

## UNIVERSIDADE ESTADUAL DE CAMPINAS INSTITUTO DE ECONOMIA

# **KYUNGRAN KIM**

"Analysis of industrial relations & globalization strategy, with a focus on Korea's Hyundai Motor" (Analises das relações industriais e estratégia de globalização: foco sobre a Hyundai Motor na Coreia)

> Campinas Maio de 2016



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# Prof. Dr. José Dari Krein – orientador Prof. Dr. Anselmo Luis dos Santos – coorientador

Dissertação de Mestrado apresentada ao Programa de Pós-Graduação em Desenvolvimento Econômico do Instituto de Economia da Universidade Estadual de Campinas para obtenção do título de Mestra em Desenvolvimento Econômico, área de concentração: Economia Social e do Trabalho.

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# DISSERTAÇÃO DE MESTRADO

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Defendida em 23/05/2016

**COMISSÃO JULGADORA** 

Prof. Dr. JOSÉ DARI KREIN Instituto de Economia / UNICAMP

Prof. Dr. LEANDRO PEREIRA MORAIS

Huse Rodrigues Dias Prof. Dr. HUGO MIGUEL OLIVEIRA RODRIGUES DIAS Instituto de Economia / UNICAMP

> A Ata de Defesa, assinada pelos membros da Comissão Examinadora, consta no processo de vida acadêmica da aluna.

#### Resumo

Este trabalho tem como objetivo analisar o impacto da globalização do capital com base nas práticas de trabalho dos motores Hyundai e na indústria automobilística, e como as organizações sindicais conduzem a situação.

Para este efeito, é tratada com a estratégia de globalização, motor Hyundai e as características das relações laborais como uma chave neste trabalho. A estratégia de globalização da indústria automobilística trouxe muitas mudanças desde a década de 1990. Primeiro, houve a aceleração da divisão do trabalho e expandiu os trabalhadores sem proteção das leis do trabalho através da flexibilização do mercado de trabalho. E também o nível das relações industriais dos países foi diversificado devido à expansão das bases de produção no exterior de empresas multinacionais. Estes fatos podem ser encontrados na estratégia de globalização de motores Hyundai com base na mudança nos métodos de produção ('modularização') e na expansão da produção no exterior. Portanto, este trabalho também enfatiza que a atuação das organizações sindicais não deve limitar-se em nível nacional. Os sindicatos devem tentar encontrar uma solução de forma ativa em termos de construção de rede de solidariedade internacional contra a globalização do capital. Neste sentido, o papel do sindicato no Hyundai é essencial para fortalecer os laços com os sindicatos e os trabalhadores nas fábricas no exterior. A rede de solidariedade internacional pode contribuir para a construção de medidas de respostas conjuntas contra a violação dos direitos trabalhistas e ampliar a partilha de informações através das fronteiras dos países. Em última análise, isso vai ser um trampolim para a promoção de acordos internacionais destinados a motores Hyundai.

Palavras-chave: Coreia, organizações sindicais, globalização.

#### Abstract

This paper aims to examine the impact of globalization of capital based on the labor practices of Hyundai Motor and the automobile industry, and how trade unions are coping with the situation.

For this purpose, this paper deals with globalization strategy, Hyundai Motor and key features of industrial relations. The globalization strategy of the automobile industry has brought many changes since the 1990s. First, it has accelerated the division of labor and expanded labor market flexibility through the use of non-regular workers. Traditional industrial relations in many countries have diversified due to the creation of overseas production bases as multinational corporations have expanded. These facts can be found in the globalization strategy of Hyundai Motor in the change of production methods ('modularization') and expansion into overseas production. This paper emphasizes that countermeasures by trade unions should likewise not be restricted to the national level. Unions have to actively seek solutions towards building an international solidarity network against the globalization of capital. In this regard, the role of the trade union at Hyundai Motor is essential to strengthening ties with unions and workers at overseas plants. An international solidarity network can contribute to building joint responses to labor rights violations and day to day sharing of information across borders. Ultimately, such a network can become a springboard for promoting international industry-level agreements with Hyundai Motors.

# **Table of Contents**

Abstract	
Introduction	6
Chapter 1. Theoretical Background to FDI by Multinational Corporations	14
$\circ$ Chapter 2. Globalization Strategies of & Industrial Relations in Korea's Aut	omobile
Industry	18
2-1. Trends & Features of the Global Automobile Industry	
2-2. Trends & Features of the Korean Automobile Industry	
2-2-1. Development of the automobile industry	
2-2-2. Main indicators of the automobile industry	
2-2-3. Automakers	
2-3. Features of & Changes to Industrial Relations	
2-3-1. General features	
2-3-2. Features of & Changes to Industrial Relations & Collective	
Bargaining	
2-4. Sub-summary of Chapter 2	
Chapter 3. Hyundai's Globalization Strategy & Industrial Relations	
3-1. Main Indicators	
3-2. Hyundai's Globalization Strategy	
3-3. Features of Employment & Industrial Relations	60
3-4. Employment & Working Conditions	
Chapter 4. Conclusion	80
Bibliography	83

# Tables

- Table 1 World Motor Vehicle Production by Region & Type (Unit: 1,000)
- Table 2 Vehicle Production: Top 10 Countries (Units: 1,000, %)
- Table 3 New Motor Vehicle Sales by Country & Type (Units: 1,000)
- Table 4 New Motor Vehicle Exports by Principal Country & Type (Units: 1,000)
- Table 5 Korea's Automobile Industry: Share of National Economy (Unit: 1,000)
- Table 6 Korea's Production by Vehicle Type (Units: 1,000, %)
- Table 7 Korea's Production by Automaker (Units: 1,000, %)
- Table 8 Production by, by Region (Units: 1,000, %)
- Table 9 Korean Automakers: Purpose for Foreign Investment (Unit: %)
- Table 10 New Motor Vehicle Sales & Exports by Country (Unit: Vehicles)
- Table 11 Korean Automobile Sales by Automaker (Unit: 1,000, %)
- Table 12 Korean Automakers (2013)
- Table 13 Union Density in Korea
- Table 14 Unionized Members by Umbrella Union (2013) (Units: unions, persons)
- Table 15 Union Membership Rate by Characteristics (2014) (Units: 1,000 persons, %)
- Table 16 KMWU by Industrial Classification (2012) (Units: unions, persons, %)
- Table 17 KMWU by Company Size (2012) (Units: unions, persons, %)
- Table 18 Korean Automobile Industry: Large Trade Unions (2014)
- Table 19 Number of Industrial/Regional Union Members by Year (Units: persons, %)
- Table 20 Industry Sectors & Basic Umbrella Union Characteristics in Korea
- Table 21 Labor Disputes in Korea
- Table 22 Statistics of Non-regular & In-house Subcontract Workers in the KMWU (Unit: persons)
- Table 23 Non-regular Workers at Companies with over 300 Employees (2015)
- Table 24 Wage Gap between Regular & Subcontract Workers (Units: KRW, 1,000)
- Table 25 Total Production Trend (Unit: vehicles)
- Table 26 Production Volumes: Overseas vs. Domestic (Unit: vehicles)
- Table 27 Domestic Factories (2013) (Units: year, vehicles, persons)
- Table 28 Hyundai Overseas Production (2013)
- Table 29 Trend of In-house Subcontract Workers in Hyundai's Motor Ulsan Plant
- Table 30 In-house Subcontract Workers in Hyundai (2013) (Unit: persons)
- Table 31 Domestic Workforce by Job Type (Unit: persons)
- Table 32 Hyundai Sales & Employment
- Table 33 Overseas Workforce by Region
- Table 34 Hyundai's Overseas Plants
- Table 35 Wage Growth for Hyundai Union Members: Amount & Rate (Unit: KRW)
- Table 36 Growth Rate of Basic Pay for Regular Hyundai Workers (Unit: %)
- Table 37 Trends in Performance-based Pay at Hyundai, 2001-2013 (Units: KRW, %)
- Table 38 Trend of Wage Increases at Hyundai (2007-2012) (Units: KRW, %)
- Table 39 Change & Actual Annual Working Hours at Hyundai (Unit: hours)
- Table 40 Work Schedule for the Two Day Shifts at Hyundai
- Table 41 Strikes at Hyundai & Kia as a Proportion of Total Strikes in the Automotive Industry

# Figures

Figure 1 - Global Top 10 in Vehicle Production (2013) (%)

- Figure 2 New Motor Vehicle Sales by Country (2013) (Unit: 1,000)
- Figure 3 New Motor Vehicle Exports: Global Top 10 (2013) (Unit: 1,000)
- Figure 4 Production of Domestic Factories as Percent of Total Production (Units: %, year)
- Figure 5 Production Capacity at Overseas Hyundai Plants (2015)
- Figure 6 Triangular Relationship at Hyundai
- Figure 7 Wage Configuration at Hyundai (2011, manufacturing jobs) (Unit: %)

## Introduction

The objective of this thesis is to examine the changes in industrial relations due to the impact of the global strategy that has accelerated since the 1990s, and focuses on Hyundai Motor Company, a global Korean corporation. For this, I first generally describe the Korean automobile industry in terms of features and trends, and changes in industrial relations. Secondly, I examine Hyundai, the key target of this paper, its globalization strategy and features of its industrial relations. Finally, I analyze its impact on labor and draw consequent policy implications in terms of labor solidarity as a conclusion.

The following can serve as a background and the critical thrust of my paper. The key issue is how the globalization strategy of the automobile industry has worked since the 1990s and its impacts on labor. "Globalization refers to the processes that reduce barriers between countries, thereby encouraging closer integration of economic, political, and social activity. The economic aspect is the most important. These include rapidly expanding international trade, financial flows, and foreign direct investment (FDI) propelled by multinational corporations (MNCs)" (Frenkel et al., 1998: 282). In general, "three major forces have importantly contributed to the globalization process: i) the liberalization of capital movements and deregulation, in particular financial services; ii) the further opening of markets to trade and investment, spurring the growth of international competition; and iii) the pivotal role played by information and communication technologies (ICT) in the economy" (OECD, 2005). In this regard, multinational corporations (MNC) are perceived as a key vector in the era of a globalized economy. The development of globalization, and the proportion and role of multinationals in the world economy have increased. UNCTAD estimates that there were about 82,000 MNCs with over 810,000 affiliates globally in 2009. Currently, approximately one-third of world trade consists of intra-firm transactions, i.e., trade between various units (foreign affiliates, headquarters) that make up the increasingly integrated production system of individual MNCs. Over 90% of that is based on companies from advanced countries, with nearly half of all affiliates in newly industrializing and developing countries (UNCTAD, 2010). Annual revenues of giant multinational corporations surpass the GDP of developing countries. The multinational company with the largest sales volume in the world is U.S.-based Walmart (USD 485.621 billion as of 2014), followed by

Korea's Samsung Electronics (USD 188.476 billion, then U.S.-based Apple (USD 182.795 billion), and General Electric (USD 148.589 billion) (ITUC, 2016). MNCs are a major employer as well, with approximately 75 million people employed (UNCTAD, 2015).

In addition, foreign direct investment (FDI) is the mechanism through which MNCs establish affiliates abroad and engage in M&A activity with existing firms there. Mainly, a global value chain has been formed around the world through overseas investment by MNCs. The patterns of value-added trade in global value chains are shaped to a significant extent by the investment decisions of these multinationals. As such, cross-border trade of inputs and outputs that take place within networks of affiliates, contractual partners and arm's-length suppliers coordinate the global supply chain and currently accounts for some 80 percent of global trade in terms of gross exports (UNCTAD, 2013). Most companies in the automobile industry have been expanding their global value chains since the 1990s. These value chains have accelerated the network of production on a global level. The continued globalization of conomic processes, with a combination of factors, has provided an attractive opportunity for foreign investment by major auto manufacturers. Overseas investment by companies in Korea also exceeds domestic investment from foreign capital. Primarily, the expansion of this chain is exploding and ensures cheap labor as well as maintaining market share and local presence.

In addition, this globalization affects labor directly and indirectly. It can be described as a deepening of the inequality between labor and capital due to the impact of neoliberal globalization. The 'normal' patterns of activity in the labor market have reflected this liberalization and globalization, as have the employment relationships in industrialized and industrializing countries until recently. The move towards market orientation (liberalization) in many countries has been reflected in deregulatory policies by governments, including reduction of tariff barriers, facilitating the flows of capital and investment, and privatization of state-owned enterprises. Liberalization has proceeded naturally or been forced by globalization (involving greater integration in world markets, and increased international economic interdependence). Both phenomena have been facilitated by significant growth in world trade and foreign direct investment in recent years, and information technology which has facilitated rapid financial transactions and changes in production and service locations around the world. The impact on the labor market has been an increase in underemployment,

while the impact on the global situation is expressed through rising unemployment. "During the 1990s, globalization of the economy contributed to the informalization of the workforce in many industries and countries. Whereas globalization generates new jobs and new markets, available evidence suggests that not all the jobs are 'good' jobs and that the most disadvantaged producers have not been able to seize new market opportunities. This is because global competition tends to erode employment relations by encouraging formal firms to hire workers at low wages with few benefits or to sub-contract (or out-source) the production of goods and services" (Chen, 2005).

With respect to industrial relations, according to the International Labour Organization (ILO) says, "the special problems related to MNCs are: 1) project as a matter of special labor relations in accordance with the deployment of the multinational corporations, 2) material management decisions, 3) industrial relations, personnel policies and coordination of practices, 4) is holding the management practices and corporate data". In fact, MNCs move and manage their operations at the international level, while the labor movement confines itself to each country. Therefore labor and management approach negotiations from very different viewpoints. From the position of trade unions, the power of multinationals to move production or business from one country to another is an important problem. Since globalization has coincided with declining trade unionism, especially in the 1990s, its impact on industrial relations (IR) has become a subject of academic research. Previous literature on this issue generally stresses the negative impact of globalization on labor standards (Frenkel and Peetz, 1998; ILO, 1999a). The negative outcomes of globalization can be classified into two types: 1) weakened labor standards and 2) corporations bargaining from a position of increased strength and labor bargaining from a position of increased weakness. Some argue that intensified international competition that accompanied globalization increases the need to cut labor costs to improve competitiveness, achieving greater numerical and external flexibility in terms of human resources (HR). To ensure this greater competitiveness in terms of labor flexibility, productivity, and quality, governments encourage the strengthening of management control over employment issues, which may lead to weakened job security and deteriorating working conditions. With the growing necessity of labor market flexibility comes evidence of employment instability stemming from collective dismissals, layoffs, outsourcing, and part-time work (ILO, 1999a; Lee, 1997). This trend implies a negative

impact on preexisting labor standards. Indeed, it is argued that the growing mobility of capital tends to increase the bargaining strength of employers. When labor in one country can be replaced with labor in other countries without much difficulty, this serves to weaken its bargaining strength, and a decline in wage levels can be expected (ILO, 1999a). Namely, it is difficult for workers to determine their position in this situation due to transnational management influencing working conditions. For this reason, workers are at a disadvantage in industrial relations.

The labor and management of Hyundai Motor, which this paper deals with, are a key part of the Korean economy and the labor movement. "Hyundai is leading the globalization of Korea's economy as a multinational company. Hyundai can be considered a leading engine of the global economy" (Park Tae-Ju, 2014). Hyundai and Kia Motors have a dominant position in Korea's automobile market, together accounting for about 80% of Korean market share. As Hyundai began establishing its overseas production plants in the 1990s, it will be meaningful to analyze the changes in employment and working conditions in accordance with the process of Hyundai's global strategy. The response of trade unions, including Hyundai unions has important implications in terms of the labor movement to Hyundai's global strategy and what challenges lay ahead.

This thesis is organized into four chapters. Chapter 1 is on the theoretical background to FDI (including both investment and production decisions) by multinational corporations. Chapter 2 covers two items. The first is an exploration of the globalization strategy and status of the global automobile industry. The second is a description of the current status and features of the Korean automobile industry, in addition to the changes in industrial relations. Chapter 3 is the main section that deals with Hyundai Motor Company's global strategy and industrial relations since 1990. Chapter 4 concludes with policy issues from the point of view of the labor movement.

# **Chapter 1. Theoretical Background to FDI by Multinational Corporations**

What is the objective of multinational<sup>1</sup> corporations (hereafter 'MNC') when advancing overseas? Previous studies have identified some of these. In general, "transnational corporations (hereafter 'TNC') seek profits across national borders through production and sales sites in many countries. Therefore, TNCs find markets anywhere in the world if a production base and market exists from which they can gain profit. Indeed, they increase overseas investment and markets in order to pursue profit" (Ahn Seung-Gook, 2000).

If so, what companies advance abroad to actively invest in other countries? First of all, highly productive companies are likely to engage in foreign direct investment (FDI) to avoid high transport and transaction costs (Helpman et al, 2004). Secondly, companies superior in technology, size, and product diversity, all determined through empirical analysis, are also highly likely to engage in FDI (Lall and Siddharthan, 1982; Grubaugh, 1987; Tomiura, 2007). Finally, market size and production cost advantages in the investment destination country also influence decisions on FDI. Such FDI will increase as companies seek to enter foreign markets as part of their survival strategies in a fiercely competitive international environment (Ha Byung-Ki, 2014).

Previous research on motivation for foreign investment and overseas production by multinational companies has been based on Dunning's 'Eclectic Paradigm'. According to Dunning (1988), "Why does a multinational enterprise undertake production in a foreign country rather than an indigenous firm in that country? And, why does a multinational enterprise choose to internalize the market for the cross-border transfer of intermediate products? The competitive advantage of centralized decision-taking rests in the capacity to take (what are perceived to be) the right decisions for the MNE as a whole".

In general, there are four motivations for FDI by MNCs: natural resource seeking, market

<sup>1.</sup> When it comes to defining "multinational corporations in economic terms, it can be explained that the company owns or controls a number of subsidiaries which carry out production activities in two or more countries, and make decisions at the company center, located in one particular country, about activities beyond their borders. Meanwhile, researchers express such a company as a TNC (transnational corporation) to distinguish it from multinational corporation. The term "TNC" focuses on the business activities rather than company form. The UN itself has used 'transnational corporation' since the mid-1980s" (Kang Yeon-Bae, 2004).

seeking, efficiency seeking and strategic or technological asset seeking (Dunning, 1993). Companies do not consider only one of these, but take several of them into account. There are also two purposes for MNCs to expand overseas. On one hand is the desire to increase overseas market share through establishment of subsidiaries. On the other is the desire to reduce their production costs by moving abroad some of the production steps (Korea Institute for Industrial Economics and Trade (Moon Jong-chol et al, 2014). Generally, FDI has mainly been carried out from developed to developing countries to lower production costs.

