



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

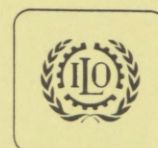
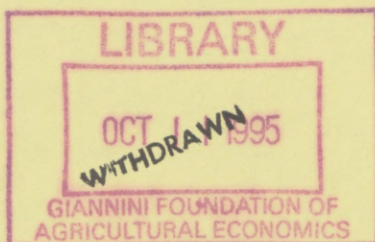
*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

INTERDEPARTMENTAL PROJECT
ON STRUCTURAL ADJUSTMENT

Occasional Paper 12

Young-bum Park

**Public sector adjustment
through privatization:
The Republic of Korea**



Interdepartmental Project on Structural Adjustment

The aim of the Interdepartmental Project on Structural Adjustment is to strengthen ILO policy advice in relation to structural adjustment policies in order to make those policies more consistent with ILO principles and objectives.

The project investigates various options to give a different focus to adjustment policies, emphasizing major objectives as equitable growth, improved human resource development and social acceptability and it tries to establish how various ILO policies and policy instruments can contribute to such a different focus of adjustment policies.

The range of policy instruments encompasses labour market regulation, social security, wages policies, training policies, industrial relations as well as the employment and income effects of monetary, fiscal and price policies. Greater involvement of the ILO in the area of structural adjustment needs therefore to reflect the interdisciplinary nature of the adjustment problem by combining activities from different departments in the ILO.

During the 1992-93 biennium, the project concentrates on developing policies for the following five main areas:

- the role of the public and private institutions in structural adjustment;
- the role of fiscal policy in generating employment and favouring equitable growth in a process of adjustment;
- the role and function of compensatory programmes and social safety nets during adjustment;
- public sector adjustment, including issues pertaining to privatization;
- the role and function of the social partners in the adjustment process.

Further information can be obtained from the Project Manager (Rolph van der Hoeven) or the Project Officer (Andrés Marinakis).

**Public sector adjustment
through privatization:
The Republic of Korea**

*Note: Occasional Papers are preliminary documents circulated
in a limited number of copies solely to stimulate discussion
and critical comment.*

Copyright © International Labour Organization 1993

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the Publications Branch (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland. The International Labour Office welcomes such applications.

ISBN 92-2-109119-8

First published 1993

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers. The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them. Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. A catalogue or list of new publications will be sent free of charge from the above address.

Table of contents

	Page
Introduction	1
1. The history of privatization in the Republic of Korea	1
1.1 The public sector and the economy of the Republic of Korea	1
1.2 Past experiences of privatization	3
1.3 The current privatization scheme	5
2. Social and labour protection in the Republic of Korea	7
2.1 Government authorities	7
2.2 Public authorities and the private sector	9
2.3 Social protection and privatization	10
3. Case studies	11
3.1 Privatization of government enterprises into government-invested enterprises	11
3.1.1 Korea Tobacco and Ginseng Corp.	11
a. Labour productivity	12
b. Wages and working conditions	13
c. Employment security	13
d. Human resources management	15
e. Industrial relations	15
3.1.2 Korea Telecom	16
a. Labour productivity	17
b. Wages and working conditions	17
c. Employment security	17
d. Human resources management	17
e. Industrial Relations	19
3.1.3 Privatization through the People's Share Programme	19
3.1.4 Total privatization: The Korea Stock Exchange	21
4. Concluding remarks	21
Bibliography	26

Introduction

The public sector has played a crucial role in the Republic of Korea's rapid economic development since the 1960s, particularly in the provision of social infrastructure such as hydroelectric power plants, gas, roads, public housing, and so forth. The proportion of value added generated by public enterprises amounted to 9.4 per cent of GDP in 1990.

Since the Republic of Korea implemented its first of economic and social development plan in 1962, privatization has been suggested as a way of improving the efficiency of public sector operations. Two large-scale privatization schemes were implemented in the 1980s; one in the early part of the decade with the birth of the Fifth Republic and one starting in 1987. This paper looks at the Republic of Korea's experiences of privatization in the 1980s with a view to determining whether or not privatization has desirable labour market consequences.

