Labour Market Segmentation
- Republic of Korea -

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  – Labour market polarization

• Non-regular workers in Korea
  – The incidence of non-regular work seems stable at a high level
  – But, conditions of work tend to be worsened
  – Overall, segmentation in Korea has been deepened with the combined effects of SMEs and non-regular work

• What can be done?
  – Need for multi-pronged approaches
Recent changes in the functional income distribution are related to the emergence of productivity-wage gaps since the Asian financial crisis.

The gap is much larger if hourly productivity is considered.

- Solid productivity growth in the context of significant reductions in working hours.
I. Economic and labour market trends: towards polarization

Distributional changes vs. trade performance

Source: Bank of Korea

- Recent distributional changes imply the presence of international competitiveness gains in terms of unit labour costs
- Increasing reliance on exports and imports
  - Again, since the Asian financial crisis
- Continued (often historic level of) net exports
  - Creating pressures on currency and labour costs
I. Economic and labour market trends: towards polarization

Trends in the functional labour distribution in Korea

Labour income, reforms, and institutions

Source: KLI Labour Statistics

➢ The increasing trend became strong since 1987 when historic progress was made in political democracy and workers’ organizations

➢ Reversal since the Asian financial crisis

➢ Followed by upward adjustments in the first half of 2000s

➢ Impacts of the current crisis?
  - Return to the downward trend?
I. Economic and labour market trends: towards polarization

Coincidence? – the case of personal income distribution

*Incidence of low pay in Korea (1986-2010)*


Note: Low pay is defined as the level of pay less than $2/3$ of the median pay

- The increasing trend in low pay (and wage inequality) emerged since the Asian financial crisis
  - Some adjustments during the current crisis?

- Increasing trend in income inequality (Gini coefficients in disposal household income)
  - Apparently beginning from early 2000s
I. Economic and labour market trends: towards polarization

1997 Asian financial crisis and labour market changes

- During the 1997 crisis, LM reforms were preconditions for the economic restructuring of the IMF’s recommendations (e.g., redundancy dismissals, worker dispatched system.)
- Growing importance of SMEs, but with lower productivity and profitability
II. Non-regular workers in Korea

**What is the non-regular employment in Korea?**

- Debate over the classification of non-regular employment ("employment type" vs. "employment status")
- Classification according to employment type shows that 34% of total paid workers are non-regular workers in 2011.
- The incidence of non-regular workers in Korea is higher in vulnerable workers group (women (41.4%), youth (48.5%), old-aged (77.3%), unskilled (63.4%), low educated (57.2%) workers in 2011).

### Classification of non-regular workers by employment type
(Supplementary Survey of Economically Active Population, 2011)

<table>
<thead>
<tr>
<th>Classification</th>
<th>Description</th>
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<tbody>
<tr>
<td>Contingent workers (19.7%)</td>
<td>Worker with prescribed contract period.</td>
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<tr>
<td>Part-time workers (9.7%)</td>
<td>Worker with shorter working hours than other workers performing the same task.</td>
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<tr>
<td>Atypical workers (13.9%)</td>
<td>Temporary agency workers, independent contract workers, workers in special types of employment, at-home workers, and daily (on-call) workers</td>
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<tr>
<td>Disadvantaged workers (15.4%)</td>
<td>Considered regular workers, but excluded from protection by various social security benefits</td>
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II. Non-regular workers in Korea

Size and share of non-regular workers remain stable but at a high level

- The share of non-regular workers among total paid workers rose rapidly from 27% in 2002 to 37% in 2004, and remain around 35%.
- The share of contingent workers has been declining since 2007, but the shares of part-time and atypical workers has been increasing, in particular in 2009 and 2010.
II. Non-regular workers in Korea

Non-regular workers are characterized by inferior working conditions (1)

- Average monthly wage and average hourly wage of non-regular workers are only 56% and 61% of those for regular workers in 2011.
- The wage gap is widening.
II. Non-regular workers in Korea

Non-regular workers are characterized by inferior working conditions (2)

- Non-regular workers are not only at a disadvantage in terms of wages but also in terms of corporate-provided benefits.
- Non-regular workers are in the blind spot of the social protection system.
II. Non-regular workers in Korea

Non-regular workers protection law (2007)

- The law is applied only to business sites of at least 5 workers, meaning that non-regular workers at business sites of 1-4 workers, where there are the highest portion of non-regular workers, are excluded.