Now for more detail on what motivates MNCs to invest. First, regarding the marketseeking motivation or horizontal FDI<sup>2</sup>, there is a type of MNC that invests for the purpose of market penetration of the corresponding station (Campos & Kinoshita, 2003). These companies try direct investment in the country for the purpose of export substitution aimed at reduction of tariff barriers or travel costs, taking into account production facilities of the host country. In other words, production in the local region has the advantage of being able to more effectively adapt to the local market, and companies consider market size and growth requirements as the main driving force. For instance, the main factors that influence decisions on foreign investment by more than 180 major multinational corporations (U.S.-based) include the size of the market, geographical proximity, somewhat equal economic and cultural conditions, and the country being a destination that has been entered in the past (Davidson, 1980). Let's look at an example. U.S.-based multinational companies that advanced into Western Europe gave the following answers regarding their reasons to invest there: market size (65.7% of respondents), labor costs (37.1%), tariffs (24.8%), and labor relations (22.9%). A full 50% of the respondents said that government grants did not significantly affect their investment decisions (Blackbourn, 1974). Hong (1996) found that Korean multinational corporations also considered as important the market size in relation to labor cost when deciding to invest. According to the Export-Import Bank of Korea (KEIB) in 2008, local market sales accounted for the heaviest weighting when export enterprises set up plans for overseas investment. These local market sales were more important than securing raw materials or developing technology. The second motivation for FDI is resource (asset)-

<sup>2.</sup> In general, "market seeking is similar to the concept of horizontal FDI. In other words, installing a manufacturing base in many countries is a horizontal foreign direct investment. Therefore, this is similar to a company with several factories. Horizontal investments are made in accordance with factors such as rapid local demand response, reduced transportation costs, and avoiding trade barriers. In contrast, vertical FDI means that the company moves part of its production overseas and performs some steps of the production process abroad to reduce overall production costs". Labor-intensive production transfer to overseas subsidiaries, the head office of the interior concentrates on capital-intensive or R&D. Therefore, Vertical FDI has deepened a subcontract-based of transnational corporations as well as inhibition the growth of engineering and research sector in developing country" (Ahn Seung-Gook, 1999).

seeking. Here, MNCs consider the cost of production because of the lack of resources in their home country. There are many cases where part of the chain of production has been transferred to host countries. The presence of a low-wage workforce acts as a major determining factor. However, as mentioned earlier, there is a limitation to the view that resource-seeking is a major reason for FDI by developed countries, as it doesn't account for a large proportion of the reasons MNCs engage in FDI (R. David Belli, 2000). The third motivation for FDI is efficiency-seeking. This motivation considers similarity between the base country and the host country in areas such as managerial style as a major determinant for investment. There is another aspect, which is an argument that union density and industrial relations are related to investment decisions. The labor relations environment is considered an important factor in the production decisions and FDI by MNCs. In fact, "the effect of union density and labor disputes appeared to be a statistically significant result, but the degree of influence was small" (Yang Dong-Hoon, 1999).

Normally, "FDI changes in stages as globalization accelerates" (Ahn Seung-Gook, 2000). The initial investment costs in the first stage of FDI are high due to the difference between the investment destination and the MNC's base country in terms of regulation and labor management. Capital and technology move together when transnational corporations choose to invest. Therefore, FDI occurs when the investment destination has abundant resources and low-cost labor. According to Ahn Seung-Gook (2000), "A company's growth takes place based on the commodity, so the initial investment of TNCs focuses on raw materials such as minerals and agricultural products. In other words, due to the high wages in the base country, investment focuses on areas that can ensure cheap labor makes up for falling productivity". This can increase profit and decrease the cost of production for TNCs that transfer intensivelabor production to developing countries in the context of cheap labor (Gill and Law, 1988: 216). In summary, the initial type of FDI by transnational capital was focused on extraction of resources. Besides, some part of investment by developed countries was formed of a transfer of a fading industry to developing countries since the mid-1970s. South Korea is a good example of this process. The investment motivation for Korean automakers is mostly market-seeking because the automobile industry needs scale of economy to grow continuously. Therefore, automakers increase scale through overseas markets because of the limits in their domestic markets. In Korea's case, initial foreign investment was exportoriented. That is, the first process was to build a production facility overseas, and then manufacture products for export to third countries. For this reason, as the primary condition for considering investment, Korean companies invested in areas with optimal conditions for production such as an abundance of cheap labor and local government incentives for foreign investment. Indeed, the share of exports in the Korean economy exceeded 70% in the late 1990s due to this export-oriented strategy, with the investment motivation changing to market-seeking to ensure continuous growth, avoid trade friction with the developed markets and protectionist trade policies in the emerging markets.

In recent years, MNC investment motivation has been moving to take hold of local markets. For this, they utilize competitive advantages related to technology and brand, organization and management techniques and sales networks. These changes in investment motivation can be explained as the impact of globalization in terms of intensification of competition in business. Existing FDI theories have well described the motives, type, and changes in FDI in connection with global outsourcing. Helpman (2006) observed the changes in trade and investment patterns in relation to the reorganization of production across national borders such as the rapid expansion of trade in services and intermediate goods, an increase of inputs trade and expansion of domestic and global outsourcing through technological progress. Therefore, the situation can be described as the internationalization of production that is a form of advanced internationalization rather than the traditional import-export meaning (Ahn Sang-Hoon, 2013).

# Chapter 2. Globalization Strategies & Industrial Relations in Korea's Automobile Industry

#### 2-1. Trends & Features of the Global Automobile Industry

#### **Globalization strategy trends**

The automobile industry is a major national driver of the economy as each automobile is made up of 2-3 million auto parts, resulting in an inducement of production in other industries. The industry creates a lot of new jobs and employs over 10 million people worldwide. Related revenue exceeds USD 1 trillion once financing, sales, maintenance, insurance, transportation and tourism are combined. In addition, it is also important as a strategic export industry in many countries.

The automobile industry is a global industry and the largest involved in manufacturing Globalization of the automobile has been occurring since the 1920s. Despite the Great Depression beginning in 1929, GM and Ford, two major international auto companies, dominated overseas markets through active promotion of globalization. After World War II, latecomer Volkswagen entered the global market, while in the 1980s Japanese companies began to build plants in major global markets in the 1980s. As a result, competition between the world's major companies has more heated. Trade barriers between countries have weakened since the 1990s and the initiation of global business strategies. Global management strategy emerged as a major factor in determining survival of the industry giants. Many giant companies built production systems with knock down (KD) parts with local companies due to this intensified competition. The automobile industry, which depends on economies of scale, began to put together a global production system to handle the cutthroat competition due to overproduction, building local manufacturing plants in order to ensure price competitiveness.

Meanwhile, the global production system of car companies has rushed in a new situation where global manufacturers produce a local model suitable for regional characteristics and build them at the overseas plants in that region. This has accelerated the network of production on a global level through expansion of modules used in production of the finished product. In other words, "globalization made the production itself reorganize on a global level. Unlike in the past, globalization is connected with production and exports at the country level" (Chung Myeong-Kee, 2011).

In general, "the globalization of production refers to carrying out some part of the production through the parent company of one country establishing a subsidiary abroad. The value chain system that is formed by the globalization of production is called the company's global production network. And this is all possible through FDI' (Ahn Sang-Hun, 2006)<sup>3</sup>. Graham (2010) makes some observations about the background to the value chain in the automobile industry. The factors driving the changes in this market-include decreases registered in sales volume for all major producers in the short-term, largely due to the global economic crisis; the loss of market share by individual car producers within their own national markets in the long-run. These factors are informing the current production systems and practices in the global automobile industry, which is quite different from those employed in the past. Beyond the changes in the production systems, changes in the relationship between car producers and their employees and suppliers, and changes in branding and marketing are also evident. Besides this, reductions in trade barriers have led to waves of investment in emerging markets. Thus, the continued globalization of economic processes has provided an attractive opportunity, with a combination of factors, for major auto manufacturers to engage in foreign investment.

#### Main indicators of the automobile industry

Now, let's look at the indicators related to the globalization of production "Automobile production is very strongly concentrated geographically. The three major regions of North America, Europe and Asia make up around 90 percent of total production" (KAMA, 2014). As of 2013, total production was 88,615,615 units, with Asia & the Pacific region accounting for half.

Region	2011			2012			2013		
	Cars	CVS	Total	Cars	CVS	Total	Cars	CVS	Total
North America	5,625	7,853	13,478	6,959	8,841	15,800	7,106	9,395	16,501
Europe	17,902	2,401	20,303	17,030	2,222	19,253	17,124	2,200	19,325
Asia & Pacific	31,183	7,954	39,138	34,434	8,506	42,940	36,757	8,559	45,317
World	60,477	20,548	81,026	63,470	21,755	85,225	66,140	22,474	88,615

Table 1 - World Motor	Vehicle Production	by Region	& Type (Unit:	: 1,000)
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Source: KAMA (Korea Automobile Manufacturers Association), World Motor Vehicle Production by Type & Region, 2014

<sup>3. &#</sup>x27;Foreign direct investment (FDI)... remains a key element in the rapidly evolving globalization process. It can serve as an important vehicle for local enterprise development, and it may also help improve the competitive position of the recipient ('host') economy. Large multinational enterprises (MNEs) are traditionally the dominant players in such cross-border transactions' (OECD, 2005).

Almost two-thirds of global production is concentrated in just ten countries. As of 2013, China is, by a large margin, the world's leading automobile producer (25%), followed by the U.S.A. (12.4%), Japan (10.9%), Germany (6.7%), South Korea (5.1%) and Brazil (4.2%). An industry dominated in 1960 by the U.S.A., and to a much lesser extent Europe, was transformed initially during the 1970s and 1980s by the spectacular growth of China as a leading automobile producer.

Develvi		2011			2012		2013			
ng	Country	Production	Share	Country	Production	Share	Country	Production	Share	
1	China	18,418	22.8	China	19,271	22.7	China	22,116	25.0	
2	U.S.A.	8,662	10.7	U.S.A.	10,335	12.2	U.S.A.	11,066	12.4	
3	Japan	8,398	10.4	Japan	9,943	11.7	Japan	9,630	10.9	
4	Germany	6,311	7.8	German	5,797	6.8	Germany	5,877	6.7	
5	Korea	4,657	5.8	Korea	4,561	5.4	Korea	4,521	5.1	
6	India	3,936	4.9	India	4,148	4.9	India	3,874	4.4	
7	Brazil	3,432	4.2	Brazil	3,430	4.0	Brazil	3,736	4.2	
8	Mexico	2,681	3.3	Mexico	3,001	3.5	Mexico	3,054	3.5	
9	Spain	2,373	2.9	Canada	2,463	2.9	Thailand	2,457	2.8	
10	France	2,277	2.8	Thailand	2,429	2.9	Canada	2,379	2.7	

Table 2 - Vehicle Production: Top 10 Countries (Units: 1,000, %)

Source: KAMA (Korea Automobile Manufacturers Association), Korean Automobile Industry, 2014



Figure 1 - Global Top 10 in Vehicle Production (2013) (%)

Source: KAMA (Korea Automobile Manufacturers Association), Korean Automobile Industry, 2014, Reconfiguration by writer.

In regard to vehicle sales, China has the world's highest number of car sales, accounting for 21,984,079 units, followed by the United States, which sold a total of 15,883,969 units in 2013.

Countra	2011				2012		2013		
Country	Cars	CVS	Total	Cars	CVS	Total	Cars	CVS	Total
China	14,472	4,032	18,505	15,495	3,811	19,306	17,928	4,055	21,984
U.S.A.	6,089	6,951	13,040	7,243	7,544	14,787	7,585	8,298	15,883
Japan	3,524	685	4,210	4,572	797	5,369	4,562	813	5,375
Brazil	2,647	986	3,633	2,851	950	3,802	2,763	1,003	3,767
India	2,519	777	3,297	2,780	815	3,595	2,583	694	3,277
Germany	3,173	334	3,508	3,082	311	3,394	2,952	305	3,257
Canada	681	938	1,620	748	967	1,716	754	1,024	1,779
Korea	1,211	263	1,474	1,175	234	1,410	1,137	246	1,383
Thailand	360	433	794	672	763	1,436	631	699	1,330
Mexico	586	352	938	649	377	1,027	684	414	1,098

Table 3 - New Motor Vehicle Sales by Country & Type (Units: 1,000)

Source: KAMA (Korea Automobile Manufacturers Association), World Motor Vehicle Production by Type & Region, 2014



Figure 2 - New Motor Vehicle Sales by Country (2013) (Units: 1,000)

Source: KAMA (Korea Automobile Manufacturers Association), Korean Automobile Industry, 2014 Reconfigured by author.

Japan ranked first in the world in terms of vehicle exports, accounting for 4,674,633 units in 2013. Germany was second, exporting 4,486,082 units. France and South Korea ranked third and fourth, accounting for 4,372,554 units and 3,089,283 units, respectively.

No	Country	2011			2012			2013		
INO.	Oburidiy	Cars	CVS	Total	Cars	CVS	Total	Cars	CVS	Total
1	Japan	3,929	534	4,464	4,196	605	4,801	4,065	609	4,674
2	Germany	4,518	307	4,826	4,131	298	4,429	4,197	288	4,486
3	France	4,336	556	4,893	3,898	506	4,404	3,842	530	4,372
4	Korea	2,980	171	3,151	3,012	158	3,170	2,948	140	3,089
5	Mexico	1,372	808	2,181	1,467	937	2,405	1,403	1,019	2,423
6	U.S.A.	1,300	427	1,727	1,515	425	1,940	1,624	467	2,091
7	Spain	1,642	478	2,121	1,326	402	1,729	1,493	386	1,879
8	Czech Rep.	1,331	6	1,338	1,383	6	1,390	1,337	4	1,341
9	U.K.	1,124	69	1,194	1,212	63	1,275	1,201	47	1,249
10	Thailand	188	545	733	268	753	1,021	391	729	1,121
11	China	470	377	848	587	426	1,013	553	390	943
12	Turkey	442	348	790	412	316	729	484	343	828
13	India	502	86	589	551	89	640	593	72	665
14	Brazil	413	165	578	308	163	472	397	191	589
15	Belgium	535	39	575	488	32	520	444	36	480

Table 4 - New Motor Vehicle Exports by Principal Country & Type (Units: 1,000)

Source: KAMA (Korea Automobile Manufacturers Association), Korean Automobile Industry, 2014



Figure 3 - New Motor Vehicle Exports: Global Top 10 (2013) (Units: 1,000)

#### 2-2. Trends & Features of the Korean Automobile Industry

#### 2-2-1. Development of the automobile industry

The automobile industry is a key industry in Korea that has contributed to the country's sustained economic growth and expansion of exports over the last 50 years. "The history of the Korean automotive industry began in August 1955, when Choi Mu-seong, a Korean businessman, and two of his brothers (Choi Hae-seong and Choi Soon-seong), mounted a modified and localized jeep engine on a U.S. military jeep-style car body made with the sheet metal from a junk oil drum can and military junk jeep parts to manufacture its first car, called the *Sibal* (car). In 1960s, Shinjin (in English 'new beginning') Automobiles launched the Shinjin Publica under a technical licensing agreement with Toyota". In order to develop the automobile industry, the Korean government announced an 'Automobile Industry Promotion Policy' in 1962, and The Automobile Industry Protection Act to protect the infant industry. Foreign automakers were barred from operating in Korea, except in joint ventures with local business entities. Three companies were established in 1962: Kyeongseong Precision Industry, which changed its name to 'Kia Industry', and started assembling cars in cooperation with Mazda in 1964; Ha Dong-hwan Automobile Industry Co. (the predecessor

Source: KAMA (Korea Automobile Manufacturers Association), Korean Automobile Industry, 2014 Reconfigured by author.

of SsangYong Motor Company); and Saenara Automobile, established with the technical cooperation of Nissan Motor Co., it was the first automaker in Korea that was equipped with modern assembly facilities. The Asia Motors Company was established in 1965, and the Hyundai Motor Company in 1968 with the technical cooperation of the Ford Motor Company. However, all these companies were then merely automotive assemblers, importing parts from overseas partners. In 1970, Toyota began to show hesitation in continuing its relationship with Shinjin Automobiles. After Toyota's withdrawal in 1972, Shinjin entered into a joint venture with General Motors Korea and formed General Motors Korea, which was renamed Saehan Motors in 1976. Kia opened its Sohari Plant in 1973 in Gwangmyeing, South Korea. The Hyundai Pony, the first Korean-developed automobile, was built in 1975. Hyundai chalked up another first when it exported the Pony to South America, in countries like Colombia, Veneauela and Ecuador between 1976 and 1982, making it the first Koreandeveloped car to be exported. In 1982, the Daewoo Group gained control of Saehan Motors, and changed its name to Daewoo Motors in 1983. However, the Korean automobile industry suffered greatly from the 1979 energy crisis, and the consequent local recession. The government took action to resolve this difficult situation in 1982 by implementing the 'Automobile Industry Rationalization Policy', the objective of which was to prevent excessive competition between the four major domestic automakers: Hyundai Motors, Kia Industry, General Motors Korea, and Asia Motors. Additionally, the government postponed its import liberalization of automobiles. After the Asian financial crisis that started in 1997, it took over the troubled SUV specialist, SsangYong, in 1998, but ran into financial trouble in 1999. Asia Motors was completely merged with Kia Motors Company (the new name for Kia Industry from 1990) in 1999. Kia Motors had financial trouble in 1997, and helped push South Korea into the Asian financial crisis. Kia was subsequently acquired by Hyundai Motors in 1998. Samsung's entry into the automobile industry was also ill-fated. Established in 1994, Samsung Motors, its car manufacture. Started selling cars in 1998, just when South Korea was hit by the Asian financial crisis. Faced with financial difficulties, Samsung sold a seventy percent stake in the company to Renault in September 2000, and it was renamed Renault Samsung Motors. The purchase of Daewoo Motors by General Motors Corporation in 2002, and Hyundai's completion of a one billion dollar assembly plant in Alabama in 2005, are two major developments that will further drive the Korean automobile industry to focus

on North America, its largest export market" (Wikipedia.org, History of Automobile Industry in South Korea).