In the Republic of Korea, privatization broadly follows three patterns: transformation of a government authority into a public authority; partial privatization, which means that a certain proportion of government shares in a public enterprise are sold to the private sector, with the government remaining the major shareholder; and total privatization.

Five public enterprises, which were privatized partially or totally in the 1980s, have been selected for detailed study: Korea Telecom and the Korea Tobacco and Ginseng Corp., which belong to the first privatization category; the Korea Electric Power Corp. and the Pohang Steel and Iron Co., which belong to the second category; and the Korea Stock Exchange, which can be considered a total privatization. In each case, the level and structure of employment, labour productivity, labour flexibility, job security, industrial relations, and wages before and after privatization are examined. Finally, there is an overview of past experiences of privatization and their labour market implications.

1. The history of privatization in the Republic of Korea

1.1 The public sector and the economy of the Republic of Korea

In 1991, the public sector in the Republic of Korea employed 1,253,000 workers, mainly in non-manual occupations, which represented 6.7 per cent of total employment, as shown in Table 1. The public sector can be divided into two parts: *government authorities* (GAs), in which the employment relationship is regulated by the Public Servant Act; and *public authorities* (PAs), in which the Labour Standard Act, which also sets basic labour standards for the private sector, regulates the employment relationship. The PAs can be further classified into three groups: public enterprises; government-financed authorities (GFAs); and government-subsidized authorities (GSAs).

GA employees can be classified into six occupational groupings: general public administration; police and fire departments; education; technicians; general clerical duties; and judges, attorneys and foreign servicemen. The government employs more than half of the school teachers in the Republic of Korea. Public enterprises include: government-invested enterprises (GIEs), in which at least 50 per cent of the equity is owned by the central

Table 1. Public sector employment and union membership, 1980, 1987, and 1991
(in thousands)

Type	Public sector employment			Union membership		
	1980	1987	1991	1980	1987	1991
Government authorities	596	705	854	NA		
Public servants	-	-	-		44	50
Non-public servants	-	-	-		13	19
Public enterprises	NA	NA	308	NA	116	184
Government-invested enterprises (GIEs)			213		107	137
Government-backed enterprises			39		7	9
Subsidiary companies of GIEs			39		2	27
Local public enterprises			17		0	11
Government-financed authorities	NA	NA	41	NA	1	18
Government-subsidized authorities	NA	NA	50	NA	0	25
Total public sector	NA	NA	1 253	NA	174	296
Total labour force	13 707	16 354	18 756	945	1 050	1 803

Note: NA = Not available

government; government-backed enterprises (GBEs), in which less than 50 per cent of the equity is owned by the central government (but the central government is still a major shareholder); subsidiary companies of the GIEs, in which the largest shareholders are the GIEs; and the local public enterprises (LPEs), in which more than 49 per cent of the equity is owned by the local government. Government enterprises, including the Korea National Railroad are all considered to be GAs because of their employees' legal status. GFAs, whose financing comes mostly from the government, are supposed to be independent, but most of them work closely with their affiliated government ministries. GSAs have a proportion of their expenses financed by the government.

Public enterprises have played a crucial role in the national economy of the Republic of Korea. The value added of all public enterprises in 1990 was 12.367 trillion won (US\$ 1,545 billions), which comprised 9.4 per cent of the Republic of Korea's GDP. This share had increased from 9.0 per cent in 1986 (Song and Song, 1992). Public enterprises are very capital-intensive. For example, depreciation constituted 37.3 per cent of the GIEs' total expenses as compared to 18.8 per cent for the manufacturing sector as a whole in 1987 (Park, 1988). The capital formation of all public enterprises, which comprised about 30 per cent of gross domestic capital formation from 1963 to 1981, still comprised 8.9 per cent of new capital investment in 1990. The budget of all public enterprises was 6.2 trillion won (US\$ 0.775 billions) in 1990, 40 per cent larger than the general account of the Korean government.

