

CHANGING EMPLOYMENT RELATIONS in four East Asian Countries (China, Japan, South Korea and Taiwan) A comparative overview

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Introduction

Over the past 15 years, the relative economic position of these four East Asian countries has evolved a great deal. Japan, a distancing front runner at the beginning of the 1990s, had a miserable record of recession and a low growth.¹ On the other end, mainland China presented every features of an underdeveloped country, with its rigid, centrally organized economic system and lack of technology and capital. However, the country could boast an astonishingly rapid economic growth in the last 15 years, so as to become one of the major world economic powers. The transition from a planned economy to a market-oriented system was achieved without major disturbance like in Russia. Therefore, China managed to partly catch up with the immense gap which existed between Japan and - to a lesser degree - Korea and Taiwan. Today, many firms in Asian countries are rivalling each other in a globalized market.

Interwoven in the economic system of each country, employment relations have also evolved rapidly during the last 15 years. Particularly salient is the apparition of a free labour market mechanism in China. In those days, the firms (mostly state-owned) could

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not hire or dismiss workers according to economic fluctuations, and the workers enjoyed a quasi-absolute security of employment and welfare. But, with the introduction of foreign capitals and private companies, the Chinese firms now enjoy a latitude of decision-making possibilities in terms of hiring and dismissals. In fact, market mechanisms are perhaps more freely applied to China than in other Asian countries. In short, employment relations today are becoming comparable as to major trends in the four Asian countries.

The Asian financial crisis of 1997-1998 hit East Asian countries with more or less severity. Obviously, Korea suffered most, following the bailout program of the IMF and its conditionality. But in other countries, too, the Asian crisis accelerated or retarded major economic or institutional reforms. In all four countries, changes in employment are perceptible today. This paper intends to highlight these major changes in a comparable and synthetic way.

This paper will list, first, some features of labour markets in four countries (I); then account will be taken of major changes after the Asian financial crisis (II), followed by a short prospective section (III).

I - Features of labour markets in East Asian countries

In the past, it was customary to assume that East Asian countries differed enormously in terms of level of economic development and political regime and that economic and labour issues should be treated separately, country by country. But after a series of recessions in Japan in the 1990s and a spectacular opening and high economic growth in mainland China, it is our contention that East Asian countries confront now similar issues in employment and industrial relations, and point to the same direction of changes.

Of course, among the four countries in our study, there are still many differences in per capita GDP, unemployment rate and union density, as is shown in Table 1. For instance, in 1999, per capita GDP by exchange rate ranged from US\$780 in China to \$32,230 in Japan. But if we use purchasing power parities, the difference is much less: from \$3,291 to \$24,041 (PPP of 1990). In fact, the Chinese economy (particularly in its developed areas) is catching up rapidly with the other three market economies so that a

comparison of labour issues in this region is not without meaning.

Table 1

Basic statistics of East Asian Countries (1999)

	Per capita GNP	Per capita GNP (ppp)	Growth rate 1990-1998	Unemployment rate 2000	Union density 1998
China	780	3,291	10.2%	3.1%	12.7%
Japan	32,230	24,041	1.8%	4.7%	22.4%
Korea	8,490	14,637	6.1%	4.1%	12.6%
Taiwan	12,400 ²	18,320 ²	6.4%	3.0%	33.2% ¹

Sources: World Development Report, World Bank 2000/2001

World Labour Report, ILO, 1997. Ajia Keizai 2000

Economic Planning Agency 2000

Notes:

1 1995

2 per capita GDP

Hereafter, we will underline the features of labour markets, which are rather common in the four countries.

1) **Human resources are rich in quantitative and qualitative terms.**

The economic development in the four countries appears to follow the same path: export-oriented strategy with good adaptation of human resources to demand conditions. At the beginning, labour-intensive industries were developed to earn foreign currencies and also to acquire a certain technology level (Japan 1920 - 1950s, Korea and Taiwan 1960 - 1970s, China 1980s) but swiftly, they could secure the needed skilled labour thanks to a huge investment in education (private and public investment)².

² Bouteiller, Eric / Fouquin, Michel : Le développement économique de l'Asie orientale. La Découverte, 2001.

Today, high caliber IT engineers and technicians can be found as easily in Beijing as in Tokyo.

2) **Strong security of employment** attached to regular staff was the rule in large firms and in the public corporations. “Life-time employment” or career employment in Japan and Korea were a well-known example, just as much as “ironship” in China. These long-term employment relations with the firm or public corporations provided workers not only with steady earnings but also with a social status. These practices are now put into question in the four countries for various reasons (economic reforms of state-owned companies in China, drastic changes in HRM in Korean firms after the Asian crisis, pressure for downsizing Japanese firms in the 1990s).

3) **Limited role of collective bargaining**

For a long time, labour unions were placed under state control in Korea and Taiwan. After the democratization of 1987, Korea moved toward a system of free collective bargaining but still Korean labour unions are divided and weak vis-à-vis the management.