Every Korean car manufacturer (Kia, Daewoo, SsangYong, etc.) was sold at home or abroad through M&A, with Hyundai the sole exception. In the end, most of the domestic auto industry has been changed with foreign capital as the industry underwent extensive restructuring in the aftermath of the 1997 financial crisis. As of 2013, the Korean auto industry is comprised of five automakers: Hyundai Motor, Kia Motors, GM Korea, SsangYong Motor, and Renault Samsung Motors. Hyundai Motor Company is now a top global automaker boasting a brand value worth USD 9 billion as of 2013. Korea's auto industry has been able to survive on its own, so to speak, in competition with the world's major car companies. The South Korean government has also offered support through policy and legislation since the 1960s. The Automobile Industry Promotion Policy was announced in 1962 and was designed to protect and develop the infant industry. The 1979 energy crisis significantly impacted the auto industry in a negative way, as did the consequent local recession. The government implemented its Automobile Industry Rationalization Policy in 1982 as a response, the objective of which was to prevent excessive competition between the four major domestic automakers. In particular, Hyundai Motor Company was the target of preferential support from the government and has been able to grow into a global company: the 5<sup>th</sup> largest in terms of production.

#### 2-2-2. Main indicators of the automobile industry

#### Share of national economy

"The Korean auto industry plays a key role in manufacturing, which has been leading Korean economic growth since the 1990s. It has already exceeded a 10% share of the national economy in the areas of employment, production and exports, accounting for 3.1% of GDP" (KAMA, 2014). In 2013, the automobile industry represented 12.1% of the nation's total production value, and accounted for 11.4% of the total manufacturing. In addition, vehicles account for 13.2% of total national exports.

The automobile industry ranks 1 in employment, production and added value for the

Korean manufacturing industry. It employed 320,971 people, accounting for 11.14% of the manufacturing sector (2.881 million workers) in 2013. Direct and indirect employment in the auto industry accounts for 7.3% (1.826 million workers) of total national employment (25.066 million people). Among them, 91,685 work for automakers and 245,345 in auto parts. There are 4,219 auto companies in Korea (assemblers, auto parts, and dealers) representing 6.45% of the manufacturing sector (KAMA, 2014).

Classification	Korea (2013)
Share of GDP	3.1%
Production	4,521,000 (5 <sup>th</sup> in the world)
Domestic Sales	1,383,000
Exports	3,089,000
Employees/Industry	320, 971 (11.4%)
Companies/Industry	4,219 (6.5%)

Table 5 - Korea's Automobile Industry: Share of National Economy

Source: KAMA, Annual Report 2014 Korean Automobile Industry \* Note 1: Domestic sales are for Korean vehicles only.

#### Automobile production

Let's take a closer look at Korea's automobile production. In 2013, it had decreased for two years in a row by more than 0.9% to 4,521,429 units. In terms of global ranking, Korea is maintaining its 5<sup>th</sup> place position with a 5.1% share of global production following China, the U.S.A., Japan and Germany. By maker, Hyundai and Kia account for about 76% of total production.

Vehicle Type		20	11	20	12	2013		
		Production	Share	Production	Share	Production	Share	
Total		4,657	100.0	4,561	100.0	4,521	100.0	
Passeng	Passenger Cars		90.6	4,167	91.3	4,122	91.2	
Commercia	Commercial Vehicles		9.4	394	8.7	398	8.8	
	Buses	145	3.1	121	2.7	117	2.6	
	Trucks	290	6.2	273	6.0	281	6.2	

Table 6 - Korea's Production by Vehicle Type (Units: 1,000, %)

Source: KAMA, Annual Report 2014 Korean Automobile Industry

Table 7 - Korea's Production by Automaker (Units: 1,000, %)

Automaker	20	)11	20	)12	2013		
Automater	Production	Share	Production	Share	Production	Share	
Total	4,657	100.0	4,561	100.0	4,521	100.0	
Hyundai	1,892	40.6	1,905	41.8	1,852	41.0	
Kia	1,583	34.0	1,585	34.8	1,598	35.4	
GM Korea	810	17.4	785	17.2	782	17.3	
SsangYong	113	2.4	119	2.6	143	3.2	
Renault Samsung	244	5.2	153	3.4	129	2.9	
Others	12	0.3	12	0.3	14	0.3	

Source: KAMA, Annual Report 2014 Korean Automobile Industry

Overseas production is very important to overall production. The Korean automobile industry entered into globalization rapidly after the Asian financial crisis. It primarily appeared to increase exports and overseas production. As of 2013, overseas production by domestic automakers had increased to domestic production levels. In 2001, the initial scale of overseas production was only 100,000 units. Over the next 10 years, this increased up to 36.4% of total automobile production. In 2013, China's share of this overseas production was 38.7%, while total overseas production in China, the U.S.A. and India, amounted to 72% of total overseas production in all countries.

		Total		Hyu	ndai	Kia	
Country	2012	2013		0010	0010	0010	0010
		Production	Share	2012	2013	2012	2013
China	1,342	1,591	38.7	855	1,040	487	551
U.S.A.	719	768	18.7	361	399	358	369
India 638		633	15.4	638	633	-	-
Slovakia	292	313	7.62	-	-	292	313
Czech Republic	303	303	7.39	303	303	-	-
Russia	224	229	5.59	229	229	-	-
Brazil	27	167	4.07	167	167	-	-
Turkey	87	102	2.43	102	102	-	-
Total	3,635	4,108	100.0	2,874	2,874	1,138	1,233

Table 8 - Production by Korean Automakers, by Region (Units: 1,000, %)

Source: KAMA, Annual Report 2014 Korean Automobile Industry

Korea's automakers are going abroad to enter local markets, with this reason accounting for 72.9% of answers given in the survey. From the years 2000 to 2004, this reason was higher than taking advantage of low wages and promoting exports.

Table 9 – Korean	Automakers:	Purpose	for Foreign	Investment	(Unit: %)
					( )

Purpose	2000-2004	2005-2009	2010-2013
Entering local markets	34.4	29.4	72.9
Entering third countries	0.3	0.2	0.1
Access to cheap labor	16.2	5.6	2.4
Development of resources	0.2	0.7	0.0
Securing raw materials	0.1	0.0	0.0
Promoting exports	28.9	47.2	23.2
Introducing advanced technologies	0.3	0.0	0.3
Breaking through trade protections	3.2	1.3	0.4
Other	16.5	15.5	0.7

Source: Export-Import Bank of Korea (KEIB), 2014

#### **Domestic sales & exports**

In 2013, a total of 4,472,641 vehicles were sold in return, with 31% sold domestically and 69% as exports. Hyundai and Kia were responsible for about 70% of total sales.

Country	2011		20	12	2013		
	Sales	Exports	Sales	Exports	Sales	Exports	
Korea	1,474,637	3,151,708	1,410,857	3,170,634	1,383,358	3,089,283	
World Total	77,106,659	32,575,912	81,164,252	32,282,279	84,621,139	32,715,330	

Table 10 - New Motor Vehicle Sales & Exports by Country (Unit: Vehicles)

Source: KAMA, Automotive News Market Databook, Ward's Automotive Yearbook, Fourin

Table 11 - Korean	Automobile	Sales by	Automaker	(Unit: %)
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Melcor		20	011	2012		2013	
I	viaker	Sales	Share	Sales	Share	Sales	Share
	Total	4,626,345	100.0	4,581,491	100.0	4,472,641	100.0
Total	Domestic Sales	1,474,637	31.9	1,410,857	30.8	1,383,358	30.9
	Exports	3,151,708	68.1	3,170,634	69.2	3,089,283	69.1
Hundai	Domestic Sales	684,157	46.4	667,777	47.3	640,865	46.3
Tiyunuai	Exports	1,204,155	38.2	1,242,083	39.2	1,173,014	38.0
Kia	Domestic Sales	493,003	33.4	482,060	34.2	458,000	33.1
Na	Exports	1,075,871	34.1	1,102,004	34.8	1,131,636	36.6
CM Karaa	Domestic Sales	140,705	9.5	145,702	10.3	151,040	10.9
Givi Norea	Exports	656,425	20.8	655,878	20.7	629,966	20.4
SoongVong	Domestic Sales	38,651	2.6	47,700	3.4	63,970	4.6
Sangrong	Exports	73,630	2.3	71,553	2.3	78,740	2.5
Renault	Domestic Sales	109,221	7.4	59,926	4.2	60,027	4.3
Samsung	Exports	137,738	4.4	94,383	3.0	70,983	2.3
Others	Domestic Sales	8,900	0.6	7,692	0.5	9,456	0.7
	Exports	3,889	0.1	4,733	0.1	4,994	0.2

Source: KAMA, Annual Report 2014 Korean Automobile Industry

#### 2-2-3. Automakers

As of 2013, the Korean auto industry is comprised of five automakers: Hyundai Motor, Kia Motors, GM Korea, SsangYong Motor, and Renault Samsung Motors. Hyundai Motor Company is now a top global automaker. The company has a production capacity of 4.85 million vehicles per year through its plants located not only in Korea but all across the world, including the U.S.A., China, India, Europe and Russia. Its plant in Brazil, which completed construction in 2012, will be a strong addition to the company's global production network. Kia Motors Corporation (www. Kia.com) – a maker of quality vehicles for the young-at-heart - was founded in 1944 and is Korea's oldest manufacturer of motor vehicles. Kia today has over 47,000 employees around the world and annual revenues of around USD 43 billion more than 2.7 million vehicles are sold annually and serviced through a network of distributors and dealers covering around 150 countries. GM Korea Company (GM Korea) was established on October 17, 2002. It has been growing rapidly in terms of vehicle development, domestic sales and exports, becoming a key player in the Korean automotive industry. GM Korea produces and sells Chevrolet brand vehicles in Korea and global markets. GM Korea operates manufacturing facilities in the cities of Gunsan, Changwon, Incheon, Boryeong and overseas plant in Hanoi, Vietnam. GM Korea sold 1,965,292 vehicles and vehicle kits worldwide in 2013. SsangYong Motor's 59 years of existence is a history of frontiers crossed and challenges met to achieve a better future. As a premier manufacturer in Korea's automotive industry, SsangYong is respected for its advanced styling and outstanding performance since its foundation in 1954, made possible by the company's quality engineering. The company entered the era of four-wheel drive vehicles in the 1980s by independently developing Musso and Korando. After 2000, SsangYong established itself as the leader of SUVs by building a full line of SUVs comprising Rexton, Kyron, Actyon, Korando and Actyon Sports. Renault Samsung Motors, which is a member of the Renault-Nissan Alliance, is a full-fledged Korean automotive company with world-class competitiveness based on cutting-edge technologies and design capabilities, etc. It is a company that brings together resources and capabilities of Korea, Renault of France, and Nissan of Japan. In other words, it is a company with a unique corporate structure under which different cultures of the three nations and capabilities of three different companies are combined together to create synergies. Renault Samsung Motors' ambition is to become the top performing company within the Renault-Nissan

Alliance in quality, efficiency and profitability, and to play a key role in the Renault Group's Asia strategy. Having firmly established its roots in Korea, the company is now aiming at becoming a global player in car industry (KAMA, 2014).

	Hyundai	Kia	GM Korea	SsangYong	R. Samsung
Foundation	1967	1944	2002	1954	2000
Location(s)	Ulsan, Jeonju, Asan	Gwangmyeong, Hwaseong, Gwangju	Gunsan, Changwon Incheon	Pyeongtaek, Changwon	Busan
Employees	63,099	33,376	16,919	4,837	4,385
Main Products	Cars, SUVs, CDVs, buses, trucks, special vehicles	Cars, SUVs, CDVs, buses, trucks, special	Cars, SUVs, CDVs, buses, trucks	Cars, SUVs	Cars, SUVs
Sales(KRW billion)	89,256	47,097	12,918	3,327	3,974
Net income (KRW billion)	7,649	2,994	-353	-51	197
Domestic production capacity (1,000)	1,788	1,632	837	157	300
Overseas Production (1,000)	1,876	1,712	629	140	152
Domestic(1,000)	685	465	154	69	80
Export(1,000)	1,195	1,227	477	71	90

Table 12 - Korean Automakers (2013)

Source: KAMA, Annual Report 2014 Korean Automobile Industry, Reconfiguration by writer.

## 2-3. Features of & Changes to Industrial Relations

#### 2-3-1. General features

#### Union density

In Korea, the overall unionization rate peaked at 19.8% in 1989, right after the Great Labor Struggle, and decreased to around 12% between 1997 and 2001. This figure further declined to 11% from 2002 to 2003 and was down around 10% after 2004. The organization

rate dropped to 9.8% in 2010 and bounced back to around 10.3% in 2013 (KLI, 2015). This suggests that working conditions and labor rights are worse than in the past, as collective agreements in Korea cover only 10% of wage workers, which aligns with Young-Mo Yoon's statement that, "low trade union density results in low coverage of collective agreements and the large majority of precariously employed workers being excluded from trade union protection" (2009).

Vaar	Union Density								
i ear	Members (1,000 people)	Organization rate (%)	Wage workers (1,000 people)						
1985	1,004	12.4	8,104						
1990	1,887	17.2	10,950						
1991	1,803	15.4	11,699						
1992	1,735	14.6	11,910						
1993	1,667	14.0	11,944						
1994	1,659	13.3	12,479						
1995	1,615	12.5	12,899						
1996	1,599	12.1	13,200						
1997	1,484	11.1	13,404						
1998	1,402	11.4	12,296						
1999	1,481	11.7	12,663						
2000	1,527	11.4	13,360						
2001	1,569	11.5	13,659						
2002	1,606	11.3	14,181						
2003	1,550	10.8	14,402						
2004	1,537	10.3	14,894						
2005	1,506	9.9	15,185						
2006	1,559	10.0	15,551						
2007	1,688	10.6	15,970						
2008	1,666	10.3	16,206						
2009	1,640	10.0	16,454						
2010	1,643	9.7	16,971						
2011	1,720	9.9	17,397						
2012	1,781	10.3	17,712						
2013	1,848	10.3	18,195						

Table 13 - Union Density in Korea

Source: Korea Labor Institute (KLI), 2015 KLI Labor Statistic

#### National & metal trade unions

National-level labor federations in Korea are divided. The FKTU (Federation of Korean Trade Unions) was first established as the Korean Labor Federation for Independence Promotion, on March 10th, 1946. The KCTU (Korean Confederation of Trade Unions) was founded in December 1995, integrating three organizations: the Korea Trade Union Congress, the National Council of Regional and Industrial Trade Unions, and the Korean Council of Trade Union Representatives. In addition, a new national-level federation of trade unions, the Korean Labor Unions Confederation (KLUC) was established in 2011.

Looking at the membership in umbrella labor organizations, the Federation of Korean Trade Unions (FKTU) has 819,755 members, or 45% of all unionized workers in Korea. The Korean Confederation of Trade Unions (KCTU) has 626,035 members (34%) while 381,575 union members (21%) do not belong to any umbrella labor organization. In regards to the KCTU members, workers under the Korean Government Employees' Union (KGEU) and the Construction Labor Union were not counted as KCTU members, since they are considered non-statutory unions due to labor union eligibility issues. The KLUC has only 20,211 members (3.1%).

Union Federation	Foundation	Ne of Unione	Number of Members				
	Foundation	INO. OF UNIONS	Total	Men	Women		
Total		5,305	1,847,586	1,404,821	442,765		
KCTU	1995	356	626,035	458,582	167,453		
FKTU	1946	2,313	819,755	643,258	176,497		
KLUC	2011	100	20,221	15,984	4,237		
Unaffiliated		2,536	381,575	286,997	94,578		

Table 14 – Unionized Members by Umbrella Union (2013) (Unit: unions, persons)

Source: Ministry of Employment and Labor (MOEL), Nationwide Organization of Labor Unions, 2014 Notes: 1) Number of unions under a federation is the number of members plus 1 for itself

<sup>2)</sup> Number of member unions of each federation is the number of those that joined the national federation without joining the industrial federation, plus the federation itself.

		August 2014				
	Classification	Wage workers	Members	Membership rate		
	Regular worker	12,165	2,299	18.9		
Employment type	Temporary worker	5,104	41	0.8		
cype	Daily worker	1,507	-	0.0		
Condor	Male	10,635	1,622	15.3		
Gender	Female	8,141	717	8.8		
	Agriculture, forestry, fishing, mining	140	8	5.7		
	Manufacturing	3,831	610	15.9		
	Electricity, gas, water supply	82	50	61.0		
	Construction	1,360	36	2.6		
	Wholesale, retail trade	2,274	101	4.4		
	Accommodation, food services	763	302	39.6		
	Transportation	1,304	14	1.1		
	Communications	634	132	20.8		
Industry	Finance & insurance	805	202	25.1		
	Real estate, leasing	349	11	3.2		
	Professional, scientific, technical industries	883	93	10.5		
	Business facilities management, business support services	1,100	52	4.7		
	Public administration, defense, social security	974	268	27.5		
	Education	1,428	251	17.6		
	Health & social welfare	1,638	138	8.4		
	Others	1,196	70	5.9		
Total		18,777	2,341	12.5		

Table 15 – Union Membership Rate by Characteristic (2014) (Units: 1,000 persons, %)

Source: Korea Labor Institute (KLI), 2015 KLI Labor Statistics, 2015

Notes: "Others" include arts, sports and recreation-related services, other public services, repair and other personal services, domestic services, activities of international institutions, sewage/waste management, materials recovery, and remediation activities.

Industry-level labor federations, in particular in the automobile industry, affiliated with the KCTU and the KMWU<sup>4</sup>, inherited a tradition of democratic labor movement dating back

<sup>4. &</sup>quot;The financial crisis has also presented possibilities for change. Labor needed industry-wide solidarity to protect employment, and the government required labor's cooperation to implement structural adjustments. Realizing that enterprise unions could not adequately protect their

to the late 1980s. Its membership, which began at just over 40,000, grew to almost 141,463 and the number of factories involved to 269 by  $2012^5$ . Classified by industry, the number of metal union members at automaker plants recorded 94,029, accounting for 66.47% of the total number of members, while 22,247 (15.73%) worked at auto parts industries. Therefore, the total number of union members in the automobile industry accounts for 82.2% of the total membership of the KMWU.