Until very recently, the business activities of firms in the Republic of Korea, including the privatized enterprises, were heavily regulated by the government, reflecting the leading role played by the government in the process of economic development. Regulation applied particularly to the large enterprises.

Government regulation of private sector business activities has taken place in a number of ways. First, as new enterprises have sprung up, the government has controlled their entry

into new markets. Second, most of the domestic capital markets have been, and still are, owned and controlled by the government. The import of foreign capital has also been regulated by the government. Third, the prices set by most large firms have been controlled by the government as part of their strategy for the efficient management of the country's macro economy. Moreover, where public enterprises are partially privatized, the government has maintained its control over their activities, particularly their personnel policies, through additional measures, including participation on the boards of the privatized enterprises.

Most of this government regulation is to some extent maintained. Since the mid 1980s, however, lessening government involvement in private sector activities has emerged as one urgent agenda item to improve the efficiency of the economy. The current privatization scheme, introduced in 1987, was one government policy which aimed to decrease the government's direct involvement in the national economy. The Seventh Republic, which started in 1993, has also been promising less government involvement in private sector activities, but no detailed plans have yet been revealed.

1.2 Past experiences of privatization

Before the current privatization programme, two large-scale privatization schemes had been implemented in the Republic of Korea. The first, which began with the privatization of Korea Express Co., took place from 1968 to 1973. Under this scheme, 18 public enterprises were reorganized and eight were sold to private firms and financial institutions. This privatization scheme was carried out as part of the country's overall development strategy. Most of the public enterprises existing in the 1960s were established under Japanese colonial rule and were nationalized with the liberalization of the Republic of Korea from Japan. Quite a few of these public enterprises needed to be reshaped to enable them to play a leading role in the export-oriented, outward-looking development strategy which was adopted with the birth of the Third Republic in the early 1960s.

The Republic of Korea's first five-year development plan, which lasted from 1962 to 1966, was not well prepared. Political considerations left little time for planning, since the start of the plan was to coincide with the birth of the Third Republic in 1962 - the Third Republic seized power by military coup in 1961. The plan was nevertheless considered successful, with real GNP increasing by 7.1 per cent annually. The second five-year plan, which started in 1967, can be considered the real first plan in the sense that it was drawn up on the assumption that it was part of a process of development planning that would last for some considerable time. The major objectives of the second plan included creating a base for the country's industrial upgrading, especially through the development of the steel, chemical and machinery industries.

The first privatization scheme was implemented as part of the second five-year development plan. The enterprises that were privatized included the Korea Express Co., the Korea Line Corp., the Korea Shipbuilding and Engineering Corp., Korea Air Lines, the Korea Mining Promotion Corp., the Korea Salt Co., the Commercial Bank of Korea, and the Korea Marine Industry Development Corp. Most of the privatized enterprises still held a monopoly in their product markets even after privatization. However, as already noted, their activities were subject to heavy government regulation, as were those of most large private sector firms. The workers' reaction to privatization is not well documented. Considering that the Republic of Korea did not reach its Lewis-type turning point in migration at that

time, it can be assumed that most workers affected by privatization were quite content as long as their jobs were protected, as they were.¹

The second privatization programme was implemented in the early 1980s as one component of a general policy of liberalization adopted by the government in 1980 with the birth of the Fifth Republic. The Republic of Korea recorded negative GNP growth rates in 1980 and 1981 consecutively for the first time since development planning started in the 1960s. It was concluded that the financial sector was less developed than the real sector, and that this was causing serious problems for the country's sustained economic development. Four major banks were sold to private firms and investors through an asset sale method. The privatized banks were Hanil Bank, Korea First Bank, Bank of Seoul and Trust Company, Cho-hung Bank.

The government has in fact managed to retain control over most of the activities of the privatized banks, since there was a share limit for both private firms and for individual investors. For example, the government still appoints board members as well as presidents of the banks. However, it is argued that the objectives of privatization have not been realized mainly because the government continues to control the privatized banks (Kang, 1988).

