1995 and 2001 are unavailable.

If conditions for “quiet” compromise on wages are reinforced in the corporate sector, the free strike strategies—including illegal strikes—of the conventional labor movement since 1987 will possibly diminish. The diminishment of confrontational strike, in turn, can open possibilities for the ideals and organizational capability of the labor movement can be diverted to promoting political or social reform. Moreover, in this process, the large enterprise sector, which has played the leading role since '87, could fall back from the forefront, while the union of non-regular workers and the public sector emerge as the core of the politically motivated strike movement.

However, even if the militancy and tough political line are weakening, as long as the bipolarized structure of large enterprises and small and medium enterprises (SMEs) remain, there is no clear solution to ease or prevent the increasing sectoral income gap, which has become aggravated since the foreign currency crisis in Asia (<Table 9>). The possibility of solidarity among different income classes and different sizes of enterprises remains low

within the monopolistic state of industrial relations in each corporation.

<Table 9 > Income Distribution Trends of Urban Working Households

	Income Share by Quintile (in %)					Income Share (E/A)	Gini's Coefficient
	1 <sup>st</sup> Quintile(A)	2 <sup>nd</sup> Quintile(B)	3 <sup>rd</sup> Quintile(C)	4 <sup>th</sup> Quintile(D)	5 <sup>th</sup> Quintile(E)		
1997	8.3	13.6	17.7	23.2	37.2	4.49	0.283
1998	7.4	12.8	17.1	22.9	39.8	5.41	0.316
1999	7.3	12.6	16.9	22.9	40.2	5.49	0.320
2000	7.5	12.7	17.0	22.7	40.1	5.32	0.317
2001	7.5	12.5	16.9	22.7	40.3	5.36	0.319
2002	7.7	12.7	17.1	22.9	39.7	5.18	0.312
2003	7.4	13.2	17.4	23.2	38.8	5.22	0.306

Note: Income Share by Quintile

Source: National Statistical Office, 「Urban Household Bulletin」, for each year.

#### 5. The Future of Enterprise-Based Industrial Relations: Challenges and Alternatives

During Korea's industrialization process, the export-oriented development strategy rapidly expanded the labor-intensive production system based on low wages. On the one hand, the expansion imposed limits on the collective labor rights, while on the other hand, expanding jobs and raising wages steadily that resulted in the improvement of workers' quality of life. In other words, during the 70s and 80s, while the collective labor-management relations such as the right of association, the right of collective bargaining and the right to strike were restricted, individual labor-management relations such as restriction on dismissals, employment stability, wage hikes based on seniority were provided as unquestioned benefits. Such a labor system was a natural outcome of Korea's globalization process during that era, and was internally justified on the basis of the miraculous transformation from a poverty-stricken country without jobs to one of the fastest growing economies in the world with less than 2% unemployment rate.

Nevertheless, such labor system began to rattle as it passed through two pivotal moments in history. The first historical juncture was the so called

“great struggle of the workers” in 1987, and the other was the integration into the international capital market, which began with Korea’s attempt to join OECD in the mid-1990s and the foreign currency crisis in ’97. Through these two revolutionary experiences, Korea’s labor system came face to face with a full-scale challenge—namely, the activation of collective labor-management relations and the reform of individual labor-management relations. On the one hand, the recognition of unions, institutionalization of collective bargaining and frequent incidences of militant strikes became the characterizing feature of the industrial relations in Korea. On the other hand, the recognition of employers’ right to dismiss employees, annualized and performance-based wage systems, and the practice of signing employment contracts emerged as the countermeasures. Consequently, such challenges and countermeasures shook the very foundation of the labor system that prevailed in Korea during the 70s and 80s.

The Korean model of the labor market is often said to lack flexibility. But such simplification is rather misleading. I argue that the labor market in Korea is divided into a dual structure—one with a high rigidity and the other with an excessive flexibility. Though these stereotypical characteristics have slightly changed after the economic crisis and IMF relief, they are still important characteristics in understanding the structure of the Korean labor market.

What I mean by characterizing the Korea’s labor market as having a dual structure is that large enterprises and the public sector have a high level of employment stability and low labor turnover on the one hand, SMEs and non-regular workers experience low employment stability and high labor turnover on the other hand. This dual structure is strengthened by labor-management relations systems, according to which large enterprises and public corporations have large and active unions, which reinforce wages and employment stability, while SMEs and non-regular sectors cannot expect such protection because either their unions are too weak or they do not have a union. Of course, in the background, the employers’ ability to pay high wages and the business’s monopolistic position in the market plays an important role.

For the sake of convenience, let us call the large enterprise and public corporation sector the “primary labor market sector,” and SMEs and non-regular work sector including daily wage workers the “secondary labor

market sector.” On the one hand, once employed, the primary sector with an elaborate system of internal labor market will provide lifetime employment within the corporation and immunity, to a certain extent, against dismissal. Due to company-specific human resource development, movement of personnel between companies would also be quite difficult. The pay structure is seniority-based, and personnel transfers are not easy due to union opposition. On the other hand, the secondary labor market is a complete competition model, in which recruitments and dismissals occur frequently. Payment is given based on the market rate, linked to the type of work, and general skills and technology circulated in this market.