Type of industry	Automa ker	Auto parts	Machines	Ship building	Steel	Electrici ty	Other manufact uring	Non- manufact uring	Individ ual cases	Total
Factories	16	117	33	5	11	21	31	5	-	239
%	6.69	48.95	13.81	2.09	4.60	8.79	12.97	2.09	-	100
Members	94,029	22,247	9,565	4,305	7,467	1,491	1,690	138	531	141,463
%	66.47	15.73	6.76	3.04	5.28	1.05	1.19	0.10	0.38	100

Table 16 - KMWU by Industrial Classification (2012) (Unit: unions, persons, %)

Source: Ministry of Employment and Labor (MOEL), 2013 Analysis & Evaluation of Actual Conditions of Industrial Relations, 2013

In December 2012, looking at the KMWU's organization status by size, the number of members who worked at factories employing fewer than 50 people were 1,796 (1.27%) while those working for factories employing over 10,000 were 90,099 members (63.63%).

	1–49	50-99	100-199	200–299	300-499	500-999	1000-99999	over 10,000	Individual	Total
Factories	98	36	38	19	24	11	10	3	-	239
%	41.00%	15.06%	15.90%	7.95%	10.04%	4.60%	4.18%	1.26%	-	100%
Union members	1,796	2,659	5,718	4,504	9,557	7,365	19,324	90,009	531	141,463
%	1.27%	1.88%	4.04%	3.18%	6.76%	5.21%	13.66%	63.63%	0.38%	100%

Table 17 - KMWU by Company Size (2012) (Unit: unions, persons, %)

Source: Ministry of Employment and Labor (MOEL), 2013 Analysis & Evaluation of Actual Conditions of Industrial Relations, 2013

member's in terms of employment security, union leaders began launching major organizational drives at the industry level" (Lee, 2004). As a result, the KCTU currently has 8 industrial trade unions including the KMWU and the KHMU. The KMWU became an industry-level trade union in 2001 from industrial confederation.

<sup>5.</sup> Based on 2015 the total number of KMWU members has increased slightly to 152,299.

All automakers in Korea, except for Renault Samsung, are unionized. In Table 18 below, the majority of production workers and lower-ranked white-collar employees were organized into four trade unions. All the unions became affiliated units of the Korea Metal Workers Union (KMWU) in mid-2006. However, at SsangYong Motor, after layoffs and a 77-day strike in 2009, trade unions affiliated with the KMWU were converted to enterprise unions.

	Hyundai	Kia	GM Korea	SsangYong
Established	July, 1987	August, 1960	July, 1963	July, 1987
Union members	48,507 (7 local units)	31,127 (5 local units)	13,833 (4 local units)	139 <sup>6</sup> (1 unit)
Full-time officers	91	73	85	-
Union dues	1%	1. 2%	1%	1%
Umbrella union	KCTU/KMMU	KCTU/KMWU	KCTU/KMMU	KCTU/KMMU

Table 18 - Korean Automobile Industry: Large Trade Unions (2014)

Source: Korean Metal Workers Union (KMWU), 2014 \* Note: Union members as of 2015

#### The structure of collective bargaining

Industrial relations (hereafter IR) in Korea influence the political and economic situation. "Korea has long been known for its rapid economic growth led by the strong developmental state. The basic configuration of Korean IR was formed by the legacies of the developmental state and democratization" (Lee Joo-Hee, 2009). The legal framework for industrial relations under the former authoritarian regimes was specifically designed to discourage workers from taking concerted collective action. Amendment of the labor laws in 1963 banned trade unions from participating in political activities and establishing a second union at both the plant and national level. Under 1980 revisions, national and industry-wide collective bargaining (hereinafter CB) was formally eliminated, and all intervention by third parties in the collective bargaining process, including by national federations, was forbidden. In addition, the Korean CB structure was completely decentralized by reorganizing industry-based unions into enterprise unions. As a result, most trade unions were organized on an enterprise basis, and more than 80% of collective bargaining was conducted at the enterprise level. According to Article 29 of the Trade Union and Labor Relations Adjustment Act, union representatives

<sup>6.</sup>SsangYong Motor union was divided into two unions in 2015. This statistic refers only to the union affiliated with the KMWU.
shall have the authority to negotiate collective agreements. Based on the single bargaining channel under the Trade Union Act<sup>7</sup>, one representative labor union must be selected at each company or workplace if there are two or more labor unions on the shop floor. The right of collective bargaining is one of three labor rights guaranteed by the Korean Constitution, which states in Article 33, section 1, that to enhance working conditions, workers shall have the right to association, collective bargaining, and collective action'. The right to collective action by workers employed by important defense industries may either be restricted or denied under the conditions prescribed by law. Collective bargaining and multi-employer bargaining. Because the single bargaining channel system is a mandatory provision of labor law, labor unions and employers must comply. Regardless of a union's organizational type or overlapping membership between labor unions, all unions must go through the single bargaining channel selection process.

There were efforts to change the system of collective bargaining in the late1990s. Actually, in Korea, "the trade union movement enjoyed a short-lived renaissance in the late 1980s and early 1990s as democratization created a favorable legal and social environment for the robust growth of independent unions and collective bargaining. Trade unions successfully negotiated higher wages and expanded their bargaining agenda to include various aspects of HRM issues such as rules on firing, disciplinary action, transfers and work organization. By the mid-1990s, enterprise unions appeared to have consolidated their power base in large firms" (Yoon Young-Mo, 2009). But after the Asian financial crisis, the system of enterprise-level unions was faced with limitations, so industry-level unionization has been a long-term goal of the democratic labor movement in Korea. Labor needed industry-wide solidarity to protect employment, and the government required labor's cooperation to implement structural adjustments. Realizing that enterprise unions could not adequately protect their members in terms of employment security, unions began launching major organizational drives at the industry level. In particular, KCTU-affiliated unions in those sectors with more unionized workplaces were more rapidly transformed into industry unions.

<sup>&</sup>lt;sup>7</sup> Korea's labor laws can be classified as individual labor relations laws and collective labor relations laws, the latter of which includes the Trade Union & Labor Relations Adjustment Act (Labor Union Act). This Act ensures that the three rights of labor – to organize, to engage in collective bargaining, and to take collective action – are upheld and that working conditions are maintained and improved towards promoting the socioeconomic status of workers. The Act also mediates labor relations in a fair manner to prevent labor issues and resolve them when they occur, while contributing to industrial peace and development of the national economy.

Year	2005	2006	2007	2008	2009	2010	2011	2012
Unions	425	431	345	317	385	346	474	515
Industrial/regiona I union members	603,820	618,356	865,423	881,277	868,467	888,437	963.632	983,707
Total members	1,506,172	1,559,179	1,687,782	1,665,798	1,640,334	1,643,113	1,719,922	1,781,337
%	40.1	39.7	51.3	52.9	52.9	54.1	56.0	55.2

Table 19 - Number of Industrial/Regional Union Members by Year (Units: persons, %)

Source: Park Yong-Chul, The relationship between labor market structure and collective bargaining in Korea, 2013

As a result, the "Korean structure of industrial relations has been centralized for the last decade as industry-level collective bargaining has been permitted by law" (Lee Joo-Hee, 2011). Today, three industries –banking, health and metal– have sector bargaining arrangements.

Classification Metal (KMWU)		Finance (KFIU)	Health (KHMU)	
Trade exposure	High	Medium	Low	
Union strategy	Radical/militant	Moderate/collaborative	Moderate/militant	
Affiliated national KCTU center		FKTU	KCTU	
Union members	Union members 147,701		36,500	
Date of union establishment February 2001		March 2000 (1961)	February 1998	
% Sectoral bargaining 14% (a)		100%	88% (b)	

Table 20 – Industry Sectors & Basic Umbrella Union Characteristics in Korea

(a) Percentage of KMWU members covered by the 2007 sectoral collective agreement.

(b) Percentage of KHMU-affiliated hospitals covered by the 2007 sectoral collective agreement. Calculations based on information from the Korean Health and Medical Workers Union (KHMU; 2007). Sources: Ministry of Employment and Labor (2008), Statistics on Trade Unions; Korean Metal Workers Union

(2008), Industry-level Bargaining of the KMWU; Korean Health and Medical Workers Union (2007), KHMU document no. 2007-2009 KCTU, Korean Council of Trade Unions

Sector bargaining outcomes clearly demonstrate that collective bargaining above the enterprise level can produce broader impacts which could not otherwise be generated by narrow-focused enterprise bargaining. However, "the new practice of collective bargaining at

the sector level has encountered numerous obstacles in Korea due to the problem of determining bargaining agents and bargaining coordination at various levels, which is closely associated with bargaining costs for employers" (Yoon Young-Mo, 2009). For example, the KMWU converted its affiliates to industrial trade unions in the early years of the first decade of the 2000s. However, they haven't been able to properly conduct industry-level collective bargaining yet. The KMWU's unique internal structure makes it extremely difficult to coordinate between the conflicting interests within the union. The rank-and-file members in larger firms have preferred to maintain the relative autonomy of enterprise-level bargaining. On the other hand, those members working for small firms have been pushing for centralization of bargaining to at least the regional level, while the Korean Metal Industry Employers Association (KMEA), the official employers' association in the metal sector, reflects the structure of the industry-level union. The KMEA consists of mainly small-and medium-sized firms, with just 14 percent of the KMWU's membership. Large employers are categorically opposed to sector-wide bargaining, insisting that it cannot reflect the great variety of industries and firm sizes, working conditions, and ability to pay in the metal sector. As a result, efforts to institutionalize a centralized bargaining structure in the metal sector are in disarray, and collective bargaining takes place in many forms<sup>8</sup>. The important point is that the bargaining strength of the metal sector has been declining as employers have been leaving the country in search of low-cost production facilities and other markets, particularly those in China. In addition, the extremely heterogeneous internal composition of the metal sector has not been helpful. Because export-oriented *chaebol* auto companies have been imposing further cost cutting measures on their supplier chains, the wage gap between large and small firms and between regular and irregular workers has been widening. Both employers and local union members at large firms have wanted to maintain the flexibility and autonomy of enterprise-level bargaining. It is ironic that the more the KMWU emphasizes the solidarity of the metal sector, the more the collective bargaining structure becomes disorganized as regular workers in large firms become more concerned with sector bargaining, which can be used as an instrument of wage restraint (Lee Joo-Hee, 2009). Therefore, enterprise-level IR is still dominant and CB is limited to trade union members. Many local members want to maintain enterprise consciousness and financial autonomy. In other words, there is no industry-wide

<sup>8.</sup> Basically, "the KMWU has developed a three-tier bargaining process - national, regional and enterprise bargaining - corresponding to the loose organizational structure of the union, which significantly increased the bargaining costs for employers" (Yoon Young-Mo, 2009).

CB system, but rather, simply a set of enterprise-level negotiations to establish actual working conditions in the workplace. As a result, "the labor movement in Korea suffers from low coverage of collective agreements and low union density" (Yun Ael-Im, 2011).

## Labor disputes

Labor disputes had an explosive surge in the 1990s but have generally decreased since the middle of the first decade of the 2000s. Participants, lost days, and propensity to strike have all decreased. The key issue in labor disputes has changed from wage increases to layoffs and employment security. In addition, non-regular workers have been more involved in unionization and struggles against union repression.

	U	nions			Wage Workers (1,000 people)			
Year	Members (1,000 people)	Organization rate (%)	Incidents (1 case)	Participants (1,000 people)	Lost work days (1,000 days)	Propensity to strike (days/1,000 workers)	Duration (days)	Wage workers (1,000 people)
1990	1,887	17,2	322	134	4,487	409.8	19.1	10,950
1997	1,484	11.1	78	44	445	33.2	22.7	13,404
2000	1,527	11.4	250	178	1,894	141.8	30.0	13,360
2007	1,688	10.6	115	93	536	33.6	33.6	15,970
2013	1,848	10.3	72	113	638	35.1	16.5	18,195

Table 21 – Labor Disputes in Korea

Source: Korea Labor Institute (KLI), 2015 KLI Labor Statistics, 2015

Finally, we will look at a recent issue that has a direct influence on industrial relations. Revision to Korean' labor law in January 2010 by this pro-business government administration was one of the most important changes to the legal framework of Korea's IR since the nation's democratization. The revised law, which had been delayed for 13 years, finally permitted multiple unions at a single workplace from 1 July 2011, and prohibits employers from paying full-time union officers. One major problem with this revised law is that it forces trade unions to determine a representative bargaining union if there are two or more trade unions at a single workplace. If the trade unions are unable to determine the representative union within the prescribed period, and the employer does not consent to dividing bargaining units, the trade union representing the majority of members automatically becomes the representative bargaining union. In the process, trade unions can organize a joint

representative bargaining team instead of delegating the bargaining authority to the majority union. However, unions that have less than 10 percent of all trade union members at the enterprise are not eligible to participate in the joint team (Article 29-2). Because most trade unions composed of non-regular workers are not likely to have 10 percent or more of all trade union members at the enterprise, the bargaining rights of non-regular and/or vulnerable workers are likely to be seriously impeded. The procedure for determining the representative bargaining union can also be detrimental to the burgeoning industry-level bargaining. Because the law requires all trade unions at a workplace, including members of industrial unions, to participate in the procedure for determining the representative branch of an industrial union that does not have a majority status would lose the right to participate in the industry-level bargaining process. This may, at least temporarily, strengthen enterprise unionism and enterprise-level bargaining, thereby weakening industrial unions and trade union movements based on broader membership categories.

## 2-3-2. Features of & changes to industrial relations & collective bargaining

Globalization has affected the labor market and industrial relations since the 1990s. Labor market flexibility has appeared as a result, along with a fall in union density, as well as a weakening of IR at the national level. In particular, the automobile industry, with its large-scale operations and many linking industries, is directly affected as it has been an influential pattern setter in nationwide collective bargaining and industrial relations in all countries. In the 1990s, these changes for the auto industry can be divided into two parts. The first is an increase of non-regular workers due to changes to the structure of the labor market. The second is the changes to agenda in industrial relations and collective bargaining.

## Flexibility in the labor market: an increase in non-regular employment

We will deal first with the increase of non-regular workers<sup>9</sup> due to changes in the labor market. Korea has experienced drastic changes in labor market since the financial crisis that began in 1997. This financial crisis was a major turning point in Korea's socioeconomic paradigm which had been touted as the champion of equitable growth with an increasingly inclusive labor market. The structural changes which followed the crisis have been felt

<sup>9 .</sup>This term includes non-regular, temporary, contingent, precarious and non-standard workers, with the specific terminology varying by researcher. However, according to ITUC (2014), the term 'precarious work' refers to the full or partial exclusion of kinds of work from the coverage of labor and trade union laws, among others.

42

strongly in the labor market and have been revealed in its deepening segmentation. While overall employment performance has not deteriorated much since the 1997 crisis, the quality of employment has become increasingly polarized, with an increasing number of non-regular workers and widening inequality in wages and income.

What has been the overall trend in non-regular work in Korea? Whatever definition and estimation method is used, the overall trend is obvious: a significant increase since the 1997 financial crisis. Massive restructuring during the crisis period affected those in regular employment and also led to a growing use of non-regular workers (such as temporary and part-time workers) to make hiring and firing easier in the event of a desire to adjust the workforce (Ha Byung-Jin and Lee Sang-Heon, 2013). Most non-regular employment creates workers who are not protected by trade unions or covered by collective agreements, and is the critical reason that labor has been divided and weakened. This type of employment includes the ongoing employment of fixed-term<sup>10</sup> workers via repeated contract renewals, disguised self-employment via the facade of non-employment contractual forms and triangular employment relationships using disguised subcontracting<sup>11</sup> or private employment agencies. Surfacing in the middle of the first decade of the 2000's as a major labor market issue in Korea, the essence of the problem is that, unlike regular workers, job security is not guaranteed for non-regular workers, resulting in a significant gap in wages and social insurance coverage between the two worker groups. These trends continued after business recovered in 2010. Since this time new jobs have been created mostly in precarious employment only, which accounted for about 45% of all workers<sup>12</sup>. Furthermore, as the strategies used by employers diversify, the range of precarious work types has increased in Korea. In this regard, "it [non-regular employment] seems to be more fundamental and may have a lasting impact on IR in the post-financial crisis era. The new trends in HR management are focusing on increasing flexibility and short-term efficiency, which have strengthened since the financial crisis" (Kim Dong-Won, 2003).

With these changes in mind, how has the automobile industry labor market continued to grow? Korean car makers have used in-house subcontracting widely since the 1980s as the

<sup>10.</sup> Workers whose employment terms are fixed and job security is not guaranteed: workers with employment contracts of 1 year or less and day

Workers whose employment terms are fixed and job security is not guaranteed: workers with employment contracts of 1 year or less and day workers also fall into this category.
This type includes indirectly employed workers (dispatched/subcontracted), those who work for other employers rather than their legal employer; dispatched workers hired by temporary agencies or workers hired under subcontracting companies, independent contractors.
As of 2013, non-regular workers account for 45.7% (8,328,000 workers) of total wage workers, according to the Korea Labor & Society Institute (KLSI). However, government statistics differ at 32.6% (5,946,000 persons), as the government excludes from its statistics persons in special types of employment.

Korean government actively encouraged its use by large companies in manufacturing as part of its heavy industry development policy. Thus, Korean manufacturing has grown due to this subcontracting<sup>13</sup> structure base. In particular, companies have expanded the use of in-house subcontract workers in production and its support sectors since the 1990s, which is a type of outsourcing in the production sector. Moreover, in-house subcontract workers have been placed on direct production lines by parent companies since 1997, as they can be replaced through the employment adjustment mechanism, as well as to reduce labor costs (Jo Seong-Jae et al, 2004: 93-95).

<Example: The use of in-house subcontract workers by a company>

Direct production sector: press, body, paint, design, engine, transmission, material, material parts logistics (production management), quality management, etc.
Production sector support: production equipment maintenance, parts, packaging, export shipments, shipped PDI
General support services: security, cafeteria, facility cleaning, design, etc.