In the first half of the 1980s, two government enterprises were also changed to government-invested enterprises (GIEs) within the government's overall privatization framework: the Korea Telecommunications Authority (later renamed Korea Telecom) and the Korea Tobacco and Ginseng Authority (later renamed the Korea Ginseng and Tobacco Corp.). In 1982, public servants in the Ministry of Postal Service who worked in telecommunications were transferred to the Korea Telecommunications Authority. The same thing happened with public servants in the Office of Monopoly, which became the Korea Tobacco and Ginseng Authority in 1987. The transfer of these public servants to GIEs was significant in labour terms because labour regulations are different for government authorities and public authorities, as already mentioned. Some manufacturing firms were also privatized under the second privatization programme.

Workers' views were not considered by policy-makers during the process of privatization in the early 1980s, workers' rights being at a particularly low ebb since the birth of the Fifth Republic, which seized power through a military coup in 1980.² However, workers' jobs were well protected in the privatized enterprises, as will be elaborated below in the cases of Korea Telecom and the Korea Tobacco and Ginseng Corp.

Calculations of indicators such as total profit and average rates of return and sales per employee for 15 firms privatized under the first and second privatization programmes (Kang, 1988) suggest that not all firms benefited equally from privatization. While six firms showed increases in efficiency, two actually experienced drops in efficiency after privatization. For the other seven firms, the effects were not significant. The market structure of some firms and the continued government regulation (particularly, banks) have been suggested as causes for the failure of some firms to improve their performance.

¹ Bai (1981) argues that the Republic of Korea reached its turning point in internal migration from rural to urban areas in the mid-1970s, when rural labour reserves began to dry up.

² See Park (1992) for details about the labour situation in the early 1980s.

1.3 The current privatization scheme

In April 1987, the Privatization Proceeding Committee, chaired by the Vice Minister of the Economic Planning Board, was formed with a view to privatizing selected Korean public enterprises. Since then, 11 government-invested enterprises and government-backed enterprises have been selected for total or partial privatization, as shown in Table 2.

Table 2. Current privatization schedule, 1990

		Government holding (%)		Date of privatization
		Before privatization	After privatization	
Total privatization	Korea Stock Exchange	68.1	0.0	1988
	Korea Appraisal Board	49.4	20.4	1990
	National Textbook Co.	96.5 ^a	0.0	46.5%: 1990; 50.0%: after 1991
	Korea Technology Development Corp.	22.1	0.0	15.1%: 1990; 7.0%: after 1991
	Foreign Exchange Bank	100.0 ^b	0.0	1990
Partial privatization	Citizen National Bank	72.6	51.0 ^c	1990
	Small and Medium Industry Bank of Korea	99.9	51.0 ^c	10%: 1990; 38.9%: after 1991
		100.0	68.0	21%: 1989; 11%: 1990
	Korea Electric Power Corp.	100.0	51.0	25%: 1990; 24%: after 1991
	Korea Telecom	100.0	51.0	1991
	Korea Tobacco and Ginseng Corp. Pohang Steel and Iron Co.	69.1 ^a	35.0 ^c	1988

Notes: ^a The share of the Korea Development Bank is included.

^b The share of the Bank of Korea is included.

^c Total privatization will be considered in the near future.

The Korea Stock Exchange, the Korea Appraisal Board, the National Textbook Co., the Korea Technology Development Corp. and the Foreign Exchange Bank were chosen for total privatization. The government shares in the Korea Stock Exchange were sold to the member firms of the Korea Stock Exchange in 1988.

The Citizen National Bank, the Industry Bank of Korea, the Korea Electric Power Corp., Korea Telecom, the Korea Tobacco and Ginseng Corp. and the Pohang Steel and Iron Co. were chosen for partial privatization. Under the plan, some proportion of the government holding in these six enterprises was to be sold, but the government was still to remain the major shareholder.