In Japan, labour unions organize just around 20% of employed persons. Definitely collective bargaining (spring offensive) is playing a limited role in wage determination and other conditions of work and life (for example, social security).

4) **Labour law is often instituted** or revised to avoid frictions with the USA and other industrialized countries.

Taiwan adopted the labour standard law in 1984 following pressure from the USA (related to trade frictions). Japanese labour standard law was revised in 1987 to fix weekly hours at 40. The government stated that such a move was necessary to circumscribe international criticism.

Recently in Korea, the Labor Standard Law was revised so as to reduce statutory hours of work to 40 per week in 2003. In China, recent changes in rules and regulations are motivated to facilitate the entry into the WTO.

5) Large Asian firms are expanding their activities in China

Active in a globalized market, large Asian firms, be they Japanese, Korean or Taiwanese, are investing a lot in China. Taiwanese funds are moving toward the Cantonese region and Hong Kong, whereas a heavy concentration of Japanese firms can be found in Dalian or Shanghai. With the opening of the Chinese market, capital is moving easily from one country to another beyond national borders. In contrast to labour matters, a sub-regional market is already created in terms of production and financing. Thus, many factors are now pushing national labour markets towards more mobile and competitive ones.

II - Major changes in employment relations

1) China

The Chinese economic performance was only slightly affected by the Asian financial crisis. GDP growth, which stood at 9.6 in 1996, went down to 7.1 in 1999. Probably the boom of IT investment in China could offset the consequences of the crisis in neighboring countries.

The number of working people by form of company reveals a remarkable change in recent years. In 2000, there were 128.2 million workers in collectively owned firms, 91.2 million in private foreign companies, 81.0 million in state-owned firms and 15.0 million in collective companies. Over ten years, private foreign companies increased more than three times, whereas state-owned companies, which used to occupy the bulk of the industrial work force, lost 10 million people. Thus, a major shift towards private foreign firms occurred at the detriment of inefficient state-owned companies.

Traditionally, employment in state-owned companies meant to be covered by a total welfare system, which the firm used to take in charge. Corporate welfare covered not only income but also social benefits (medical care and pension). This outdated and inefficient system is now under fire. A major step towards the rationalization of state-owned companies was the institution of temporary lay-off (shagan) whereby redundant workers are placed on a temporary lay-off. They receive allowances and generally have access to vocational retraining programs. This lay-off may last 3 years or more³.

In 1999, laid-off workers who were not reemployed amounted to 6 million in addition to 3 million newly laid-off in that year, which gives the magnitude of the issue. Reemployment of laid-off workers is made difficult because of personal characteristics (age, skills, family) and also due to limited mobility.

Registered unemployment stood at 6 million in 2000 or a rate of 3.1% (unemployment rate is calculated on the basis of registered urban population). Some sample surveys estimate an unemployment rate as high as 7.4%. Given the natural growth of the population and an inflow of rural population into urban areas, it would be necessary to maintain a high growth rate (7-8%) for some time to meet the demographic pressure.

The magnitude of employment problems could be illustrated by the size of temporary workers with a rural civil status. In 2003, 120 million temporary workers were counted in urban areas such as Beijing, Shenzhen and Shanghai⁴. These workers are given temporary work permits because of the system of registration of the rural population. In fact, the registration policy has been conceived so as to avoid chaotic migrations from poor rural areas into urban centers. But because of the rapid expansion of urban areas and a deepening of income distribution, the pressure is put on the registration policies pursued so far to be amended.

Union density in China was estimated at 12.7% in 1999. It appears that labour unions are hardly represented in private foreign companies. Terms and conditions of work seem to be determined by the market conditions (except minimum wages). Thus, in China, employment relations are changing rapidly from the complete security of employment to a more market-oriented individual employment contract system, in line with the growth of private foreign companies.

³ Hatsuoka, Shoichiro (ed. 1998): "Shakaiteki Kosei no Asia o Mezashite" (for a socially equitable Asia).

Zhan, Qiuqian (1999): Lay-off and Reemployment of Women Workers in China. Conference paper, 5th Social Asia Forum, Beijing.

⁴ Jiang Yin : « Protection of rights for rural workers ». Paper presented to the 10th Social Asian Forum, Oct. 2004 (Seoul).

2) Japan

In Japan, the impact of the Asian crisis was compounded with a series of recessions beginning in 1991. The overall growth rate of GDP in the 1990s was a modest 1.3% per year and in 1998 registered a negative growth (-0.5%). After the burst of the “bubble”, assets and equity went into a slow but steady downward spiral, as illustrated by the average price of the Tokyo Stock Exchange (Table 2, Nikkei Average).