This trend can be confirmed by statistics. According to the KMWU (2012), the total number of non-regular workers has increased constantly since 2001, increasing from 54,466 in 2001 to 104,134 in 2012. Within this group, in-house subcontract workers also increased from 39,167 in 2001 to 84,439 in 2012. This shows that the increase in non-regular workers is largely caused by the increased use of in–house subcontract workers.

Table 22 – Statistics of Non-regular & In-house Subcontract Workers in the KMWU (Unit: persons)

Voor	Direct Employment			Indirect Employment			Car Doalara	Migraph	Appropriago	Subtotal
rear	Temporary	Daily	Part time	Dispatch Subcontracting Service		Service	- Car Dealers	iviigrant	Apprenuces	Sudicital
2001	420	1,026	62	605	39,167	591	11,990	605	-	54,466
2012	4,044	69	0	792	84,439	4,367	10,270	103	61	104,134

Source: KMWU, KMWU's Challenges to Organize Unorganized & Irregular Workers in the Metal Industry, 2012

The latest data shows the situation of non-regular work in the auto industry. According to the Korean Ministry of Employment and Labor (MOEL), the number of non-regular workers

<sup>13. &#</sup>x27;The term contract labor means work performed for a natural or legal person (referred to as a'user enterprise') by a person (referred to as a'contract worker') where the work is performed by the contract worker personally under actual conditions of dependency on or subordination to the user enterprise and these conditions are similar to those that characterize an employment relationship under national law and practice and where: the contract worker is provided for the user enterprise by a subcontractor or an intermediary" (ILO, 1998).

employed by large enterprises with over 300 employees equaled 1.82 million (39.5%) in 2015, with the directly-employed making up 900,000 (19.5%) and indirectly-employed making up 920,000 (20%) of this number. However, the problem is that MOEL classifies differently 610,000 workers who work in facility management and business support services that are mostly dispatch service workers. If these workers were classified as indirect workers, the number of indirectly-employed would increase to 1.51 million people (32.8%). In Hyundai Motor's case, indirect employment accounts for 14.2% of all employees, with MOBIS, which provides the modules to Hyundai Motor, employing 42.1% of its personnel as non-regular workers (Kim Yu-Sun et al, 2015).

Company	Employees	Regular workers	Non-regular workers (persons)				Non-regular workers (%)			
			Total	Direct	Fixed- term	Indirect	Total	Direct	Fixed– term	Indirect
Hyundai	76,167	61,799	14,368	3,552	3,552	10,816	18.9	4.7	4.7	14.2
Kia	38.769	33,651	5,118	254	254	4,864	13.2	0.7	0.7	12.5
GM (Bupyeong)	19,726	16,352	3,374	18	18	3,356	17.1	0.1	0.1	17.0
Hyundai Mobis	14,422	8,105	6,317	245	243	6,072	43.8	1.7	1.7	42.1

Table 23 – Non-regular Workers at Companies with over 300 Employees (2015)

Source: Kim Yu-Seon and Yun Ja-Ho, The scale of non-regular workers at large companies - The result of the employment disclosure system, 2015

With regard to the above, it has to be emphasized that in basic terms, the use of outsourcing by companies profoundly impacts labor on two sides. First, people working in the outsourced sectors are placed in working conditions that are inferior to the working conditions of regular workers. Second, the use of outsourced workers within companies has a major impact on regular workers. For example, if such outsourced workers are used widely, the number of regular workers may be gradually reduced thereby weakening the bargaining strength of trade unions. Table 24 shows the pay gap between regular workers and in-house subcontract workers doing the same or similar work within companies. Subcontract workers are treated relatively unfairly when compared to regular employees. In terms of average full-time hourly wage, it is KRW 8,209 for regular employees and KRW 5,115 for in-house subcontract workers, with the latter representing only 62.3% of the pay earned by regular workers pay. Bonuses and incentives for regular employees can be the cause of wage gaps between them

and in-house subcontract workers.

Classification	Hourly (KF	rly wage Mont KRW) (KRW 10,		nthly 10,000)*	Yearly bonuses (KRW 10,000)		Incentives (KRW 10,000)		Total KRW 10,000)+++	
Year	2002	2012	2002	2012	2002	2012	2002	2012	2002	2012
Regular workers	4,423.1	8,209.0	154.9	238.7	829.8	1,406.9	226.4	880.1	243.0	429.4
Subcontract workers	3,081.6	5,115.4	109.83	1832	303.8	586.3	133.5	477.5	146.3	271.9

\* Average monthly wage: basic wage + allowances + overtime pay (excluding incentives and bonuses)

\*\* Total monthly wage = Average monthly wage + (incentives + bonuses / 12)

Source: KMWU, KMWU's Challenges to Organize Unorganized & Irregular Workers in the Metal Industry, 2012

Now, this needs to be explained with respect to the background and driving force behind the changes to the labor market in Korea's automobile industry. I would like to discuss the changes to production method and expansion of this production abroad. The global car industry is currently experiencing some economic restructuring and the ramifications for producing countries and regions are quite significant. "While there is rapid expansion of production capacities coupled with opening of new plants in the emerging markets of Brazil, India and China, evidence of contraction and plant closures can be found in the traditional car markets of the west" (Bailey et al, 2010).

In fact, "as firms within the automobile industry introduce new production systems in response to the various changes taking place within the sector, they are increasingly adopting modular production processes with grievous implications for both the organization of work and supply chain relations" (Chung, 2005). In general, modularization of the inter-firm system refers to a type of modular production system in which outside suppliers conduct and deliver subassemblies. Here the emphasis is on a place in the inter-firm division of labor in development and production whereby an automaker's boundaries between in-house operations and outsourcing, or make-or-buy, can be defined for each of all steps of development production preparation (Takeishi and Fujimoto, 2001). The practice of modularization and the increasing scope of outsourcing within the automobile industry are fueled primarily by three factors: "[the desire by auto producers] to take advantage of the lower labor costs of component suppliers; to reduce the cost of investment and risk associated

with product design and production by subletting vital responsibilities to the suppliers; and, guided by this policy and strategy, to reduce the number of first-tier suppliers of the firm" (Takeishi and Fujimoto, 2001).

In regard to modularization, Korea's automobile industry has undergone a similar process. The industry's commodity chain has different companies involved in each stage of the following sequence: auto parts -> automobiles -> sales -> service. However, large automobile companies in Korea have externalized many sectors of production and sales. Integrated services have been separated since 1997. Indeed, the core sectors of companies have been moved from production to services such as planning, design, and marketing, etc. These processes, including the modular, brought about fundamental changes in production systems, labor processes, inter-organizational relationships, and employment and industrial relations. In terms of production methods, "Modularization based the mass production system on flexible standardization. In other words, the standardization of the labor process and automation made it possible for companies to use unskilled low-wage workers and broadly-based outsourcing. In addition to this, companies became able to impute to the outside the risks in a business cycle as it could now adjust production according to changing demand. Modularization also made extensive use of non-regular workers easy and has changed working conditions for the worse" (Kim Chul-Sik, 2009).

## The agenda related to collective bargaining

What are the forces driving the changes in industrial relations? As already mentioned, they can be explained in three parts. First is the change in labor-management environment due to globalization that has placed more pressure on the automobile industry. Second is the flexibility within the labor market due to the increase of non-regular and informal work. Finally, the trade union's movement has weakened since the late 1990s accompanied by a decline in union density, number of strikes, and so on. This last change is very important in the context of the trade union movement being able to stand up to globalization. With regard to collective bargaining, the employer's position has strengthened, while that of the trade union has weakened. Since the 1990s, employers have imposed flexibility in wages and production along with an opening of the market in terms of trends in collective agreements. First of all, in case of wage is connected with sharing management performance. The clear result of this is that trade union power in collective bargaining has weakened. On the other

hand, job insecurity has increased from the effects of neo-liberalism. This is a key to understanding the changes to collective bargaining.

Over the past 20 years, trade unions at major automakers have played an influential role as pattern setters in nationwide CB and IR. The position and status of regular workers at Korean automakers are at the top in a segmented labor market. They have been guaranteed employment as well as high-wages, high welfare benefits and good working conditions through collective agreements and social systems. Industrial relations are quite confrontational based on a low degree of trust between the two sides and high costs. Since 1987, trade unions Hyundai, Kia and other large automakers have obtained political and economic rights through strong organization and struggle against labor management that tends to exclude labor. In contrast, employers have stepped up their offensive to weaken unions. As mentioned earlier, the financial crisis of 1997 was a turning point for labor and management relations, as well as the labor market in general. Since that time, each auto union has engaged in intense strike action opposing management-led downsizing: Hyundai and Kia in 1998, Daewoo in 2000, and SsangYong in 2009. For example, Kia went bankrupt in early 1997, and massively reduced its payroll (by more than 10,000 workers) by resorting to voluntary retirement packages and spinning off sales units. Hyundai, faced with very low utilization of productive capacity during the financial crisis, also carried out a sizable downsizing of over 10,000 employees, including permanent dismissals (277), unpaid temporary layoffs (1,968), early retirements (6,451), regular retirements (1,420), and downsizing of its subcontracted workforce (1,722) (Lee & Park, 2008). Daewoo, which had increased its payroll through a merger with SsangYong Motor in 1998, took action in early 2001, while under court receivership, to reduce its payroll by around 7,400, including 1,750 dismissals. Faced with the rapid recovery of auto demand from domestic and overseas markets, Hyundai recalled it's temporarily laid-off workers as well as permanently dismissed workers in early 2000, while Kia recruited over 2,000 new production workers in the same year. GM Daewoo also began to recall some of its 1,750 dismissed workers in August 2003 and finally re-hired its remaining 1,000 dismissed workers in early 2006. This is attributed mainly to the sharp growth in foreign demand coming from GM's international sales network. Under the financial crisis of 2008, SsangYong undertook a massive downsizing of 2,646 employees, including dismissal of over 976 workers, in mid-2009. 468 workers were put on

unpaid leave while the rest were classified as voluntary retirees (130), unpaid (139), dismissed through disciplinary action (83) and laid off (159). To sum up, in Korea, most large automobile companies have abandoned lifelong employment practices and have increasingly taken on numerous flexibility strategies, facilitated by legislative changes in the late 1990s, which made layoffs easier and opened up the possibility of flexible employment. As a result, "instead of wages being the most important, as they had been in collective bargaining in the late 1980s and early 1990s, the most contentious issues became job security and other employment-related issues" (Yoon Young-Mo, 2009).

We can easily identify some of the features of industrial relations in the 1990s. Reforms within the labor markets towards more flexibility and sweeping restructuring of workers has weakened the power of the labor movement and its collective bargaining abilities. It's also shifted labor's agenda. Traditionally, the trade union movement in Korea has largely focused on raising wages and improving working conditions through collective bargaining. However, these have been displaced by a greater focus on employment security, with a trend of concessions and struggles after 1997. Another feature is a tendency towards decentralization of collective bargaining. Automobile trade unions are very strong because they are organized at large companies. They therefore prefer enterprise-level over industry-level CB to protect their members' interests such as through increasing wages in connection with performance.

## 2-4. Summary of Chapter 2

The automobile industry in Korea has contributed substantially to the country's sustained economic growth and export expansion over the last 50 years since the industry's beginnings in August 1955. Every Korean car manufacturer except for Hyundai was sold at home or abroad through M&A activity. Most of the domestic auto industry has been changed by foreign capital and has experienced extensive restructuring in the aftermath of the 1997 financial crisis.

Manufacturing in Korea, especially by the auto industry, has led economic growth since the 1990s, exceeding 10% of the national economy in terms of employment, production and exports, and accounting for a 3.1% share of GDP. The automobile industry ranks the first in Korean manufacturing in terms of employment, with 320,971 people, accounting for 11.14% of employment in the manufacturing sector (2.881 million persons) in 2013. Direct and indirect employment by the industry accounts for 7.3% (1.826 million persons) of total employment (25.066 million people). Of this number, 91,685 work for automakers and 245,345 for auto parts manufacturers.

Production for 2013 saw Korea maintaining its 5<sup>th</sup> place position in global ranking, with a 5.1% share of global production, following China, the U.S.A., Japan and Germany. The Korean auto industry quickly ramped up its participation in globalization after the Asian financial crisis, primarily to increase exports and overseas production. As of 2013, overseas production by domestic automakers has increased to domestic levels. In 2001, initial overseas production was only 100,000 units, but for the next 10 years, this increased by 36.4% per year. As of 2013, the Korean auto industry was comprised of five automakers – Hyundai Motor, Kia Motors, GM Korea, SsangYong Motor, and Renault Samsung Motors. Hyundai Motor Company is now a top global automaker.

In Korea, the overall unionization rate peaked at 19.8% in 1989, right after the Great Labor Struggle, and had decreased to around 10.3% by 2013. There are three national labor union federations: the FKTU, the KCTU, and the KLUC. The KMWU, an industry-level labor federation affiliated with the KCTU, has 152,299 members and operates in 269 factories as of 2015. Classified by industry, the number of union members at automakers was 94,029, accounting for 66.47% of KMWU's total membership. All automakers in Korea, except for Renault Samsung, are unionized under the KMWU.

Let's review the features of industrial relations in Korea. First, the basic configuration of Korean IR was formed by the legacies of the developmental state and democratization. Second, trade unions in Korea are organized by three levels enterprise, industrial-regional and national. Revisions to Korean's labor law in 2011 allow multiple unions at a single workplace and prohibit employers from paying full-time union officials. Third, regarding the structure of collective bargaining in Korea, most trade unions are organized at the enterprise level, with more than 80% of CB taking place at that level. However, the KCTU has led efforts to change the CB system in the 1990s. Nowadays, some major industrial trade unions within the three sectors of banking, health and metal industries have sector bargaining arrangements. However, even though union organization has changed to an industry-level structure, collective bargaining is still done at the enterprise level. Therefore, enterprise-level industrial

relations are still dominant and collective bargaining is limited to trade union members. Many local branches maintain enterprise consciousness, and financial autonomy.

Korea has experienced drastic changes in its labor market since the financial crisis in 1997, with quality of employment becoming increasingly polarized due to the growing number of non-regular workers and widening inequality in wages and total income. The Korean automobile industry has changed its production methods by adopting modular production processes and expanding production abroad. This fundamentally changed production systems, labor processes, inter-organizational relationships, and employment and industrial relations. This new production method of 'modularization' standardized flexibility within the mass production system. In addition, automakers have expanded their use of inhouse subcontract workers in production and related support since the 1990s, which amounts to outsourcing of production. Industrial relations became triangular employment relations involving regular employees, non-regular employees, and employers, something which has been the main labor issue since the beginning of the millennium. Due to this change, the labor movement has switched its focus to job security and employment stability in collective bargaining.

Now look at some features of the present collective bargaining agenda. First, it's about the importance of the issue of employment relations. Flexibility in the labor market and the sweeping restructuring of employment has weakened the labor movement and its effectiveness in collective bargaining. It's also shifted labor's agenda. Traditionally, trade union movements in Korea largely focused on wage increases, improving working conditions, and shortening working hours. However, these have been displaced by a greater focus on employment security with a trend of concession bargaining and struggles after 1997. As a result, instead of the issues related to wages that characterized the late 1980s and early 1990s, employment security has become a top priority today.

Second, changes to the wage system. In case of wage which is connected with performance pay is ensured in the share of management. These issues in large companies and the public sector have been put on the collective bargaining table in Korea. This caused the expansion of considerable wage disparity between workers. In addition, trade union effectiveness in collective bargaining has been weakened as collective bargaining has become more decentralized. Trade unions in the auto industry are generally stronger because they have a large number of members and can use their leverage as forming a key industry in the national economy. However, these large unions sometimes forget the importance of labor solidarity. In actuality, the trend is that large companies are becoming stronger when it comes to bargaining. For example, unions tend to prefer enterprise-level CB to industry-level, so they can focus only on the interests of their member's, such as raising the wages connected to performance.

# Chapter 3. Hyundai's Globalization Strategy & Industrial Relations

# 3-1. Main Indicators

## **Production & sales**

"Hyundai is a representative multinational and global company in Korea. If multinationals are the 'engine of globalization, Hyundai can be considered a leading engine of the global economy" (Park Tae-Ju, 2014). Hyundai Motor and Kia Motors have a dominant position in Korea's automobile market, accounting for about 80%. Hyundai has also had overseas production plants since the 1990s.

As of 2014, production volume at Hyundai was 4,995,536 units. On one hand, production is three times greater over the 13 years since 2001 (1,607,309 units). On the other, total units sold equaled 4.73 million in 2013 with 4,091,668 of them (or 86.5%) sold abroad.

Year	2001	2002	2003	2004	2005	2006	2007
Production	1,607,309	1,821,410	1,892,453	2,098,768	2,346,805	2,507,589	2,618,069
Year	2008	2009	2010	2011	2012	2013	2014
Production	2,790,461	3,099,956	3,626,151	4,074,418	4,402,578	4,770,277	4,955,536

Table 25 - Total Production Trend (Unit: vehicles)

Source: Jae-won Yang, 2016 Trends in the Automobile Industry, KMWU Labor Institute

Hyundai's domestic production increased slightly from 1,513,447 in 2001 to 1,876,428 in 2014, while overseas production amounted to 3,079,108 units, or 62.1% of total production, whereas overseas production amounted to only 93,862 units in 2001, representing a thirty-fold increase 13 years later. Hyundai Motor is expected to complete four factories in Chongqing, China, (and five in Changzhou, China) in 2016. There are also two factories under construction in the United States and three in India. The factory in Piracicaba, Brazil also plans to expand production volume. It's clear that Hyundai will continue to expand its overseas production.