The government shares in the six firms that were to be partially privatized and in the Foreign Exchange Bank were expected to be sold mainly through the People's Share Programme announced in November 1987. The Korean government planned to sell 5 trillion won (US\$ 7.1 billion) worth of government held shares in public enterprises over the period 1988-1992. Under this programme, 75 per cent of the government shares were set aside for

low-income buyers,³ 20 per cent for the employees of the privatized enterprises, and 5 per cent for the general public. As the purchase price of the shares was below market price, the low-income buyers and public enterprises employees were expected to make some capital gains. In April 1988, the Pohang Steel and Iron Co. was partially privatized through the People's Share Programme; about 3.2 million people participated. The share price was set at 15,000 won (US\$ 20.6) per share. The starting price of the shares, when traded in the stock market in June 1988, was 43,000 won (US\$ 59).⁴

The Privatization Proceeding Committee also decided that the functions of the other seven public enterprises should be adjusted to the new economic environment. Some selected public banks would be reorganized in line with future plans for restructuring the whole banking industry. The GIEs have also been encouraged to privatize their subsidiary companies as part of the government's privatization plan.

When the current privatization scheme was introduced, the government stated the following objectives. First, the role of the government in the national economy would be reduced. The government has initiated and led the country's economic development, but it is now generally accepted that its role should be adjusted, given the enormous economic growth achieved during the last three decades. In this context, the role of public enterprises in the national economy should be reconsidered. By privatizing major public enterprises, the role of the government was expected to decrease and that of the private sector to increase.

Second, expanding private sector involvement in the management of the partially privatized public enterprises was expected to enhance their economic efficiency. Massive government subsidies were given and excessive price increases allowed to compensate for the mismanagement of public enterprises (Park, 1988).

Third, the financial burden on the government would be reduced. From 1976 to 1989, for example, financial support from the government to the GIEs amounted to 14.6 trillion won (US\$ 27.7 million). At the same time, by selling the government shares, the government was expected to earn revenue of 5 trillion won (US\$ 7.1 billion) over the five-year period, which would be used for social development, including social welfare.

Finally, the stock market would be boosted by the choice of the People's Share Programme as the privatization method. The ratio of the market value of the total stocks traded on the Korea Stock Exchange to GNP increased from 6.9 per cent in 1980 to 57.8 per cent in 1988. Before the total liberalization of the capital market, which was then planned for 1992, the government aimed to give a boost, in both quantitative and qualitative terms, to the country's capital market and to bring it close to the level of that in industrialized countries. The People's Share Programme was to contribute to the development of the Republic of Korea's capital market.

However, the current privatization scheme through the People's Share Programme has been completely suspended since 1990. The government, which was afraid of inflicting further damage on the country's troubled stock market by selling a large volume of new

³ This means the people whose incomes do not exceed a certain limit, not poor people.

⁴ The actual distribution of shares in the Pohang Steel and Iron Co. followed the envisaged pattern. The average number of shares bought by employees was 9.7, while the figure for low-income buyers was 7.8.

stock, announced in May 1990 that the People's Share Programme would be suspended until the stock market stabilized. Since then, the stock market has not recovered, but has deteriorated further. No steps have been taken to privatize the subsidiary companies of the GIEs. On the contrary, the number of subsidiaries increased from 68 in 1988 to 90 in 1991.

2. Social and labour protection in the Republic of Korea

2.1 Government authorities

Most public servants do not have the legal right to join trade unions. Low-ranking public servants in the Ministry of Communications, the Korea National Railroad and the National Medical Centre are entitled to join trade unions and discuss employment terms with their employers because they had trade unions prior to their inclusion as government branches. As of 1991, 6.1 per cent of all public servants have the legal right to become union members. On the other hand, daily workers (temporary and/or casual workers) employed in the government authorities have the same labour rights as workers in the private sector.

The Ministry of Government Administration is responsible for all personnel matters relating to public servants, including determination of the distribution of various categories of occupations and grades for each government authority. It also determines wage levels for public servants in collaboration with the Economic Planning Board, which sets the budget for the public sector. Even the wages of unionized public servants are in practice often determined unilaterally by the government since workers do not have the right to strike. There is a commission to advise the Minister of Government Administration on appropriate public sector wages but it has not been called on at all during the last few years.