- Among non-regular work, only a certain type is applicable, meaning that workers by independent contract workers (673 thousand workers), workers in special types of employment (614 thousand workers), at-home workers (75 thousand workers), and daily (on-call) workers (962 workers) are excluded.

- The law prohibits undue discrimination against non-regular workers and limits the employment period for non-regular workers to a maximum of 2 years.

Non-regular workers protection law, which consists of (i) Act on the Protection, etc. of Fixed-term and Part-time Employees, (ii) Act on the Protection, etc. of Dispatched Workers, and (iii) Labor Relations Commission Act, was enacted in July 2007.
II. Non-regular workers in Korea

Different effects of the law according to firm size?

- Use of non-regular workers in large firm and SMEs with 100-299 employees has been reduced (6.3% to 5.6% in large firms, 7.9% to 6.3% in SMEs with 100-299 employees in 2011).
- Approximately 90% of non-regular workers work at SMEs with less than 100 employees, and the share has increased.
II. Non-regular workers in Korea

Wage gap is great according to the firm size

- Non-regular workers have wages within 60-70% of regular workers.
- Almost half of non-regular workers receive low wages at firms with less than 10 employees.

Monthly wages according to employment type and firm size, 2011
(regular workers at large firms = 100)
II. Non-regular workers in Korea

Labour market segmentation has become apparent according to employment type and firm size

➢ Wage level is lower in the smaller firms (e.g., monthly wages in firms with 100-299, 30-99, 10-29, and 5-9 were 73%, 67%, 57%, and 49% of that in large firms respectively in 2011).

➢ The wage gap across different sizes of firms is widening, especially after Asian financial crisis.

Monthly wage per employee according to firm size
(large firms = 100)
II. Non-regular workers in Korea

In the case of employment benefits and social insurance benefits, the firm size is also important

- The probability of non-regular workers receiving benefits at firms with over 100 employees is higher than that of regular workers at firms with less than 10 workers.
- The bind spot in social insurance is a problem not only for non-regular workers, but for small companies in general.
II. Non-regular workers in Korea

Organized labour of large firms and unorganized labour in the SMEs and non-regular workers

- The polarized Korean trade union could enable the protection of regular workers in large companies but could not be strong enough to protect small companies’ and non-regular workers, especially with low collective bargaining coverage rate (10%).

![Unionization rate by firm size among regular and non-regular workers, 2010](image)
III. What can be done?

Preliminary findings

- Labour market segmentation has become evident since the late 1990s, perhaps after the neo-liberal labour market reform.

- The incidence of non-regular work has been stabilized but at a high level (the core aspect of labour market polarization in Korea).

- Non-regular workers are very heterogeneous, and different types of non-regular workers have little in common.

- Gaps in working conditions are growing according to employment type (regular vs. non-regular workers) and firm size (large firms vs. SMEs).
III. What can be done?

What policies?

- Consider two types of definitions concerning non-regular workers (e.g., “formalistic” vs “substantive”)

- “Legal” approach: another revisions to the law
  - More restrictions on the use of non-regular workers?
  - Perhaps helpful, but might have limited effects (e.g., SMEs)

- “Social” approach: focusing on providing a universal “protection floor” for all workers
  - Making social security entitlements available for all workers
  - Making minimum wage full compliance for all workers
  - Making the labour standard act applicable to all workers (currently, SMEs with less than 5 employees are excluded)