Table 2

Tokyo Stock Exchange

(First section)

Year	Nikkei stock average (225 issues) (yen)
1991	22,933.77
1992	16,924.95
1993	17,417.24
1994	19,723.06
1995	19,868.15
1996	19,361.35
1997	15,258.74
1998	13,842.17
1999	18,934.34
2000	13,785.69
2001	10,542.62

Source: Tokyo Stock Exchange
Nihon Keizai Shimbun

In line with stock prices, the value of assets and land depreciated, which put most financial institutions in a dangerous situation, since they had heavily financed the purchase on a large scale of real estate property through construction/real estate firms. Outstanding loans on assets, which tended to lose their value in a deflationary period, have become a critical issue, not only for the financial institutions but also for the whole Japanese economy. In the manufacturing sector, particularly in the traditional sector, many Japanese firms could not sustain the cost competition against China, with a result that they had to shift production sites to China. The domestic industrial production in

the 1990s stayed at a complete standstill (0% growth).

In this changing context, aggregate data on employment by sector reveal some interesting facts (Tables 3 and 4).

Table 3

**Employment indices for regular employees
by industry in Japan**

(1995= 100)

Year	All industries 30 employees or more	Construction	Manu- facturing	(in which) Electrical machinery equipment and supplies	Transpor- tation equipment	Financing and insurance	Services
1991	97.2	90.9	104.3	109.9	105.3	102.1	90.9
1992	99.3	93.9	105.0	109.9	105.7	101.9	94.2
1993	100.5	96.8	104.2	107.2	104.5	101.2	97.0
1994	100.5	99.8	101.9	102.8	101.9	101.2	98.9
1995	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1996	99.6	100.6	97.8	97.3	97.3	97.5	101.6
1997	99.8	101.4	96.9	96.4	97.0	93.4	103.3
1998	99.9	98.9	95.6	95.7	96.0	90.3	105.3
1999	98.7	97.5	93.1	92.7	93.5	88.0	103.6
2000	97.6	94.3	90.9	90.7	90.6	85.4	107.5

Source: Monthly Labour Survey

In the 1990s, the employment level decreased in the manufacturing sector, as well as in financing and insurance, particularly from 1995. The number of people working in services remained on the rise for the entire period. Employment in the manufacturing sector (particularly competitive industries) lost more than one million jobs each in the two sub-periods 1990-1995 and 1995-2000.

Table 4

Employment in Japan by sector

(thousand)

	1985	1990	1995	2000
Construction	5,270	5,840	6,630	6,290
Manufacturing	13,970	14,640	13,560	12,230
Wholesale, retail and restaurants	13,380	13,800	14,620	14,320
Financing and insurance	1,730	1,970	1,970	1,760
Services	11,950	13,890	15,930	17,260
Total	58,360	61,680	64,140	62,980

Differences

	1990-1995	1995-2000
Construction	790	-340
Manufacturing	-1,090	-1,330
Wholesale, retail and restaurants	820	-300
Financing and insurance	10	-220
Services	2,050	1,330
Total	2,460	-1,160

Source: Census (various years)

Employment levels in financing and insurance reflect the problem of this sector. In fact, financial institutions (banking and insurance) were closely regulated by the mighty Ministry of Finance and also protected by it. But at the end of 1997, two liquidations of top financial firms (Yamaichi Security and Hokkaido Takushoku Bank) signaled the end of such a protection. Therefore, the employment level in this sector remained high in the first period 1990-1995 and restructuring became apparent in the period 1995-2000. Given the difficulties in this sector, employment reductions seem to be still mild up to

2000. The financial institutions used to represent a high esteemed and well paid sector, offering the best career employment. But such public opinion came to a sudden end with the two above infamous liquidations.

Traditionally in Japan, employment adjustments in times of recession are carried out under determined pattern: regulation of overtime, freeze or reduction of recruitment other than new graduate, internal transfer, temporary lay-off with government subsidies.

If these measures are not sufficient, firms may freeze new recruitments, terminate contract of part-time workers before resorting to voluntary departure and dismissals. This procedure is established by case law against unfair dismissal (abuse of rights).

A conventional view of employment adjustments advanced first by Prof. K. Koike is that most Japanese firms tend to resort to employment reductions after two consecutive years of deficits or a year with substantial losses⁵. This view is now under fire by several econometric studies. For example, Nakara and Takehiro (2001), using micro panel data of large firms in automobile, supermarkets, department stores and trading (1974-1999) found that these firms frequently adjusted their employment level with traditional methods (regulation of working time in automobile, substitution of part-time workers for regular employes)⁶. Aggregate employment level in the manufacturing sector (tables 3 and 4) seems to confirm the conclusions of the above study, that is, Japanese firms in competitive (non protected) sectors had to quickly adjust their employment level to demand conditions.

