

KOREA CHAIR PLATFORM



Labor Reform in South Korea: Creating a Place Where There are Many Paths to Success

By Evan Ramstad

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Mr. Evan Ramstad is the deputy business editor at the Star Tribune in Minneapolis. He was a Seoul-based reporter for The Wall Street Journal from 2006 to 2013, and earlier worked for the Journal in Hong Kong and Dallas. He also worked for Associated Press in Dallas, New York and Washington. He's a graduate of Trinity University in San Antonio.

On the evening of the day earlier this month when South Korean high school seniors took their college entrance exam, a friend in Seoul posted a note on Facebook about the shame he was feeling. He wrote that his son, who is in his early 20s several years out of high school, took the test for a third time and, once again, the result disappointed. He didn't specify, but clearly it wasn't good enough for a top university that most people in South Korea see as the step to a successful corporate or government career.

Two days later, on Saturday, Nov. 14, labor activists staged the largest protest of Park Geun-hye's presidency. About 70,000 turned out in the traditional protest area around Seoul City Hall and Gwanghwamun, angry that Park's labor reform measures would make it easier for companies to fire people.

My friend and the labor protesters are moved by the same force, though they may not say it or even recognize it. It is the belief that career success, and all the financial and psychic rewards that spill from it, can be achieved in only one way: by working at the same place for a lifetime.

This belief is deeply ingrained in South Korea. Unfortunately, it's also a giant impediment to economic progress in the country.

Perhaps the most visible effect is the stress and anxiety high school students and their families go through because of the annual college entrance test. While the test can be retaken, it is still one of the most influential moments in a South Korean's life. For weeks and months ahead of time, parents bend their schedules and lives around the needs of their test-taking child. It is so important that, on test day, South Koreans start work an hour later so traffic is reduced for students headed to test centers. And when the students take the listening part of the test, trains stop and airplanes are put in holding patterns to reduce noise.

Almost every year, international media report about how South Koreans sacrifice on test day. Those accounts generally fail, however, to convey why the test is so much more important than,



for instance, the exams American high schoolers take to qualify for college. One reason is the proportion of South Korean high schoolers who will go to college is twice that of Americans. As well, the test is nearly the sole basis for admission to South Korean colleges. U.S. colleges consider high school grades, personal essays, outside-school activities as well as standardized test results.

Most importantly, the pool of colleges from which South Korea's top employers hire is small. Since employers are generally expected to employ a person for life, the risk of making a mistake in hiring is high. If that person cause trouble for the company down the road, it is easier for the hiring manager to explain the mistake away if the person came from an elite school. Students desperately want to get in those schools.

The hiring-for-life practice is as common on a South Korean factory floor as it is in an office. Someone who works in one South Korean factory for ten years will have climbed up the pay and benefit scale, but they will not be able to change to another factory at the same rank. South Korean labor leaders decry a layoff or firing of a person as akin to murder.

In these lifetime jobs, whether in office or factory, South Koreans get more steadily-rising pay that's divorced for the most part from performance. The benefits are plentiful, including, often enough, college tuition payments for their children. There is one big downside: retirement is expected to happen in a person's mid-50s. Even that is cushioned by a final big bonus payout and retirement income.

This system arguably worked well and provided stability when the country was rising up out of poverty. Today, it leaves South Korean employers with little flexibility to adjust to changes in business needs and conditions. As a result, both the government and private employers have rebelled against it. More and more, they hire so-called "irregular" workers, who get fewer benefits, less pay and are pushed out after two years or four years so employers don't have to make them higher-paid "regular" workers.

Rather than take one of these jobs, young South Koreans stay out of the workforce. They remain in college, or grad school or any of a plethora of education academies to take more courses and accumulate more "credentials" for a shot at that lifetime type of job. An IMF paper last year on labor reform in South Korea noted that only one in four young adults work, one of the lowest rates among developed countries.

A few companies have tried to change the deal for "regular" workers, but they met incredible resistance. The leader of the Nov. 14 protest, Han Sang-gyun of the Korean Confederation of Trade Unions, gained prominence in the 2009 strike and occupation of Ssangyong Motors, a failed carmaker whose Chinese owner tried to close it before selling it to India's Mahindra. Nothing less than a showdown with riot police allowed that change to occur. The Indian company has revived Ssangyong with a narrower product strategy. In 2011, the British-based Standard Chartered bank learned how difficult it was to end seniority-based compensation and big retirement bonuses in its South Korean unit. Hundreds of bankers went on strike, creating an odd moment for the country's labor activists, who weren't exactly sure whether or how to support fairly well-paid bankers in a walkout.



Park's government is trying to eliminate this dualism in the labor market by reducing the employment protections of regular workers. The thinking goes that if it is easier for companies to fire people, employers ought to be able to cast a wider net for people to hire. That should yield opportunities for young people, especially those who didn't get into elite colleges. It should also reduce the need for early retirement, creating more opportunities for older people too.

All this sounds good in theory, but there are plenty of reasons for labor leaders and other South Koreans to be skeptical of the Park government and the business establishment who are pressing for the change. Park's ruling party has been a letdown on fundamental reform before. Its recent ham-handedness in seeking changes of history textbooks is one example. In the case of labor reform, while focused on making it easy to hire and fire people, the government does not appear to be creating other incentives to hire more regular, rather than irregular, workers. One thing it could do would be to develop greater social coverage to help reduce the labor cost gap between regular and irregular workers.

On the economy, Park Geun-hye has little to show for her nearly three years as president. What happens with labor reform, not just how it is passed but how it is implemented, could become one of her most important accomplishments. She will have to do something much harder than overcome political opponents to pass a bill, though. She will have to start to make South Korea a place where there are many paths to success.

My friend and other South Korean families and students should not endure the enormous stress of the one-path-to-success belief, which crystalizes every November on the day of the college entrance test. Companies should not have to be so narrow in their hiring. And factory workers should not be afraid that a layoff means an end to their life.

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