Category	2001	2002	2003	2004	2005	2006	2007
Domestic	1,513,447	1,702,227	1,648,130	1,674,049	1,683,760	1,618,268	1,706,727
Overseas	93,862	119,183	244,323	424,719	663,045	889,321	911,342
Domestic ratio	94.2%	93.5%	87.1%	79.8%	71.7%	64.5%	65.2%
Category	2008	2009	2010	2011	2012	2013	2014
Domestic	1,673,365	1,606,879	1,743,378	1,892,254	1,905,261	1,850,727	1,876,428
Overseas	1,117,096	1,493,077	1,882,773	2,182,164	2,497,317	2,919,550	3,079,108
Domestic	60.0%	51.8%	48.1%	46.4%	43.3%	38.8%	37.8%

Table 26 - Production Volumes: Overseas vs. Domestic (Unit: vehicles)

Source: Won-Jae Yang, 2016 Trends in the automobile industry, KMWU Labor Institution

Even though overseas production has rapidly increased, domestic production has remained constant. This is worthy of note. However, as shown in Table 26 above, the ratio of total production done in domestic plants has sharply decreased to 37.8% in 2014, from 94.2% in 2001. Park Tae-Ju (2014) points out that "domestic production volumes have remained the same for 10 years because Hyundai's trade union has worked to keep it that way through collective agreements". This is in fact the case, as Article 42 (Overseas-related Provisions) of its collective agreement requires maintenance of current production volumes at domestic factories. Besides this, overseas expansion must be deliberated in the joint labor-management committee. In 2015, the trade union demanded establishment and expansion of domestic plants and labor-management agreement on total production (including foreign) in collective bargaining, meaning the company would need trade union agreement regarding overseas and domestic production capacity. However, the company rejected this demand.



Figure 4 - Production of Domestic Factories as Percent of Total Production (Unit: %, year)

## **Domestic factories**

Hyundai Motor Company ran three factories and a research institute in Korea as of 2013. The Ulsan plant is the main domestic factory and produces an average of 6,000 vehicles per day, and more than 1.5 million per year. Hyundai exports 85% of the vehicles produced at the Ulsan plant to 200 countries. The Asan plant is a completely self-contained factory that produces 300,000 medium or large vehicles for export per year. The Jeonju plant specializes in commercial vehicles with an annual production capacity of 100,000 units (Hyundai Motor Company, 2014).

Table 27 - Domestic Factories (2013) (Units:	year, vehicles, persons)
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Factory	Construction	Annual Production	Employment
Ulsan	1968	1,542,000	35,000
Asan	1996	300,000	4,000
Jeonju	1995	100,000	6,300

Source: Hyundai Motor Company, 2014 Sustainability Report, 2014

## **Overseas factories**

Hyundai has built production bases in China, India, Russia, Turkey, Czech Republic, the U.S.A. and Brazil.

Country	Corporate Name	Region	Hyundai Share	Employment	Established	Vehicles Produced
Turkey	HAOS	Izmit	70%	1,500	July 1997	MCt, PBt
India	HMI	Chennai	100%	8,600	Plant 1 Sept. 1998 Plant 2: Oct. 2007	Plant 1: MX, HA, PBi, LC, Mi Plant 2: PA, PBi, RBi
U.S.A	HMMA	Alabama	100%	3,100	May 2005	Sonata, Avante
China	BHMC	Beijing	50%	14,000	Plant 1: Dec. 2002 Plant 2: Mar. 2008 Plant 3: July 2012	Plant 1: MCc, RBc, XDc, EFc, JMc Plant 2: HDc, FDc, NFc, YFc, LMc Plant 3: MDc, DMc, CF
Czech	HMMC	Nosovice	100%	_	Nov. 2008	FDe, JC, EL
Russia	HMMR	St. Petersburg	70% (Kia 30%)	2,000	Jan. 2011	RBr, QBr
Brazil	HMMB	São Paulo	100%	2,500	Nov. 2012	HB

Table 28 - Hyundai Overseas Production (2013)

Source: Korean Metal Workers Union (KMWU), reconfigured by the author.

Figure 5 - Production Capacity at Overseas Hyundai Plants (2015)



Source: Korean Metal Workers Union (KMWU), 2015

Hyundai aggressively expanded overseas production after the financial crisis in 1997,

such as by completing the plant in Turkey in 1997, acquiring Kia Motors in 1998 and completing an Indian plant the same year. Korea set a new export record, and Hyundai established a joint venture commercial vehicle factory in China in 2005, has since entered the ranks of the global top 100 enterprises, and ranks 6<sup>th</sup> in the world in terms of total production. In 2009, the plant in the Czech Republic reached annual production of 300,000 units, and the plant in St. Petersburg (HMMR) was completed in 2010, beginning production in 2011 A modern factory was also completed in Brazil in 2012 (Hyundai Motor Company, 2013).

# 3-2. Hyundai's Globalization Strategy

In general, globalization of the automobile industry has developed from exporting to construction of overseas production bases, then finally to the building of a network connecting scattered production bases. The Korean automobile industry also entered the world market through exports, targeting developed countries after the development stage involving import substitution. After that, it expanded its facilities, including construction of production sites in developing countries. In fact, its overseas expansion was realized due to the acceleration of Hyundai-Kia Group's global production strategy (G5) since the late 1990s. They completed a total of 8 production plants in 7 countries in the past 13 years and invested about KRW 14 trillion for this purpose. The global strategy of Hyundai Motor and Kia Motors has been accompanied by a core of affiliates and numerous parts suppliers, which has changed the production system and value chain structure of Korea's automobile industry itself (Lee Sang-Ho and Lee Jeong-Hee, 2012).

## Expansion of the overseas production strategy

The features of Hyundai's globalization strategy are a change in production methods in accordance with the strategy of expanding overseas production (Hyundai Motor Company, 2014). Hyundai has built a production base in each continent over the past 20 years, starting with the local plant in Turkey in 1995. Accordingly, Hyundai has rapidly increased its overseas production, which surpassed domestic production in 2010. In 2013, 61.2% of Hyundai vehicles were produced at overseas plants. As of the same year, Hyundai operated factories in 8 countries with 239 primary partners. Expansion of overseas production through these factories is part of the globalization strategy of the automobile industry. According to

Chung Myeong-Kee (2012), the pattern of globalization followed by the major car makers can so far be split into three stages. "The first stage is export. At this stage the goal is to create a car that fits into a worldwide car category. The second stage of globalization comes after the expansion of export. This is the setting up of plants in major market regions. The last stage of globalization is complete localization of plants on one hand and the establishment of a global business network on the other." Hyundai globalized in a similar manner, beginning with diversification of exports, overseas assembly production (KD production) followed by full production overseas. Therefore, finally "Connection between the overseas factories as part of production network builds a global production system, towards optimization of production and sales" (Chung Myeong-Kee, 2012).

I will review the three stages of Hyundai's globalization strategy in detail, beginning with the first stage, export. In 1976, Hyundai produced its first model, a subcompact called the Pony, in line with the South Korean government's industrial policy. This policy had been announced in the early 1970s as a long-term promotion plan to help domestic automakers develop original products, starting with local production of parts. With the help of these industrial policies, Hyundai was able to exploit the economies of scale in the domestic market, which it soon came to dominate, before casting its eyes abroad (Jo Hyung-Je and Lee Byoung-Hoon, 2008). In the 1980s, Hyundai began to explore strategies to increase access to overseas markets. The strategy of internationalization in the first stage was to develop joint ventures with advanced foreign car makers. In the early 1980s, Hyundai constructed a new plant for the first front wheel drive car in Korea and created the Excel Phenomena in 1985, successfully entering the U.S. market in 1986. Also in the mid-1980s, Hyundai made significant inroads into other areas of world markets. Its initial export success was remarkable. In 1986, 300,000 cars were exported to North America, a level more or less maintained for the following two years. Hyundai made a decision to set up an automobile manufacturing plant in Canada with the capacity to produce 120,000 cars a year and employ 1,200 workers directly, but this plant was closed in 1991 due to quality issues (Dicken, 2011).

The second stage was export and diversification of export expansion. In the mid-1990s, Hyundai established new overseas plants through the acquisition of existing local car assemblers and/or through direct investment. That was the new aspect of globalization strategy: the build-up of knock-down export based on emerging markets on the periphery. There are two backgrounds to this strategy. First, Hyundai required a new globalization strategy due to increasing competitive pressure in domestic and overseas markets. The strategic choice of internationalization was to concentrate efforts on diversification in the international market. That is, diversification of the export destinations to include developing countries in Asia and South America. In this context, Korean car manufacturers also saw the need to expand into the European market. To promote exports, Korean auto makers improved both quality and marketing in the U.S. and Western Europe. The other background to this strategy of globalization was expansion of knock-down kits and/or joint venture's investments in less developed countries by the automobile industry to avoid intensifying trade friction (Chung Myeong-Kee, 2012). The Asian financial crisis was the most important turning point. When this crisis hit the Korean economy in late 1997, Hyundai was one of the top four chaebol with more than sixty affiliates to survive the situation while other chaebol were scrambling to raise capital to improve their financial structure. At this time, "Hyundai chose three major actions: merger/acquisition, strategic alliances and development of managerial strategies (modularization)" (Kabiru Ishola Genty, 2012). First and foremost, the merger with Kia & Asia motor groups. In 2000, Hyundai Motor Company separated from its parent company, the Hyundai Group, establishing the Hyundai Motor Group, together with other auto-related affiliates. Secondly, it formed a strategic alliance with Daimler-Chrysler. Hyundai Motor sold to Chrysler a 10% stake in its ownership towards building this strategic alliance. The partnership was expected to provide Hyundai Motor with access to advanced technology and foreign markets (Kim et al, 2004: p42). Third, the managerial strategy Hyundai chose was modularization, where there is a change in the position of the suppliers to improve efficiency and reduce the cost of production as well as transfer/share the risk. "This strategy led to the creation of Hyundai Mobis, the auto parts maker in the Hyundai Motor Group, and changed plant operation structure from Just-in-Time (JIT) under the Toyota production system to a Just-in-Sequence (JIS) through a daily ordering system" (Kabiru Ishola Genty, 2012). Lastly, it began to move away from being merely a low-price regional producer of cars primarily for the Asian market to one with much wider ambitions. It rapidly expanded to plants in China, India, Turkey, the U.S.A. and the Czech Republic. "Hyundai sees itself as a major global producer of high-quality vehicles, operating a two-brand strategy, with Kia providing the lower-cost cars" (Dicken, 2011).

The third stage was expanding overseas production. The third strategic step in globalization was direct investment through the expansion of car production bases in foreign

countries. Hyundai built its first overseas production base in Turkey in 1997 and completed factory in India in 1998 to secure a place in the local domestic markets and expand exports to Europe and Southeast Asia. Hyundai entered China in 2002, which had emerged as the world's largest car market, the United States in 2005, the Czech Republic in 2009, Russia in 2010, while the factory in Piracicaba, Brazil began production in 2012. Chung Myeong-Kee (2012) explains that Hyundai had a clear goal for each country. "In Turkey, the goal was to capture low costs and to enter the European market India was about the importance of a production base for Southeast Asian market share China and the United States to secure shares of those domestic markets and Brazil was about entering the Latin American market and securing market share there." In particular, Brazil's Piracicaba plant has significant meaning, as it is the first auto factory built by Hyundai in South America. The Brazilian plant "completed [Hyundai's] global production network, connecting Europe, Asia, North America and South America".

Nowadays, Hyundai's trajectory is characterized by a transition from a world-wide export strategy to a multiple-domestic market strategy based on manufacturing sites in different regions because the company cannot continue to depend on the domestic Korean market for sustained growth and lose out on the vast potential in overseas markets. More importantly, it is necessary to understand the background to Hyundai's overseas expansion in the context of its global strategy. "Hyundai was pursuing a policy of global leadership (Global Top 5). This is a quantitative growth policy. Hyundai's decision was inevitable because the South Korean market is small and the company needed foreign markets as well as ways to handle exchange rate instability that came out of trade" (Park Tae-Ju, 2014).

#### **Conversion of production methods**

Hyundai's global strategy has been focused on establishing Hyundai's new production method, accompanied by new working practices that suited the globalization trend as well as the expansion of overseas production since the late 1990s. Production methods have been changed internally to allow Hyundai to grow as a global company since the financial crisis. This was expressed in the tension and conflict between labor and management surrounding the changes in work organization (Park Tae-Ju, 2009). What are the details behind how these production method changes occurred?

In general, "a production model is defined as a company governance structure that enables a durable implementation of a specific profit strategy. It is composed of production organization, product policy, and employment relationships" (Jo Hyung-Je, 2010). With this in mind, let's look take a closer look at Hyundai's automobile production. First, Hyundai has reduced its dependence upon direct labor, while increasing its dependence on production facilities by raising the level of automation and information technology in the production process. Hyundai invested heavily in production process automation rather than worker skills, because the company did not expect such education and training would have positive results given the deep distrust between management and labor. Consequently, Hyundai developed a labor-exclusive production model, which minimizes dependence on manufacturing sector workers. As a result, Hyundai's production model is largely led by engineers, while the role of factory workers is limited to supporting the operation of production facilities. Second, Hyundai has increased the importance of product development, while establishing unique procedures to improve quality levels during the later stages of product development. And especially, Hyundai built on its managerial strategy of modularization which features a change in the position of the suppliers to improve on efficiency and reduce the cost of production as well as transferring/sharing risk (Kabirus Ishola Genty, 2012). Third, a significant portion of Hyundai's production process has been outsourced to parts makers, and many outsourced parts are sub-assembled into modules before going through the final assembly line. Modular production is defined as a production method in which parts are subassembled into interchangeable units before going through the final assembly line. At Hyundai, outsourcing has been facilitated by modular production, which is another characteristic of Hyundai's production model. By combining outsourcing with modular production, Hyundai has gained enormous benefit not only in lower costs but also in improvements in quality and productivity (Jo Hyung-Je, 2010).

## 3-3. Features of Employment & Industrial Relations

Besides holding a vital position in Korea's industry and economy, Hyundai is also a pattern-setter when it comes to labor-management relations. This means that the metal industry and the automobile sector have further established themselves as a presence that represents the entire spectrum of industrial relations in Korea, not just labor relations in enterprises. Therefore, understanding Hyundai's employment and labor relations can be a starting point to identifying the key features of labor-management relations in Korea.

## Industrial relations in Hyundai

First, employment and labor relations in Hyundai can be characterized as an incomplete

segment of the labor market within the enterprise. The internal labor markets of large manufacturing companies were formed through the Great Labor Struggle in 1987. Therefore, hey have been formed and maintained by union resistance rather than efficiency. In addition, these internal labor markets are segmented into regular and non-regular employment, coupled with enterprise-level negotiations (Jeong Lee-Hwan, 2012). Hyundai's internal labor market is no exception. According to Park Tae-Ju (2014), "internal labor market' refers to the institutional market that ensures high wages with lifetime employment through a system of internal promotion (or seniority). In contrast, the external labor market has wages and employment determined by market principles". In summary, the internal labor market is characterized by seniority-based wage structures, high wage levels and job security. In addition, rigidity in the labor market, such as freedom from layoffs and limited internal flexibility, are also characteristics of the internal labor market.

Second, Hyundai's production methods are basically oriented towards reducing the need for labor through automation and modularization. The company introduced labor-saving production methods in order to make up for the shortage of skilled and flexible labor. Contraction and externalization of the production function reduce the need for labor even more. In this regard, Park Tae-Ju (2014) pointed out that development of labor-saving production methods can be explained in the context of industrial relations. Namely, "high wages obtained through the formation, by union leadership, of an internal market makes automation easier as these high wages reduce the costs of that automation. As the cost of labor rises, workers are replaced with machinery. Automation may also appear to increase productivity and overcome the problems of low-skilled workers".

Third, based on the modular production methods, in-house subcontracting and outsourcing have been widely utilized due to the flexibility they offer. In fact, labor flexibility at Hyundai has basically been oriented towards reducing labor costs through automation and modularization. The strategic choice of Hyundai management was modularization together with outsourcing, while one of the main reasons for modularization in Hyundai, as stated, was to reduce labor costs. It would be noteworthy that the other important factor for modularization is the existence of militant trade unions at Hyundai Motor. Under these conditions, module-production at Hyundai has been outsourced, leading to the elimination of sub-assembly work (and a reduction of jobs on the shop floor). In other words, modularization has led to a massive transfer of jobs from Hyundai Motor to its suppliers (Lee

Chang-Geun, 2012). Going further, employment and industrial relations at Hyundai cannot be understood completely without understanding the in-house subcontracting issue.

#### What is in-house subcontracting?

On the surface, in-house subcontracting its patterns of labor appears as dual employment. In other words, it typically appears as indirect employment of non-regular workers on a sort of subcontract (Park Jong-Sik, 2013). Major manufacturing enterprises in Korea have been utilizing in-house subcontract labor in-production and production support, promoting outsourcing as part of the rationalization of production since the 1990s (Son Jung-Sun, 2009). This means that subcontracting has been institutionalized into the production system, coupled with in-house subcontractors, and is reshaping the internal labor market at the enterprise level (Park Jong-Sik, 2013). According to Lee and Kang (2012), there are three main features that make use of this type of workforce attractive to enterprises. First, a contract workforce is cheaper than a regular workforce. Second, it is harder for subcontract workers to organize themselves into trade unions. Third, auto plant management can more flexibly utilize contract labor in terms of job re-assignments and redundancies and layoffs. Since these features are present in Hyundai Motors, subcontract workers are considered 'precarious workers' and as receiving discriminatory treatment in comparison with regular workers. Baek Doo-Ju and Jo Hyung-Je (2009) described the relationship between the production method and in-house subcontracting as "Hyundai obtained flexibility in production method by expanding mixed production through such means as technical innovation and modularization". In other words, Hyundai has gained flexibility in production as well as employment to better handle economic fluctuations (Kalleberg, 2001). There are some claims that employers use in-house subcontracting to avoid labor relations problems. However, the main reason for using in-house subcontracting is that a company can avoid its responsibilities under Korean labor law. Accordingly, the company has achieved a number of prime interests through the separation of regular and non-regular workers as well as avoiding its responsibilities under Korean labor law. In this respect, Hyundai takes advantage of its inhouse subcontractors as a way to avoid responsibility as an employer. Besides, Hyundai strategically divided its workers into regular and in-house subcontract. Consequently, the expansion of in-house subcontracting is derived from the use of labor-saving production

methods: automation replacing labor. Enterprises can enhance their control over the labor process.