Another sign of changing employment relations is the steady increase of atypical employment⁷. In 1987, typical employment (regular employees) accounted for 83.9% of total employment, while atypical forms of employment accounted for 16.1%, of which 10.3% in part-time jobs. In 1999, atypical forms of employment climbed to 27.5% - of

⁵ Koike, Kazuo (1983) : « Kaiko Kara mita Gendai Nihon no Roshi Kankei » (Redundancies and Industrial Relations) in T. Moriguchi et al. "Nihon Keizai no Kozo Bunsuki" (Structural analysis of the Japanese Economy).

⁶ Lee, Eddy (1999) : « The Asian financial Crisis », ILO 1999.

Nakata, Yoshifumi / Takehiro, Ryoji: "Nihon Kigyo ni Okeru Koyo Chosei" (Employment adjustment in Japanese firms) in T. Tachibanaki and D. Wise ed. "Kigyo Kodo ro Rodoshijo" (Behavior of firms and labour markets).

which part-time jobs 20.3%, fixed-term contracts 2.3%, casual jobs 1.8% and temporary agent workers 1.1%. Firms are now using atypical forms of employment whenever they can use it, because the wages they pay to part-time employees or temporary workers are much lower than those of regular employees and they are not covered by collective bargaining (so they are easy to dismiss). Labour unions confined to organize regular (core) employees of large firms are powerless against the development of atypical forms of employment.

Thus, employment relations in Japan are becoming less stable in duration and their forms more diversified. Under these circumstances, a demand from business circles for a greater mobility of workers and enhancing their employability resemble a negation of the career employment system, which they strived to build in the past.

3) Korea

The Financial Crisis and Employment Restructuring

The 1997-1998 financial crisis has made tremendous impact on the Korean labor market. In particular, due to the unprecedented pressure on Korean firms to undergo restructuring and reengineering processes in order to maintain their economic competitiveness, there have been two prominent phenomena in the employment pattern of Korean firms. First, there has been unprecedented scope of employment reductions virtually in every industry in Korea. Second, there has been a drastic increase of new type of employment, namely contingent labor force.

The economic competitiveness of Korea deteriorated substantially in the early 1990s. Korean products were higher priced than those from low-wage competitors (i.e., China, Thailand, and Malaysia), and their quality was known to be inferior to that of high value-added competitors (i.e., Europe, Japan, and the U.S.). The slowdown of Korean economy had already begun in the early 1990s, and the 1997-1998 financial

⁷ Ogura, Kazuo (2002): "Hitenkei Koyo no Kokusai Hikaku" (International Comparison of atypical employment), *Nihon Rocho Kenkyu Zasshi* No. 505.

Suzuki, Hiromasa / Ogura, Kazuo (2000): Development of atypical forms of employment: How Japan differs from European countries (France in particular). Proceedings of the 12th IIRA World Congress (Tokyo).

crisis seemed to be a culmination of declining economic competitiveness (Kim and Kim)⁸.

Around the period when the Korean government sought the IMF rescue package in November 1997, several economic indexes changed rapidly. For example, the foreign exchange rate (Won/\$) depreciated from 921.85 in October 1997 to 1706.8 in January 1998. Just for a month after November 19, 1997, when Korea decided to seek help from the IMF, the value of the Korean Won fell by about 50 percent against the US dollar, and the stock market dropped some 60 percent.

The IMF bailout program provided a comprehensive financing package of about US\$65 billions on both a multilateral and bilateral basis. In return, the Korean government was required to provide containment of inflationary pressure through tight monetary and fiscal policy; fundamental restructuring of the financial sector; and reduction of corporations' excessive reliance on short-debt financing. In particular, the IMF requested the Korean government to take steps to improve labor market flexibility (Park, 1998)⁹.

Korean government officials under pressure from the IMF insisted that securing labor market flexibility was the only approach to improving the economic competitiveness of Korean firms, and encouraged private firms to implement bold restructuring programs, including massive layoffs.

The financial crisis of November 1997 also led the three actors to form the Tripartite Commission, which otherwise would not have been possible because of the hostile relationship between labor and the state¹⁰. In the past, the Korean government considered organized labor as an obstacle to economic development, tried to subordinate official labor unions to the state, and suppressed any independent labor movement.

⁸ Kim, Dong-One / Kim, Seongsu: "Globalization, Financial Crisis and Industrial Relations: The Case of Korea". *Industrial Relations*, n°3 July 2003

⁹ Park, Young-Bum (1998) : « The Financial Crisis in Korea : the Industrial Relations Connection ». *Perspectives on Work: the Magazine of the IRRRA* 2 (2): 37-41

¹⁰ The following analysis reproduces the contribution of D-O Kim and Y-S Park for the IIRA World Congress, Sept. 2003.

However, the creation of the Tripartite Commission implied that the Korean government regarded labor at least as a partner for negotiations and compromise. The Tripartite Commission had two purposes: to accomplish restructuring of the Korean economy and the labor market in a more consensual way, and to revise Korean labor law according to the OECD and ILO standards.