Public servants' wages are generally believed to be lower than those of equivalent workers in the private sector.⁵ However, some public sector unions argue that the government in fact underestimates the wages of public servants (Park, forthcoming).⁶ In recent years public servants' wages have increased substantially in certain sectors because public servants have not been affected by the government's low-wage policy since the late 1980s.

Public servants in the Republic of Korea do not come under the Labour Standard Act. Even minimum legal labour standards, such as overtime premiums, are not guaranteed. For example, the overtime allowance of a G8S7 (Grade 8 Step 7) technician was 631 won as of 1988, which was only 12.5 per cent of the overtime premium guaranteed under the Labour Standard Act. However, public servants benefit from a very good pension scheme. Since a national pension scheme covering the non-GA sector began a few years ago, an employee leaving a job either in a public authority or in the private sector is entitled to a severance payment, which should be at least one month's wages for each year of service. Table 5 compares the lump-sum severance payment given under the government pension scheme with that available in the other sectors. The government pension scheme offers the best terms,

⁵ Table 3 compares the wage levels among government authorities, public enterprises and all enterprises. Table 4 estimates wage differentials between public authority and private sector workers in both gross and net (adjusted for differences in workers' characteristics) terms.

⁶ The wages of public servants are supposed to be determined by wage comparability with the private sector, based on a wage survey conducted by the Ministry of Government Administration. However, since neither the methodology nor the results of the survey are made public and no outside interests are involved in its conduct, its credibility as reliable information is very weak.

Table 3. Wage differentials among government authorities, public enterprises and all enterprises (government estimates), 1988 (in thousand won)

General administration						
Grade	Government authorities (A)	Occupation	Public enterprises (B)	All enterprises (C)	(B/A) x 100	(C/A) x 100
G2S8	1 268	Managing Director	2 331	2 682	183.8	211.5
G3S8	1 152	Director	1 954	1 996	169.6	173.3
Average	1 210	Average	2 143	2 318	177.0	191.6
G4S8	983	Manager	1 947	1 592	198.0	162.1
G5S8	837	Deputy Manager	1 552	1 299	-	-
		Chief	1 302	1 105	-	-
Average	910	Average	1 687	1 397	185.5	153.6
G6S9	735	Deputy Chief	1 032	883	140.4	120.2
G7S7	603	University graduate (all without title)	750	662	124.4	109.9
G7S1	358	University graduate (no experience)	583	548	162.9	153.1
Average	608	Average	850	744	139.9	122.4
G8S6	489	High school graduate (all without title)	623	524	127.4	107.2
G9S1	290	High school graduate (no experience)	454	403	156.5	138.9
Average	390	Average	539	464	138.1	119.0
Average					157.2	141.2
University graduates						
Tenure in years	Grade	Government authorities (A)	Public enterprises (B)	All enterprises (C)	(B/A) x 100	(C/A) x 100
0 years	G7S1	358	583	548	163	153
5 years	G6S3	520	790	773	152	149
10 years	G6S6	636	1 010	996	159	157
15 years	G5S8	837	1 217	1 208	145	144
20 years	G4S9	1 040	1 478	1 690	142	163
25 years	G4S10	1 074	1 713	1 842	159	171
High school graduates						
Tenure in years	Grade	Government authorities (A)	Public enterprises (B)	All enterprises (C)	(B/A) x 100	(C/A) x 100
0 years	G8S1	290	454	403	157	139
5 years	G8S5	457	614	559	134	122
10 years	G7S7	603	842	754	140	125
15 years	G6S9	735	1 043	960	142	131
20 years	G6S11	807	1 244	1 180	154	146
25 years	G5S11	953	1 500	1 391	157	146

Notes: 1. Public enterprises include 40 major public enterprises.

2. All enterprises include 40 public enterprises, the top 100 private enterprises in terms of turnover, 20 banking institutions and 40 medium-sized enterprises.

Source: Unpublished data from the Ministry of Government Administration.