#### In-house subcontracting in Hyundai

In-house subcontracting is a form of non-regular employment. It differs from subcontracting which is a part of the traditional procurement system in the automobile industry. Automobile sector companies have used in-house subcontracting widely since 1996, with such workers working side by side with regular workers (directly employed workers) in the same workplaces. This is because the company hires in-house workers after restructuring its full-time worker force. However, it is essential to understand the situation of subcontracting (in-house) workers since 1998. The Act on Protections for Temporary Agency Workers (APTAW) was enacted that year and regulates how workers may be hired by a dispatching (sending) company for work at a third party (using) employer's premises. Before the enactment of APTAW, triangular employment relationships were prohibited in principle. The only exception was where trade unions provided their members to user enterprises. The APTAW establishes that dispatch is allowed in 32 industries and 191 occupations that require professional knowledge, skills and experience, for a maximum of two years. The other case in which dispatch is allowed is in certain circumstances such as employee sickness, pregnancy or injury and only for a maximum of six months (Yun Aelim, 2007). However, in either case, dispatch in manufacturing, which includes the automobile sector, is illegal. Under the guise of subcontracting, illegal temporary agency work is prevalent in all industries. Contracting-out and on-site subcontracting are expanding rapidly, along with the practice of splitting businesses and outsourcing. Whichever way, the user enterprises use the excuse that they are not the legal employers and thus are not responsible for such workers who in actual fact are working for them. Although a temporary employment agency or a subcontractor may be the employer in the first place, the user enterprise should be responsible for the rights of any worker who provides labor under the control of the user enterprise. However, it should be emphasized that even though they are formally employed by "in-house subcontractors (suppliers)", they work under the supervision and direction of "a principal company (Hyundai Motor)" (Yun Aelim, 2010). In other words, the principal company in practicality sets the working conditions for subcontract workers including wage, working hours and reasons for

dismissal. Therefore, they are not genuine in-house subcontract workers, but disguised as inhouse subcontract workers, which circumvents the Act on Temporary Agency Work. In real terms, they can be defined as illegal dispatch workers" because dispatch is not allowed in the auto sector. Figure 6 below shows the reality of in-house subcontracting at Hyundai. This figure shows that the subcontract workforce is engaged in a triangular relationship with the company:





Source: Juana Torres Cierpe, 2012

Subcontract workers have a formal relationship with the subcontractor enterprises due to a contract. Nevertheless, they are working for and being supervised by the user enterprise, Hyundai Motor. One of the main problems that the subcontract workforce faces is the evasion of legal responsibilities by the user enterprise since Hyundai Motor can argue that there is no direct contractual relationship with such workers (Yun Aelim, 2007).

## In-house subcontract worker trade unions

Hyundai Motor used 8,290 on-site subcontract workers in 2013. Although these workers were formally employed by subcontractors, they work on Hyundai Motor assembly lines

alongside regular employees at the same factories. The shop floor at Ulsan plant, which is a major factory, has seen a sharp increase of in-house subcontract workers since the 1990s: from 2,788 workers in 1990 to 8,290 by 2013.

Year	1990	1996	1998	2000	2002	2004	2006	2008	2010	2013
Number of subcontract workers	2,788	4,700	4,034	6,315	8,581	9,571	6,244	6,495	5,804	8,290
Ratio to regular workers			16.9	24.2	31.8	33.0	27.4			

Table 29 - Trend of In-house Subcontract Workers at Hyundai Motor's Ulsan Plant

Source: KMWU 2011, HMWU In-house Subcontractor Branch 2013

These workers work under the control and supervision of Hyundai Motor management and their wages and working conditions are also set by Hyundai Motor. Hyundai Motor also controls subcontractor employment of workers and even forces some subcontractors to shut down. In reality, subcontractors are nothing but labor suppliers. Following an incident where an on-site subcontract worker at Hyundai was brutally assaulted by a subcontractor manager because the worker had asked for paid holidays, general dissatisfaction with the poor working conditions and inhumane management led to the establishment of trade unions for subcontract workers in 2003, and are now in place at Hyundai, Kia, GM-Daewoo Motors and Hyundai Heavy Industry, as well as other enterprises. In-house subcontract workers at Hyundai Motor were responsible for paying lower wages and demanding harder labor than what was paid and demanded of regular employees. On top of this, job security was also very poor. Therefore in-house subcontract workers began to voice their complaints in the early years of this millennium and beginning in 2003, established trade unions apart from those for regular workers. Currently, at Hyundai, there are three such trade unions in Hyundai, at the Ulsan, Asan, and Jeonju factories. They joined the KMWU, affiliated with the KCTU. However, user enterprises such as Hyundai terminated their contracts with subcontractors or had them closed down on the basis of union activities. As a result, union officials were dismissed and known union members were forced to withdraw their membership. Even though there were collective agreements with these subcontractors, even those agreements could not protect workers from anti-union dismissals because the subcontractors simply disappeared.

Plant		Union M	embers		Prodi Subcor	uction tracting	Total Non-regular Workers	
	Members onsite	Dismissed union members	Others	Subtotal	Workers	Organizati on rate	Workers	Organizati on rate
Ulsan	892	96	10	998	4,258	23.4%	6,011	16.6%
Jeonju	282	16		298	711	41.9%	1,195	24.9%
Asan	165	55		220	775	28.4%	1,084	20.3%
Sub Total	1,339	167	10	1,516	5,744	26.4%	8,290	18.3%

Table 30 - In-house Subcontract Workers in Hyundai (2013) (Unit: persons)

Source: KMWU, Hyundai non-regular workers'trade unions

\* Note: Production subcontracting and Total Non-regular Workers as of 2013. Total Non-regular Workers consist of production subcontracting, indirect subcontracting and dispatched workers.

In 2004, on-site subcontract workers' unions complained to the Ministry of Employment and Labor about the illegal use of temporary agency work at Hyundai. The Ministry determined that on-site subcontracting in Hyundai Motor amounted to illegal temporary agency work and directed Hyundai Motor to rectify the situation. The Ministry stated that these subcontractors lacked independence and control over their own management and business. Hyundai Motor ignored these instructions and continued using onsite subcontractors. Furthermore, Hyundai Motor prohibited dismissed union officials from entering the workplace and commenced court action, accusing union officials of obstructing business. The courts sided with Hyundai Motor, and in 2005 seven union officials were arrested and penalized for obstruction of business, while in 2006 three union officials were arrested and penalized for violating a ban on entry into the workplace. In 2005, over 150 union members were disciplined, including more than 130 who lost their jobs for their union activities. As it is possible to see, there have been some legal improvements for subcontract workers, but Hyundai Motor still resists having to convert all of its in-house subcontract workers to regular employment status. This is a process that is still ongoing and shows the kind of struggle subcontract workers face inside Hyundai Motor Company.

## Trends in labor relations at overseas Hyundai plants

What about Hyundai's overseas plants? Park Tae-Ju (2009) found that these plants also have some similarities with Korean factories in terms of the employment relationship. "The common elements with Hyundai's overseas plants are 1) hindering the formation of trade unions or excluding labor leadership, 2) paternalistic labor management, 3) strong reliance on quantitative and external flexibility, and 4) **r**elatively low interest in skill development and a high interest in flexible automation. In particular, the paternalistic labor management is combined with human resource management (HRM), providing corporate welfare, and the processing of complaints, which is influenced by the individual employment relationship. Such paternalism excludes unions, and essentially retains the vertical nature of the corporate culture."

One of the similarities found in Hyundai's overseas plants was a high dependence on external numerical flexibility: it prefers to dismiss workers rather than focus on functional flexibility. For example, Hyundai in the Czech Republic employs a lot of temporary workers. In Slovakia, they use full-time workers less than three years whenever dismissal is possible. As a result, the trend of employment relations at Hyundai's overseas plants seems to be spreading. The employment relationship at the Ulsan plant is being applied in other countries. In other words, the home country effect (country-of-origin effect) influence on workers and industrial relations of overseas plants of Hyundai such as typically personnel adjustment, smooth transition, mixed production, and flexible overtime work.

For this reason, Hyundai is characterized overall as a work organization dependent on automated, labor-saving production. Meanwhile, Hyundai has been promoting flexible automation and computerization. Therefore, as the work process has been standardized, it no longer depends on the skill of the operator (Jo & You, 2011). Thus, the standardized production method makes it easy to apply similar industrial relations policy and to mobilize production at all Hyundai factories.

# 3-4. Employment & Working Conditions

## **Employees**

As of the end of 2013, the domestic and overseas workforce had increased to 104,731 persons (62,893 in Korea) with 35,580 in technical/production & maintenance, 11,453 in administration, 8,743 in research and development, and 7,000 in sales and other areas.

Table 31 - Domestic Workforce by Job Type (Unit: persons)

Type of Job	2011	2012	2013
Administration	11,502	11,755	11,453
Research & Development	7,700	8,240	8,743
Technical / Production & Maintenance	31,568	33,312	35,580
Sales	6,264	6,225	6,237
Other	269	498	880
Total	57,303	60,030	62,893

Source: Hyundai Motor Company, 2014 Sustainability Report, 2014

Year	Sales (KRW 100 billion)	Operating Profit (KRW 100 billion)	Net Income (KRW 100 billion)	Number of Employees (people)	Average Employee Continuous Service (Years)	Average Annual Employee Salary (KRW 1 million)
2002	263.4	16.1 (6.1)	14.4 (5.5)	49,855	12.3	45.7
2003	249.7	22.4 (9.0)	16.7 (6.7)	51,471	13.2	47.0
2004	274.7	19.8 (7.2)	17.5 (6.4)	53,218	13.6	49.4
2005	273.8	13.8 (5.1)	23.5 (8.6)	54,115	14.2	55.4
2006	273.4	12.3 (4.5)	15.3 (5.6)	54,711	14.9	57.0
2007	304.9	18.1 (6.0)	16.8 (5.5)	55,629	15.5	66.6
2008	321.9	18.8 (5.8)	14.5 (4.5)	56,020	16.1	67.7
2009	318.6	22.3 (7.0)	29.6 (9.3)	55,984	17.0	75.1
2010	367.7	32.3 (8.8)	52.7 (14.3)	56,137	17.5	80.1
2011	427.7	46.8 (11.2)	47.4 (11.1)	57,303	17.6	89.3
2012	431.6	42.9	52.7	60,030	-	-
2013	-	-	-	62,893	-	94.0

Table 32 - Hyundai Sales & Employment

Source: Korean Metal Workers Union (KMWU), Research Report on Conglomerates, 2012 \* Accounting standards can vary by year of annual report. A simple comparison by year can be misleading. Numbers in parentheses refer to net profit margin sales.

By the end of 2013, the number of locally-hired employees had increased by 9.2% over

the previous year. Hyundai Motor Company (HMC) is hiring an increasing number of local staff thanks to the company's expanding global production network. As a result, the number of employees in North America (6,873) and in Europe (6,031) also increased year-on-year. The number of employees in China and India increased even more significantly: by 8.6% over 2012.

Region	2011	2012	2013
North America	5,149	6,211	6,873
Europe	5,744	5,991	6,031
China	9,625	13,768	15,631
India	5,795	8,816	8,893
Others	2,057	3,532	4,410
Total	29,125	38,318	41,838

Table 33 - Overseas Workforce by Region

Source: Hyundai Motor Company, 2014 Sustainability Report, 2014

The plant in China employs around 15,000, while the plant in India employs almost 8,900. The rest of the countries have employed between 2,000 and 4,500 workers.

Country	Established	Employees	Trade Union	Salary	Type of work	Flexible Workforce
Korea	1967	62,893(manufacturing jobs: 35,580)	HMWU (Hyundai Motor Workers Union)	Seniority-based hourly wage/KRW 94 million a year	Consecutive weeks shift system	Non-regular workers In- house subcontracting
U.S.A.	2005	3,100		Average hourly wage: USD 41		
China	2002	14,000	Public Association			
India	1998	8,600 (regular workers: 1,750)	HMIEU (Hyundai Motor India Employee Union)	KRW 400,000 per month	Consecutive weeks shift system	Precarious workers
Turkey	1997	1,500				
Czech Republic (HMMC)	2008	3,300 (Blue-collar workers: 2,915)	ČR – OS KOVO branch (Unionization rate of 20%, Negotiation Workshop)	KRW 1.5 million per month	3. 3 shift system	Dispatch work (800 people)
Russia (HMMR)	2010	2,100		Job-based pay/hourly wage KRW 1.2 million per month	3. 3 shift system	
Brazil	2012	2,500	Sindicato dos Metalúrgicos de Piracicaba			

Table 34 - Hyundai's Overseas Plants

Source: Park Tae-Ju (2012), "More of Ulsan than Ulsan in Terms of Employment? Visiting Hyundai & Kia: Russia, Czech Republic, Slovakia" and Press Release, reconfigured by author

\*Korea: 2013, Hyundai domestic plants

\*Czech Republic: May 2014, Asian Press

\*India: Oct. 2012, Ulsan Journal

\*U.S.A.: Hourly Wage Survey Report of US Automobile Manufacturing Plant Workers in 2014, CAR

#### Working conditions

The average number of years of seniority at Hyundai has increased greatly, growing from 11.4 years for men and 5.8 years for women in 2001, to 17.0 years and 12.0 years, respectively, in 2013. Of particular note is the age concentration of workers in the early 40s to mid-50s range. The most significant reason for this is that the company has not hired new personnel to supplement the workforce when needed, resorting to the use of in-house subcontract workers instead.

#### Wage

Hyundai trade union's wage policy considers maximum wage and wage equalization as important. From 1987 to 1997, raising wages was the priority, to keep up with the cost of living, and depended on the militant mobilization of union members. The union also sought to reduce the wage gap within the enterprise. Actually, nominal wages increased by close to 400% over the approximately first 10 years since the first collective bargaining sessions (Yoo Hyung-Geun, 2013).

Classif	ication	Basic Wage Ordinary Wage		Fixed Monthly Bonus	Monthly Salary	
Amount	1988- 1997	229,446 844,581	270,960 997,844	145,480 632,155	416,440 1,629,999	
Rate of growth	1988– 1997	368%	368%	435%	391%	

Table 35 - Wage Growth for Hyundai Union Members: Amount & Rate (Unit: KRW)

Source: Yoo Hyung-Geun, Drifting of Union Wage Policy & Crisis in the Trade Union Movement – Focusing on the Automotive Industry, 2013

After the financial crisis in 1997, industrial relations at Hyundai reached a turning point. There was a significant change in regard to the wage system<sup>14</sup>. The goal of maximizing wages for workers and the trade union was still important, but the method of realizing this maximum wage changed. Wage increases were pursued that matched the cost of living, and there were increased demands for the company to engage in profit-sharing. Basic pay declined in absolute terms, as did the rate of growth.

Classification 1988-1993 1994-1999 2000-2005 2006-2010 Growth rate of basic pay (average) 17.8 7.0 9.5 4.0 7.0 4.7 3.2 3.0 Growth rate of inflation (average) GDP Growth rate (average) 8.3 6.0 5.2 3.8

Table 36 - Growth Rate of Basic Pay for Regular Hyundai Workers (Unit: %)

Source: Yoo Hyung-Geun, Drifting of Union Wage Policy & Crisis in the Trade Union Movement – Focusing on the Automotive Industry, 2013

Due to the sustained wage increases over the last 20 years, the cost of living was no longer difficult to reflect in wages for workers in high-wage and large enterprises. In other words, basic pay raises based on the cost of living reached the breaking point. In this situation, trade unions turned their wage maximization strategy into a proposal for profit-sharing by the employer. Hyundai introduced an incentive system in 1992. Initially, incentives and some other allowances were paid in accordance with wage negotiations in sharing of management performance. However, after the financial crisis company profits decreased. Therefore, trade unions have considered profit-sharing a major agenda item in wage negotiations and this

<sup>14.</sup> Before and after the IMF financial crisis in Korea, employers have continuously attempted to replace the existing seniority-based wage systems with ones that are performance-based (Jung Ee-Hwan, 2011). This is part of a strategy to make the existing inflexible employment system more flexible.

gradually became a regular practice in the  $2010s^{15}$ .

Year	Amount of Money	Year	Amount of Money
2001	300%+₩ 1,600,000	2008	300%+₩ 4,000,000
2002	350%+₩ 1,500,000	2009	300%+₩ 5,000,000 (40-share bonus)
2003	300%+₩ 1,000,000	2010	300%+₩ 5,000,000 (30-share bonus)
2004	300%+₩ 1,600,000	2011	300%+₩ 7,000,000 (35-share bonus)
2005	300%+₩ 2,000,000	2012	500%+₩ 9,500,000
2006	300%+₩ 2,000,000	2013	500%+₩ 9,200,000
2007	300%+₩ 2,000,000 (30–share bonus)		

Table 37 - Trends in Performance-based Pay at Hyundai, 2001-2013 (Units: KRW, %)

Source: Yoo Hyung-Geun, Drifting of Union Wage Policy & Crisis in the Trade Union Movement - Focusing on the Automotive Industry, 2013

As of 2013, the wage of regular workers at Hyundai is more than double the average wage of workers in the automobile industry, and more than three times the average wage in manufacturing (KRW 3.2 million).

		-	-				
Classification		2007	2008	2009	2010	2011	2012
Raise	Basic pay	84,000	85,000	30,117*	79,000	93,000	98,000
	Allowances		3,000**		11,982	(6,800)	3,000**
Sub-total		84,000	88,000	30,117	90,982	93,000 (99,800)	101,000 (101,500)
Bonus		750%	750%	750%	750%	750%	750%
Performance-based pay		300%	300%	300%	300%	300%	500%
		2,000,000	4,000,000	5,000,000	5,000,000	7,000,000	9,500,000
Increase rate	Basic pay	5.8%	5.6%	1.9%	4.9%	5.4%	5.4%
	Ordinary wage	4.7%	4.6%	1.5%	4.0%	4.4%	4.4%

Table 38 - Trend of Wage Increases at Hyundai (2007-2012) (Units: KRW, %)

Source: Park Tae-Ju, Korea's Industrial Relations can be found in Hyundai, 2014 \* Note: \* a pay step a salary class, \*\* service allowance, \*\*\* extra benefits and management performance allowances are connected to productivity?

<sup>15.</sup> Since 2001, the union has demanded 30% of 'net profits for the most recent term'to be shared in performance-based pay every year. In contrast, since 2000, Hyundai Motor proposed to link profit-sharing with reaching production targets. In other words, it was to be a means of 'comprehensive compensation for work' for the long work days, including overtime and holiday work and to achieve the production goals of the company (Jo Seong-Jae, 2007).
One of the features of wages at Hyundai is that they are based on seniority rather than on performance or task. Performance-based pay is also paid uniformly at 500% of the normal wage regardless of the individual's performance. In fact, the proportion of basic wage and ordinary allowances are very low in the structure of wages. The proportion of fluctuating wage is very high and consists of overtime allowance (overtime and extra duty work) and performance-based pay. In fact, wages at Hyundai are generally divided into four roughly equal parts: ordinary wage, overtime, bonuses and incentives.