On January 20, 1998, all parties to the Tripartite Commission announced the first Tripartite Joint Statement identifying the goal of economic reform and the principle of fair burden sharing. On February 9, 1998 the Tripartite Commission agreed to major agenda items and announced Social Compact to the public. In return for accepting immediate implementation of layoffs of redundant labor force with six-month advance notices, unions and workers gained additional legalization of basic labor rights such as (1) the right to establish workplace association for government employees beginning January 1999; (2) the right to organize trade unions by teachers beginning July 1999; (3) the right of unions to engage in political activities by revising the Elections Act and the Political Funds Act during the first half of 1998; (4) the right of unemployed to join trade unions organized on the trans-enterprise level beginning 1999. The “Great Compromise” of February 1998 (as popular press calls the Social Compact) was the first autonomous agreement made by labor, management, and the state in Korea. While the Social Compact improved the government’s crisis management capacity and helped the country overcome the credit crunch, it also prompted the implementation of successive waves of layoffs.

Faced by the sudden economic crisis, Korean employers actively pursued numerical and external flexibility through layoffs, outsourcing, and the use of contingent workers. Economic and employment adjustment programs (downsizing, restructuring, exchange of business units among chaebols), have been pursued by firms under the initiative of the government prompted by the IMF.

Consequently, the number of employment labor force declined sharply by more than one million from 13,226,000 in December 1997 to 12,190,000 in December 1998 (National Statistic Office, Various Years). Among the unemployed people with job experience, 13.6% were victims of the bankruptcy of firms, whereas 56.9% were those of employment adjustment programs during the financial crisis (National Statistical Office, February-December 1998). The unemployment rate in Korea recorded a more than

four-fold increase during the 16-month period from 2.1 percent in October 1997 to 8.6 percent in February 1999. As shown in Table 5, the number of the unemployed dramatically rose from 426 million in 1996 to 1.461 million in 1998, an almost three-fold increase in two years. While the Unemployment Insurance Act was made effective in July 1995, the coverage of the Act was shallow and limited. Consequently, most unemployed people experienced severe economic hardships.

Table 5.

Employment Size: Finance and Insurance Industry and Bank 1)
(Unit: in thousands of persons, %)

Year	All Industries 2)			Finance and Insurance Industry: Employment	Bank: Employment			
	Labor Force	Unemployment	Unemployment Rate (%)		Total	Central Bank	Domestic Bank	Foreign Bank
1993	19,328 (16,291)	551 (525)	2.8 (3.1)	616	264.712	2.168	260.283	2.261
1994	19,905 (16,959)	490 (469)	2.4 (2.7)	654	197.098	1.923	192.360	2.815
1995	20,432 (17,652)	420 (405)	2.0 (2.2)	687	206.292	1.704	202.101	2.487
1996	20,817 (18,133)	426 (414)	2.0 (2.2)	708	231.127	2.194	226.016	2.917
1997	21,106 (18,479)	556 (539)	2.6 (2.8)	732	213.068	1.558	208.990	2.520
1998	19,994 (17,348)	1,461 (1,420)	6.8 (7.6)	725	183.175	3.004	177.301	2.870
1999	20,281 (17,762)	1,353 (1,317)	6.3 (6.9)	678	165.337	0.949	162.537	2.351
2000	21,061 (18,583)	889 (865)	4.1 (4.4)	675	167.163	1.844	162.259	3.060
2001	21,362 (18,960)	819 (795)	3.7 (4.0)	672	n/a	n/a	n/a	n/a

1) Source: Korea National Statistical Office, Labor Population Survey, Various years
Korea National Statistical Office, Basic Business Establishment Data, Various years

2) Non-farm employment figures in the parentheses.

Another emerging pattern is the increasing usage of a contingent labor force. As the number of contingent workers rose after the financial crisis, the Law on Protecting Dispatched Workers was passed in February 1998 to regulate their use.

The proportion of contingent workers to employed population in Korea rose sharply from 46 percent in 1997 to 53 percent in 2000 (National Statistical Office, Various Issues).¹¹ Contingent workers usually replaced regular workers, and there was little difference in terms of task, duty and workload. The wage level for contingent workers, however, is 40 to 80 percent of the regular workers' wage. Also, the social safety net for contingent workers is generally unreliable, because employers often fail to pay premiums for medical insurance, unemployment insurance, social security program, and workers' compensation for contingent workers.

New Developments in Industrial Relations

The deadlock of the Social Compact has led to unexpected changes in Korean Industrial Relations. The radical movement KCTU was finally legalized after 1997 as a national federation and has come to compete with the moderate FKTU. A major change has been the rise of KCTU in the private as well as in the public sector¹². As of the end of 2002, the membership of FKTU was 880,000 against 689,000 for KCTU. However, large firms such as Hyundai and Daewoo pertain to KCTU along with some public sector unions (railways, electricity, gas, etc.). Reflecting this rise of radical tendency, labour disputes have been growing; in 2000 there were 200 cases of labour disputes with 1.8 million days lost and in 2003, 320 cases were recorded with 1.3 million days lost.