Table 4. Wage differentials between the public authorities and the private sector: 1988 and 1990

			Public authorities		Private sector
			1988	1990	
Male	All	Gross	148	140	100
		Net	110	117	100
	Non-production	Gross	131	124	100
		Net	111	112	100
	Production	Gross	139	121	100
		Net	109	109	100
Female	All	Gross	182	156	100
		Net	125	117	100

Table 5. Severance payment schedule, 1991 (Proportion of one months' wages)

	Years of tenure						
	1	5	10	15	20	25	30
Government authorities ^a	1.5	7.5	15.5	24.0	33.0	42.5	52.5
Public authorities	1.0	6.8	14.8	21.2	28.9	34.8	41.8
Private sector	1.0	5.5	11.7	17.1	23.1	28.4	34.1

Note: ^a Pension is converted to lump-sum payment schedule
Source: Park, forthcoming.

and the scheme for PAs the next best. Public servants also enjoy a good medical insurance system,⁷ which existed long before a national medical insurance system was introduced for the private sector.

2.2 Public authorities and the private sector

Before 1987, trade unions in the Republic of Korea did not properly represent workers' interests in the process of wage fixing. In the public sector, few establishments were even organized: only 32 public authorities were unionized as of June 1987. In practice, therefore, the wages of employees in the public sector were determined unilaterally by the government up until 1987.

With the amendment to the Trade Union Act in 1987, labour rights equal to those enjoyed in the private sector were given to public sector employees. The central government is not officially involved in wage-fixing. However, its role in public sector collective bargaining is still more critical than it might appear, despite the fact that 83.6 per cent of the public authorities are organized as of the end of 1991, the budgets of all government-financed authorities (GFAs) and government-subsidized authorities (GSAs) are examined by the affiliated ministries as well as by the Economic Planning Board, and annual wage increments are determined in advance before wage bargaining begins. Since most local public enterprises depend on the government for finance, their budgets are closely examined by both their affiliated ministries and by the Economic Planning Board. Even government-invested

⁷ The medical insurance system for public servants was introduced in the 1960s, while the national medicare insurance system for the private sector started in the early 1980s. The national medicare system includes many low-income earners since its coverage is more than 70 per cent of the total population. The financial base of the public servants' medical insurance system is therefore stronger and the benefits schedule more favourable.

enterprises (GIEs), which have the most autonomy under the Government Invested Enterprise Regulation Act, must follow the government's wage policy. Government limits on public sector budgets have sometimes led to strikes. In 1988, for example, the trade unions of many government-financed research institutes (which come into the GFA category) held a joint strike to oppose the predetermined 3 per cent wage increase in their 1989 budgets.

Employment in the PAs is regulated by the Labour Standard Act, in the same way as employment in the private sector. Only small employers are excluded from its coverage. Benefits workers are entitled to under the Act include overtime pay (one and a half times the normal hourly wage rate), paid leave and holidays, severance pay (an employee's average monthly wage over the last three months for every year of service) and minimum wages. In the case of industrial accidents and illness, most workers receive compensation under the Industrial Accident and Compensation Act.

PAs are supposed to determine their own levels of employment as well as the distribution of their employees among the various grades and occupations. However, a PA must obtain approval from its governing board, of which one member must by law be a government official from an affiliated government ministry, before finalizing any major personnel management decision. The usual result is that employment levels and distribution of employees among grades and occupations are greatly influenced by the affiliated ministry.

Workers in such essential services as public transportation, water, electricity, gas, oil refineries, public health, medical services, banks, broadcasting and communications - whether or not in the public sector - are subject to emergency mediation and/or compulsory arbitration in the case of severe strikes. Employees of some public enterprises, including the Korea Broadcasting System, Korea Telecom, the Korea Gas Corp. and the Korea Electric Power Corp., are considered to be essential service providers.