With the advancement of globalization, what faced the greater challenge was the primary labor market. Because the large enterprises have traditionally played the role of engine for export-oriented economic growth in Korea, large enterprises highly depended on the external economy with respect to the market and, more recently, for provision of capital. Thus, the necessity for labor market flexibility and raising competitiveness has continuously been raised. The greatest difficulties in labor issues faced by these enterprises were that dismissing existing employees was difficult compared to other countries, and that it was hard to set market wages in the process of recruiting and using new employees.

The difficulty in dismissal is largely attributed to the strong opposition of the union or employees. The workers resisted the restructuring attempt because they were used to the lifetime employment model, and thus getting laid off from a job meant facing a significant socio-economic disadvantage as well as facing a labor market where reemployment is very difficult. The issue is also linked to the earlier-mentioned difficulty in recruiting and transferring. In a situation where workers are not trained based on tasks and the market wage is not set, employment opportunities for job-seekers will be limited and enterprises will be unable to carry out effective human resource management due to a lack of information.

Going through fundamental changes in the environment surrounding industrial relations since '97, and for a decade since 1987, the enterprise-based industrial relations failed in adapting to the market as well as in achieving of social solidarity. Thus, we may conclude that the collective bargaining model under the enterprise-based labor relations has reached its limits. In a situation where both unions and employers of large enterprises are

reluctant to move toward industry-wide labor relations right away, in order to create a balanced labor relations system that can address the bipolarization situation between workers of different sizes of companies and become a nation-wide voice replacing the near-extinct trade union movement of SMEs, a new emphasis on social concertation model is needed.

While the “bargaining model” is about forming industrial relations based on collective bargaining between labor and management and realizing workers’ interest through negotiation, the “concertation model” is about accomplishing the interest of workers as a whole through negotiations, by reflecting industrial relations in the area of state governance and changing labor-management relations in a balanced way.

However, in the case of Korea, the differentiation between the bargaining model and the concertation model has been vague since 1987. As the bargaining model developed in an unbalanced way, creating a politicized bargaining structure encompassing labor-management negotiation as well as de facto social bargaining between labor and government, labor-management issues easily turned into labor-government issues and wage hikes were easily acquired as the spoils of political strikes. In this process, employers, who were one of the main stakeholders in the bargaining rounds, were often marginalized to the position of a third party by the unions and government, or voluntarily rely on the social representation of the government or public opinion in response to the union.

What put the management in such a passive position was the fact that labor-management relations did not need to be regulated by general labor market conditions as the Korean labor market grew continuously in terms of wage and employment. Moreover, the best way to put an end to politicized struggles was to adjust labor-market conditions such as wages and employment within the framework of labor-management relations. Consequently, labor politics excessively relied on the bargaining model, particularly the strike model that was politically mobilized, and workers of companies without the power or potential to engage in strike or pay the expenses were excluded from the domain of labor politics.

Since 1997, industrial relations in Korea met a transitional stage, during which it had to face the full-fledged strength of the market. The face-off resulted in instability and crisis in the labor market, demonstrating the fundamental limitation of the existing bargaining model. Formally, the scope

of labor politics expanded with the operation of social dialogue organs such as the Korean Tripartite Commission and improved representation for workers through the election of members of the Democratic Labor Party to the National Assembly. Yet, in terms of contents, the labor movement was unable to effectively deal with the main issues of labor-management relations, such as bipolarization of the labor market, and aggravation of the lives of unorganized workers.

Though the Korean bargaining model still carries much potential for development in terms of industrial bargaining and productivity bargaining, it has reached its limits in terms of playing a leading role in industrial relations. The limitation stems from various sources such as the union's adoption of isolated movement methods based on the public sector, emergence of conferred labor-management relations taking advantage of the bipolarized structure, increased complexity in employment issues besides wages, etc. In addition, the current challenges that face the working class such as the expansion of non-regular jobs, increase of restructuring programs and marginalization of small and medium enterprises (SMEs) have resulted in part from the lack of organized protection from unions. The magnitude of the challenges has reached a level where they cannot be easily resolved through the disproportionately developed bargaining model in enterprise-level labor-management relations.

In order to cope with the severe worker instability that stem from open economy and market bipolarization, strategies that merely attempt to stabilize the bargaining structure for already organized workers and to eliminate causes of strikes are insufficient. Through social consultation and a tripartite concertation model, we must rationalize the bargaining culture of individual workplaces from a practical and productive perspective, and strive to take the political bargaining issues related to social reform and economic policy to a higher level for consideration. The new model will not only focus on the stabilization of labor-management relations in the large enterprises, but also embrace the issues of the majority of workers, including those with no union representation such as non-regular workers and employees of small and medium enterprises.



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