KCTU seems to have gathered a certain momentum both in the private and public sectors. In reflection of this rising militancy, labour disputes are on the rise; in 1997, there were 78 strikes with 450,000 days lost but in 2003, 320 strikes were reported with

¹¹ The concept of contingent workers defined by the National Statistical Office is believed to be rather wide, because it includes all employees with shorter-than-one-year employment contracts, and employees who stayed on the job longer than one year but are ineligible to some benefits (such as lump-sum severance pay). If one uses an alternative estimation using a narrow definition, which include only employees with shorter-than-one-year employment contract and nonstandard employees such as part timers, leased employees, and employees from temporary help agencies, the proportion of contingent workers to employed population was approximately 29.3% in 2000 (Jung, 2000).

¹² Nho, Yong-Jin : "Features of the present Korean Industrial Relations", paper presented to the 10th Social Asian Forum, Oct. 2004 (Seoul).

1.3 million lost days. In 2004, because of several strikes in the public sector as well as in the private sector, the number of strikes is expected to go beyond 500 cases. Around 70% of strikes occurred in the KCTU sector. Moreover, KCTU has so far succeeded to organize some industrial federations (metal, health and medical workers, teachers' union). These industrial federations accounted for 41% of all KCTU members. It appears, therefore, that part of the Korean unionism is heading towards industrial level negotiations similar to European unionism, whereas FKTU is basically enterprise unionism on the model of Japanese labour unions. It is, however, premature to say which tendency will prevail in the near future.

4) Taiwan

Although the Asian Financial Crisis in 1997 had little impact on Taiwan, we have witnessed that Taiwan's economy has been suffering from the most dramatic depression, with a negative annual rate of economic growth and a record high unemployment¹³.

Table 7

**A comparison of capital formation among
Taiwan, Japan, and South Korea**

	Taiwan			Japan	South Korea
	Growth Rate of GDP	Growth Rate of Capital formation	Percentage in GDP	Percentage in GDP	Percentage in GDP
1994	8.9	10.3	25.0	27.8	36.6
1995	8.5	11.4	24.9	28.0	37.3
1996	9.2	3.4	22.9	28.8	38.1
1997	8.1	18.6	24.0	28.3	34.4
1998	7.0	11.8	24.7	26.5	21.5
1999	4.1	-0.7	23.2	25.5	27.0
2000	4.7	15.7	22.6	25.6	28.3
2001	-2.2	-29.2	17.4	25.1	26.7
2002	2.5	0.7	17.3	-	-

Source: 1. Directorate-General of Budget Accounting and Statistics, Executive Yuan, ROC, Quarterly National Economic Trends, Taiwan Area, ROC, No. 96, Feb. 2002.

2. The figures of 2002 are predicted.

¹³ This section basically reproduces the contribution of P.T. Pang for the IIRA World Congress, Sept. 2003.

In 1990s, the frame of Taiwan's national economy had to be changed as a result of an effort joining the GATT, transformed into the WTO in 1995. In the meantime, Taiwan had much trouble facing the increasing outflows of both capital and industry into mainland China, which accelerated the speed of a fundamental change in the market structure, not only in finance and capital, but also in commodities and labor.

Basically, in the 1990s, the percentage of Taiwan's commodity trade with the US went down to the lowest level, while the number of exports into mainland China was increasing sharply.

It was surprising that the less pressure from the US government, the fewer exports were going to the US. This shows that before the 1990s, what motivated Taiwan to face globalization had been a force from the outside, and that after the 1990s what enforced Taiwan to incline to trade circle with mainland China was a force from within. That is why the 1990s has been seen as a transition period for Taiwan's economy.

In fact, the change in Taiwan's economy could trace back to the late 1980s, when the NT dollar was rapidly appreciated under the pressure from the US. However, Taiwan experienced a booming picture at the time.

A rapid deregulation and privatization were supposed to be necessary in raising the efficiency of the market. This resulted in a money plethora and the so-called bubble economy. Inevitably, Taiwan's economy moved in reverse with the Asian Financial Crisis in 1997. Then, the Keynesian big government returned. The increase of public expenditure with a cheap money policy was introduced to defend against a collapse of economic circulation.

In the 1990s, four major changes occurred in Taiwan:

The first, as the monetary sector crisis deepened, the power of the financial combination between the bank groups and industrial groups was seriously eroded. The stock holding among group companies also declined. As large financial holding companies shown up, inter-group mergers became indispensable to survive competition.

The second, in order to stabilize the financial market, the finance regulation power

in the government strengthened considerably, while facing the gigantic bad debts of financial institutions. However, under the introduction of cutting business tax, public money, and the postponement of pay-off, the structural change of this sector has been put off. Yet banking and financial sectors are still dependent on government's power. Statistics shows that this problem is getting worse. After the Asian crisis, in Taiwan, by means of the ratio of overdue accounts to loans, the percentage didn't slow down, but up to 12% in 2001 from 6% in 1997.