Figure 7 - Wage Configuration at Hyundai (2011, manufacturing jobs) (Unit: %)



Source: Park Tae-Ju, Korea's Industrial Relations can be found at Hyundai, 2014

Hyundai Motor worker wages largely depend on achieving the company's production targets. Also, they tried the wage policy based on profit sharing to maximize oriented since 2000s. The change in wage policy would affect labor relations. Wages now depend on company performance, rather than the potential for collective action such as strikes. Actually, Hyundai's trade union has gone on strike almost every year since 1987, but the power of strikes has been waning since 2009 (Yoo Hyung-Geun, 2012). Since 1987, "even though industrial relations at Hyundai are evaluated as strongly confrontational, the real nature of these industrial relations is cooperation between labor and management" (Jo Hyeong-Je and Kim Chul-Sik, 2013). In conclusion, "the strategy of maximizing the performance-based part of wages weakened wage stability, encouraged longer workdays and weakened the effectiveness of union bargaining towards better cooperation between labor and management" (Yoo Hyeong-Geun, 2013).

#### Working hours

According to the OECD, Korea's average annual working hours totaled 2,163 hours in 2013. Among the 34 OECD countries, Korea ranked second, just behind Mexico. However, workers at Hyundai work more than the OECD average. In 2011, those in manufacturing jobs worked 2,678 hours, with overtime accounting for 38.8% (1,039 hours). Twenty percent (5,148) of the workforce worked over 3,000 hours that year. These long working hours resulted in the deaths of 196 workers at Hyundai over the past seven years (2006-2012).

Classification/Year	2005	2006	2007	2008	2009	2010	2011
Weekday hours	2,023	1,951	2,021	2,027	1,955	2,035	2,026
Fixed-daytime hours	1,670	1,621	1,672	1,701	1,662	1,658	1,639
Overtime hours	353	330	349	326	293	377	387
Holiday work hours	494	445	507	374	285	453	652
Total	2,517	2,396	2,528	2,401	2,240	2,488	2,678

Table 39 - Change & Actual Annual Working Hours at Hyundai (Unit: hours)

Source: Park Tae-Ju, 2014

The company has maximized production, reduced its labor costs and been able to invest in plant and equipment through these long working hours. The union also pursued maximization of wage income. However, this has changed. Hyundai introduced two daytime shifts in 2013. This has changed the work schedule of day and night shifts that had been in place since Hyundai Motor's establishment. For a long time, Hyundai had different shifts of workers, some who worked days and others who worked nights, each 10 hours per day. However, the two daytime shifts (8 hours and 9 hours) mean that production is occurring for 17 hours per day. Operating time has been reduced by three hours a day. As a result, the production volume has decreased by 15% and fringe benefits raised without added per production volume (production rate) in accordance with the collective agreement. There are three reasons for this change of on-duty hours, and one outcome. First, long conflict and controversy brought it about, a first in the automobile industry. Second, it effectively shortens annual working hours (2,238 -> 1,974 hours). Third, workplace innovation partly made this possible. Fourth, the situation at Hyundai impacted Kia Motors, GM Korea and some other automobile factories (Park Tae-Ju, 2014).

First Shift			Second Shift				
06:50-08:50	work	(2 hours)	15:30-17:30	Work	(2 hours)		
08:50-09:00	rest	(10 minutes)	17:30-17:40	rest	(10 minutes)		
08:00-10:50	work	(1 hour 50 minutes)	17:40-19:30	Work	(1 hour 50 minutes)		
10:50-11:30	mealtime	(40 minutes)	19:30-20:10	mealtime	(40 minutes)		
11:30-13:30	work	(2 hours)	20:10-22:10	Work	(2 hours)		
13:30-13:40	rest	(10 minutes)	22:10-22:20	Rest	(10 minutes)		
13:40-15:30	work	(1 hour 50 minutes)	22:20-00:10	work	(1 hour 50 minutes)		
_	-	_	00:10-00:20	10:10-00:20 rest (			
-	-	_	00:20-01:30	overtime	(1 hour 10 minutes)		

Table 40 - Work Schedule for the Two Day Shifts at Hyundai

Source: Park Tae-Ju, Korea's Industrial Relations can be found at Hyundai, 2014

#### Collective bargaining on overseas production

Particularly in Korea, demands for employment became the most important issues of automakers' trade unions in the context of collective bargaining. In practice, the large unions at Hyundai, Kia and others acquired some provisions requiring that mergers and acquisitions, company relocations, outsourcing, introduction of new technology and machines, and development of new types of vehicles and sales strategies be done "under consultation with the union", as these activities can directly influence employment of union members. Besides this, Hyundai union has been demanding negotiations on production abroad. The trade union concluded its first special agreement with Hyundai in 2003, which is negotiated again every two years. Moreover, in 2015, the trade union demanded inclusion of a provision in the agreement that the company would need to reach agreement with the union regarding total production, including at overseas sites. However, this demand is still in limbo due to Hyundai's stiff refusal.

There are two responses from the trade union to overseas production. The first response was to engage in collective bargaining. The trade union evaluated the expansion of overseas production as a risk that one result would be a hollowing out of the domestic auto industry in the long run. "The union did not fundamentally oppose expansion of overseas production. It considered employment security and strengthening of labor involvement in foreign investment as more important" (Lee Sang-Ho et al, 2012). They reached an agreement on expanding overseas production. The trade union agreed to clauses that prohibited employment disadvantage due to these overseas plants in its collective agreement in 2003 and 2005.

Let's take a closer look at the collective bargaining related to overseas plants, in which the trade union has engaged in a comprehensive manner since 2003. At that time, the union agreed to a new Article 32 (Overseas local plants) in the collective agreement after a strike that lasted 47 days. The article mainly outlined an agreement that the level of domestic production would be maintained at 2003 levels (1.93 million), and the company would follow the principle that overseas factories would shut down first should the closure of a factory become inevitable due to sluggish sales at home or abroad from the world economic downturn. In other words, "the union obtained a minimum of control to maintain the employment of its members at domestic factories and their wages despite any recklessness in expansion of foreign investment" (Lee Sang-Ho et al, 2012). Since 2005, the union and the company have come to the collective bargaining table with this issue, but agreements have not significantly deviated from the framework described above.

As outlined above, the union has responded to expansion of overseas production by focusing on employment security and maintaining domestic production in the midst of the overseas expansion strategy by the company for the past more than 10 years. In other words, "the trade union and workers have agreed to strengthen the production network overseas, on the premise that employment security would be strengthened for Hyundai workers" (Park Tae-Ju, 2009).

In light of this, let's take a look at the union's second response. In general, trade unions have sought to strengthen their solidarity across borders against multinational companies since the late 1990s. This means that trade unions and workers are responsible for ensuring corporations protect workers' rights and maintain standards regarding incidents, such as layoffs and plant closures, occurring worldwide as a result of globalization. Hyundai Motor union has responded by seeking international solidarity with the KMWU. However, the trade union responses to globalization haven't succeeded, in large part because "Globalization of

multinationals also strengthens the international solidarity of workers with production networks around the globe, but it also serves to heighten the competition between workers aimed at maintaining their jobs. In the process of globalization, labor will be looking to increase international solidarity on the one hand, but on the other workers will also compete with their counterparts in other countries in order to maintain their own production base" (Kim Young-Soo et al, 2008). As a result, "globalization has been a one-sided game as carried out by companies" (Park Tae-Ju, 2009). With regard to the role of international solidarity, at best Hyundai Motor union has remained in defensive isolationism (Levesque et al, 2010).

## < Hyundai: A Special Collective Agreement in 2003>

Provisions designed to prevent a hollowing out of the local manufacturing sector

Article 32: The Company, regarding the establishment of overseas factories and joint-ventures in the United States, China and other countries shall implement the followings.

**Paragraph 1**: The current regular employees are guaranteed a retirement age of 58 years of age. The company shall not carry out layoffs or force "voluntary resignations" without agreement from the trade union in the event of sluggish sales and construction, or sluggish operations at overseas plants.

**Paragraph** 2: The Company shall maintain production volumes at domestic factories at 2003 levels to prevent hollowing out of the industry, employment, wages or ordinary working hours of its employees. Business cycles shall not result in a reduction or closure without the deliberation and decision being made by the labor-management committee.

**Paragraph 3**: The Company shall not import from overseas factories or joint venture companies automobiles or parts (engines, transmissions) produced at domestic plants.

**Paragraph** 4: The Company shall inform the union in advance and have the labor-management committee deliberate and decide on company plans that will affect employment such as outsourcing, subcontracting and services.

**Paragraph 5**: The Company shall make it principle that overseas factories will shut down first when the closure of a factory is inevitable due to sluggish sales at home or abroad due to the world economic downturn.

Let's go back to what Hyundai's union has been doing. The union called on the company to sign the International Framework Convention (IF) during 2005 collective bargaining. This is an apparent suggestion that the company has a duty to apply the Convention to its workers. However, for reasons such as a lack of understanding of the duties of the parent company, a consensus was not reached. "Hyundai complies with the labor laws of the country, ensures the labor rights of workers and does its best to provide a living wage and safe working conditions at its overseas plants. In addition, the Korean Metal Workers Union was allowed to proceed with international solidarity projects involving the plants belonging to Hyundai and Kia automotive group in other countries" (Kim Young-Soo et al, 2008). In March 2009, as part of these efforts, the Hyundai-Kia International Workers Network Conference was held in Seoul. At this time, union delegations from Hyundai Korea and its affiliates Kia Motors America and those in Slovakia and India, shared the overall situation in terms of labor and industrial relations facing each production location. However, an international framework agreement could not be reached at the initial conference. In the end, a declaration was adopted that called for a joint response to each labor issue.

#### Strikes

Hyundai has recognized strikes as a symbol of the militant labor movement. The stability of labor relations in Korea is strongly influenced by the situation at Hyundai-Kia. The share of strikes at Hyundai and Kia accounted for the immense majority of labor strike in Korea. For example, strikes at the two companies accounted for 25-40% of all lost days in the industry between 2003 and 2012. The propensity to strike in Korea was 52.2 more than the OECD average from 2003 to 2012. The total number of lost days due to strikes in the industry amounted to 839.2 with 238 of those days (28.3%) due to trade union actions at Hyundai and Kia. Hyundai's union alone was responsible for 128.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Average
Lost days (1,000 days, A)	1,299	1,199	848	1,201	536	809	627	511	429	933	839.2
Propensity to strike	90.2	80.5	55.8	77.2	33.6	49.9	38.1	30.1	24.7	52.7	52.2
Strikes at Hyundai and Kia (1,000 days, B)	429	281	332	517	133	116	183	24	0	361	238
Share of Hyundai and Kia (B/A, %)	33.0	23.4	39.2	43.0	24.7	14.4	29.1	4.7	0.0	38.7	28.3
Strikes at Hyundai (1,000 days, C)	278	167	200	284	30	86	0	0	0	230	128
Share of Hyundai (C/A, %)	21.4	13.9	23.6	23.6	5.6	10.7	0	0	0	24.6	15.2

Table 41 - Strikes at Hyundai & Kia as a Proportion of Total Strikes in the Automotive Industry

Source: Park Tae-Ju, Korea's Industrial Relations can be found at Hyundai, 2014

Usually, wage and collective bargaining follow a scheduled procedure each year for Hyundai. Collective bargaining breaks down and the trade union goes on strike. In the process, strikes appear as routine events instead of part of a dynamic process. Hyundai's strikes have a substantially limited effect on production and management. Nevertheless, strikes occur annually. Park Tae-Ju (2014) also criticized the strikes at Hyundai and Kia Motors "the strike of large enterprises seems to be evaluated annually. Furthermore those of tools trapped to the needs of interest groups, and conservative members of the unions".

## **Chapter 4. Conclusion**

The globalization strategies of automobile companies have changed the labor market and industrial relations since the 1990s. There are essentially three changes that have been brought about by this globalization. One is the change in the labor-management environment, including within the automobile industry, which is under stronger pressure. Second is flexibility within the labor market, from an increase in non-regular and informal work. Finally, the trade union movement has been weakened and has had to pursue a different collective bargaining agenda since the late 1990s. These features appear clearly in the automobile industry, which represents world manufacturing. Ten nations and automakers have dominated world production through their global value chains, together accounting for a 90% share of the market. Changes in production promote the division of regular workers and expansion of a variety of non-regular workers have been excluded from labor and social protections.

Hyundai is a leading Korea-based multinational player in the global Hyundai's globalization strategy in the mid-1990s is the basis for changing production methods in accordance with the strategy of expanding overseas production. Paradoxically, this globalization strategy became the springboard allowing for the growth of Hyundai Motor Company into a global enterprise. What are the main factors that propelled Korea's automobile industry, and Hyundai in particular, into a top global position? First, supportive policy from the South Korean government, which has, since the 1960s, also enacted legislation aimed at development of Korea's automobile industry. In 1962, the Korean government announced its Automobile Industry Promotion Policy to both develop the automobile industry and protect it in its infancy. The Korean automobile industry suffered greatly during the 1979 energy crisis, and the consequent local recession. In 1982, government action included implementing the Automobile Industry Rationalization Policy, the objective of which was to prevent excessive competition between the four major domestic automakers. Through this support, Korea's auto industry was able to survive on its own in competition with the world's major car companies. In particular, Hyundai Motor Company was the target of preferential support by government and was consequently able to grow as the 5<sup>th</sup> largest global producer. Second, it's about Hyundai's aggressive globalization strategy. Hyundai chose two strategies for restructuring after the 1997 financial crisis: expansion of overseas production and a change in production methods resulting in modularization. Hyundai's production methods are basically oriented towards cutting labor costs (also known as a labor-exclusive production model) through automation and modularization, and the Hyundai production system in pursuit of a global manufacturing network. The most important thing is that these features affected labor relations within the company.

Hyundai is in two pivotal positions in Korea's economy, and is a pattern setter in labormanagement relations. These relations at Hyundai can be characterized as an incomplete segment of the labor market within the enterprise. The other pivotal position is the strategic choice by management to pursue modularization together with outsourcing. One of the main reasons for modularization in Hyundai was the desire to reduce wage costs through the use of in-house subcontract workers. Employment and industrial relations at Hyundai cannot be fully understood without understanding the in-house subcontracting situation. Modularization brought changes to the production systems, which expanded the in-house subcontracting for better labor flexibility. In fact, employment relations at Hyundai's overseas plants also share features with their Korean counterparts. These common elements include an avoidance of trade unions, exclusion of labor involvement and strong reliance on quantitative and external flexibility. These changes affected industrial relations in that they switched from the traditional two-party situation to the three parties of regular employees, non-regular (including in-house subcontract) employees, and the employer, and also served to divide and polarize the workforce.

Hyundai Motor Company has propelled its globalization strategy through expansion of overseas production and changes to its production system since the 1990s. As of 2013, Hyundai operates factories in 7 countries with 239 primary partners. In general, globalization of the automobile industry has developed from exporting to construction of overseas production bases, and finally to construction of a network connecting scattered production bases. Hyundai has adopted this same strategy and grown into a global company. But, in contrast, responding to trade union hasn't succeeded in terms of industrial relations. Hyundai's trade union began to intervene in the expansion of overseas production in 2003 to seek job security for their members, who were worried about their continued employment, through collective agreements. Therefore, the union had to deal with the aggressive overseas production agenda in connection with employment, but the union's response was limited to maintaining job security for its members. The trade union didn't have a comprehensive

understanding of expanding production abroad. As a result, the response of the union was national, passive and defensive. This has not changed significantly more than a decade later.

Hyundai's union and the KMWU have pushed forward international solidarity with overseas workers and unions in countries which Hyundai has entered. However, a solidarity network has not been successful in terms of the ability to organize joint responses and actions in relation to repression of unions or workers, and day-to-day information sharing. In addition, the KMWU and the Hyundai Motor union tried to induce Hyundai to sign a GFA<sup>16</sup> (global framework agreement) in 2009. However, in spite of significant attempts by the union, there was a significant limitation to try the way like an existing industry-level G4S<sup>17</sup>. Hvundai Motor factories operating in 7 countries have different conditions and different union status, not to mention the different domestic laws and language barriers. However, one of the major causes for this failure has been the passive role the Hyundai Motor union has taken for the past 10 years, where it has focused more on ensuring the continued employment of its members than on activities to promote international solidarity. In light of globalization, unions must expand their local point of view to include the issue of accelerating overseas production. Traditional industrial relations have been changing and employment relations have been diversifying on both the domestic and international stage. If trade unions remain at the domestic level only, unlimited competition for jobs between workers will not be avoided. Instead, trade unions need to focus on international solidarity between them and with their workers towards protecting worker rights and improving working conditions. In this regard, at this point, Hyundai union must build a global network to discuss issues surrounding wages, working conditions and employment. The role of this global network would be to control the competition between workers at production locations involved with jobs reinforced by the globalization of capital. If a trade union concentrated in the past on protection of wages and working conditions, it must in the future actively seek alternatives to the globalized nature of management and production of the automotive industry. As a result, it is essential that Hyundai Motor union seeks strategies to strengthen both the metal union and cooperation with other trade unions across the country.

<sup>16. &</sup>quot;Global framework agreements (GFAs) serve to protect the interests of workers across a multinational company's operations. Global framework agreements are negotiated on a global level between trade unions and a

company's operations. Global framework agreements are negotiated on a global level between trade unions and a multinational company. They put in place the very best standards of trade union rights, health, safety and environmental practices, and quality of work principles across a company's global operations, regardless of whether those standards exist in an individual country" (http://www.industriall-union.org/). 17. "G4S plc (formerly Group 4 Securicor) is a British multinational security services company headquartered in central London. It is the world's largest security company measured by revenues and has operations in around 125 countries. With over 620,000 employees, it is the world's second largest private employer. In December 2008, G4S and UNI Global Union announced the launch of an *Ethical Employment Partnership*, which will drive improvements in standards across the global security industry. Simultaneous to this, G4S and the SEIU reached an agreement to end their long dispute and establish a framework to work together in the interest of employees" (https://en.wikipedia.org/wiki/G4S).

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