The third, the amount of foreign direct investment into Taiwan increased dramatically after the Asian crisis. A new competition was brought into the Taiwan's market. Under this circumstance, native Taiwan's companies were compelled to transform their performance as to fit the global level. For the protected small and medium-sized industries, it seems difficult to deal with this problem smoothly.

The fourth, the dependence of Taiwan's economy over mainland China has been deepening these days, not only in outward direct investment, but also in foreign trade. This shows that the labor-intensive manufacturing industries have been declining.

To put it briefly, the decade of the 1990s, for Taiwan, was a historical turning point in facing both US-oriented globalization and mainland China-oriented regional economy.

Some features of Taiwan's labor market in the 1990s.

Within the context of this tide of globalization, Taiwan's labor market also came to change in the 1990s. By means of labor market outcomes, employees' earnings have been increasing over time.

During the last decade, average monthly earnings of employees in manufacturing sectors have risen by an annual 7 %. Yet in terms of GDP, the share of employees compensation in GDP has been quite stable, varying between 55% and 58%. In contrast to the functional distribution of income, the personal distribution of income has worsened in recent years. By means of a Lorenz curve, it is obvious that the degree of income inequality is getting greater over time. The difference of the first quintile over the top quintile enlarged sharply, from 5.18 in 1990 up to 6.39 in 2001. It is to say that the

distribution of income in Taiwan has got to concentrate toward both ends as a result of the poorest being worse off and the richest being better off.

This pattern of income distribution may be substantiated by the changes of the labor market. The reasons for the worsening trend in income inequality are:

Firstly, one of the main characteristics of Taiwan's economy, i.e. the low rate of unemployment, came to change from 1.7% in 1990 up to 5.3% in 2001. In particular, most of the unemployed, over 5 hundred thousand, are middle-aged and older workers. Rather, during the last decade, the amount of inactive people increased from 5.7 million in 1990 up to 7.1 million in 2001. This shows that even though the government expanded public expenditures, the tendency towards decline in the labor-intensive manufacturing industries cannot be stopped these days. Instead, the service industries became a sponge of employment, but had little effect.

Secondly, the decline in the number of employees in manufacturing and the growth of services were going in an opposite movement. As to occupation type, the number of blue-collar workers declined, while clerical workers following behind this trend. Yet, owing to the rapid growth in the information sectors, a labor shortage in the field of technical and professional jobs is occurring these days.

Table 8

Taiwan's Manpower Surveys

	Each Demographic Group's Share of Total Population			Labor Force	not in Labor Force	LFPR		U. R.
	Under 14	15-64	65 & Over			Male	Female	
1986	29.01	65.71	5.28	7945	5216	75.15	45.51	2.7
1987	28.39	66.06	5.54	8183	5248	75.24	46.54	2.0
1988	27.96	66.30	5.74	8247	5449	74.83	45.56	1.7
1989	27.50	66.54	5.96	8390	5565	74.8	45.35	1.6
1990	27.08	66.70	6.22	8423	5795	73.96	44.50	1.7
1991	26.34	67.13	6.53	8569	5927	73.80	44.39	1.5
1992	25.77	67.42	6.81	8765	6006	73.78	44.83	1.5
1993	25.15	67.75	7.10	8874	6213	72.67	44.89	1.5
1994	24.41	68.21	7.38	9081	6321	72.44	45.40	1.6
1995	23.77	68.60	7.64	9210	6478	72.03	45.34	1.8
1996	23.15	68.99	7.86	9310	6621	71.13	45.76	2.6
1997	22.60	69.34	8.06	9432	6738	71.09	45.64	2.7
1998	21.96	69.79	8.26	9545	6902	70.58	45.60	2.7
1999	21.4	70.1	8.4	9663	7020	69.93	46.03	2.9
2000	21.1	70.3	8.6	9784	7178	69.42	46.02	3.0

Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan, ROC, Monthly Bulletin of Manpower Statistics, Taiwan Area, ROC, Mar. 2001.

Table 9

Employment by Industry

	Total		Primary Industry		Secondary Industry		Tertiary Industry	
	Thousand Persons	%	Thousand Persons	%	Thousand Persons	%	Thousand Persons	%
1986	7733	100.0	1317	17.0	3215	41.6	3201	41.4
1987	8022	100.0	1226	15.3	3431	42.8	3366	42.0
1988	8107	100.0	1112	13.7	3443	42.5	3551	43.8
1989	8258	100.0	1066	12.9	3476	42.1	3717	45.0
1990	8283	100.0	1064	12.8	3382	40.8	3837	46.3
1991	8439	100.0	1093	13.0	3370	39.9	3977	47.1
1992	8632	100.0	1065	12.3	3419	39.5	4148	48.1
1993	8745	100.0	1005	11.5	3418	39.1	4323	49.4
1994	8939	100.0	976	10.9	3506	39.2	4456	49.9
1995	9045	100.0	954	10.5	3504	38.7	4587	50.7
1996	9068	100.0	928	10.2	3389	37.4	4751	52.3
1997	9176	100.0	878	9.6	3502	38.2	4795	52.3
1998	9289	100.0	822	8.8	3523	37.9	4944	53.2
1999	9385	100.0	776	8.3	3492	37.2	5116	54.5
2000	9491	100.0	740	7.8	3534	37.2	5218	55.0

Source: See Table 6.

Thirdly, in spite of the slogan of “work equality between sexes”, female workers are mostly at a marginal field on each segment of the labor market. The female labor force participation rate has been always down to the level of 46%.

Fourthly, an increase in foreign workers seems to provide a buffer for the labor shortage in traditional sectors. Needless to say, this is the outcome of a heavy increase of payroll in local workers, who are covered under “The Labor Standard Law” stipulating minimum wage, fringe benefits, severance pay, and retirement pay. It also shows that even big firms in Taiwan cannot afford to support the quasi-fixed costs to keep local workers.

Changes in Taiwan's employment relations in the 1990s.

In Taiwan, the trade unions are nothing but existing. Workers always rely on the state through the function of regulation, instead of the unions through the mechanism of collective bargain.

Since labour unions have little effect on management, Taiwan's employment relations tend to be determined by an internal labor market and by the provisions of “The Labor Standard Law”. This kind of employment system is basically management-oriented, with implicit contract employment, seniority-based wage system and non union-based corporate governance.

In the 1990's, this style of employment relations is changing slowly under the context of globalization and IT revolution. At the managerial level, bottom-up and group-centered decision-making mode had to be changed under the changes in managerial hierarchy. The functions of line and staff are separated and the job ladders are cut out dramatically. As a result, middle-aged managers are badly hit by this reform. In addition, restructuring of organization, such as closing factories and dismissing employees, has struck a hard blow against middle-aged and older workers.

At the workshop level, the change is more directly connected with restructuring. Many big firms have redundancy plans, which have hit blue-collar workers. In the factories, upgrading industrial structure, such as robotization, is also supposed to be an important means to survive competition and to escape from over production and excess

capacity.

As to the labour disputes, they are increasing over the matters of dismissals and redundancy. But labour unions play little role since Taiwan's unions take for granted labor issues as government's affairs. In the 1990s, Taiwan was in a dilemma. Under the pressure of globalization, Taiwan is now changing slowly and gradually. The main characteristic of this changing process is, in short, changing without consensus. A big change is supposed to be coming but not yet.

Though it survived the bubble economy with the Keynesian-type big government, an effect of the public expenditure kept Taiwan from facing the problems. But under the surface, the differential in the income distribution enlarged by some features of Taiwan's labor market in the 1990s, a structural change in Taiwan's economy and employment relations occurred as well.

III - Changing employment relations in East Asian Countries

The Asian financial crisis and its following adjustments have clearly accelerated the rhythm of change regarding employment relations in this sub-region. Even prior to the crisis, factor mobility - capital - increased considerably thanks to the opening of the Chinese market. After the crisis, most firms in the four countries have been forced to adapt their production and employment level to the global competition. Because of the competitive pressure, they could not maintain stable employment relations, which had certain motivating as well as skill acquisition functions.

In view of the competitive consideration, most firms have sought flexibility through the increase of atypical forms of employment (contingent workers) and a reduction of core staff. It seems premature, however, to consider these changes as definitive for mainly two reasons.

Long-term employment was conceived to increase human capital by providing a longer period of returns. Individual firms could retain (from inside or outside) necessary skills, basically because the labour market conditions were extremely loose, as shown by the unemployment rate and the rise of the inactive population. It is to be seen if such a pro-management situation would continue.

Secondly, related with the above, is the weakness of the social safety net in this region. Unemployment benefits exist only in Korea and Japan but their level is continually eroded due to financial constraints. In addition, Asian workers are not mobile since in the past external labour markets only existed for higher caliber professionals and low skilled jobs. This means that middle-aged and elderly workers who are made redundant will have great difficulties to find a job, even with a substantial wage cut. The burden of recessions is not at all evenly shared between the different groups of workers and between the management and the workers.

If the present search for flexibility continues for some time, the dissatisfied and discomforted workers will look for certain voice and support. In this respect, the rise of militancy in Korean labour movements may portend such tendency.

With regard to globalization, two major questions should be raised in this sub-region. The first question is: How to ensure a certain mechanism of collective voice of workers in front of globalized firms?

Secondly, there is an institutional vacuum at the sub-regional level. This is a pity for the four countries concerned, which - 4 or 5 centuries ago - had shared the same civilization.