Wages in the PAs are on average higher than those in the private sector, even after skill differences in the two sectors have been controlled for. This reflects the fact that most PAs have a monopoly position in their product market and/or the agent costs incurred in the public sector (Park and Lee, 1989). Fringe benefits in the PAs include paid leave, severance pay and other welfare benefits and are considered to be better than those in the private sector. The schedule for severance pay is higher than the legal minimum. (In the early 1980s, with the birth of the Fifth Republic, the government forcefully reduced the level of severance payments in some public enterprises.) All workers in the Republic of Korea are entitled to overtime pay of at least one and a half times their basic pay, except those in the government authorities. Most PAs now pay the legally required overtime premium owing to pressures from the union movement since the mid 1980s. Since 1988, all employees who work in an establishment with more than nine employees (four employees since 1991), have benefited from a national pension scheme. The pension premium is paid half by the employer and half by the employee under the national pension scheme, which applied equally to PAs and the private sector.

2.3 Social protection and privatization

Public employees' labour and social rights are protected by a different legal framework depending on whether they belong to a government authority or a public authority.

When a GA is changed to a PA, which is considered as a form of privatization, the rights of GA employees are for the most part respected. For example, when the Korea Telecommunication Authority and the Korea Tobacco and Ginseng Corp. were established in accordance with the government's privatization plans, in 1982 and 1987 respectively, schemes for the two PAs were implemented to reduce the need for compulsory redundancies in unskilled or outdated occupations. These schemes were carried out without difficulty because displaced workers were given early retirement benefits, called a privileged retirement plan. Workers were also given the option of being transferred to another GA instead of working for the PA. Very few public servants availed themselves of this option. As a GA is changed to a PA, the wages of GA employees usually increase substantially, reflecting the big wage differential between GAs and PAs.

However, when a GA (a rare case) or PA is privatized totally, there is no guarantee that employees' labour and social rights will be protected, even though the same Labour Standard Act regulates the employment relationship in both PAs and the private sector. Because the private sector principle of profit maximization would reduce the agent cost which occurs because of public ownership, it would bring a retrenchment scheme for redundant workers. The law also gives employers the right to dismiss workers for purposes of business restructuring, which usually takes place when the ownership of an establishment changes.

On the other hand, what is remarkable is that no major retrenchment schemes have ever been enforced in the public sector in the Republic of Korea, which reflects the performance of the national economy over the last 30 years.

3. Case studies

Five public enterprises, which were privatized partially or totally in the 1980s, have been selected for the case studies: the Korea Tobacco and Ginseng Corp., Korea Telecom, the Korea Stock Exchange, the Pohang Steel and Iron Co. and the Korea Electric Power Corp. Among these, the Korea Tobacco and Ginseng Corp. and Korea Telecom both changed from government enterprises to a government-invested enterprises. The Pohang Steel and Iron Co. and the Korea Electric Power Corp. were partially privatized through the People's Share Programme in the late 1980s, and the Korea Stock Exchange was totally privatized.

3.1 Privatization of government enterprises into government-invested enterprises

3.1.1 Korea Tobacco and Ginseng Corp.

The Korea Tobacco and Ginseng Corp. (KTG) is a government-invested enterprise (GIE) whose operations include both the production and the sale of tobacco and ginseng. Ginseng is a health and nutrition product, and Korean ginseng is considered to be the best in the world. The share of the ginseng business in the corporation's total turnover for 1991 was 3.4 per cent. Its annual turnover, net profit and public profit for 1991 were 2,525 billion won (US\$ 3.319 billion), 271 billion won (US\$ 0.355 billion) and 2,108 billion won (US\$ 2.771 billion) respectively.⁶ Its total number of employees as of the end of 1991 was about 8,600.

⁶ Public profit is defined as turnover minus the sum of intermediate inputs, employment costs, rental expenses and the opportunity cost of working capital. The concept of public profit is used both because most of the figures needed to calculate net profit are not available for the period before KTG's privatization and because the concept of net profit does not fit well with the objectives of the enterprise.

KTG was established as a government bureau under the Ministry of Finance in 1948 with the birth of the Republic of Korea: it was then called the Bureau of Monopoly. It became an independent government agency in 1952, and was renamed the Office of Monopoly. In 1987 it was transformed from a government enterprise to a GIE as part of the overall government privatization scheme, and renamed the Korea Tobacco and Ginseng Corp. From its establishment until its transformation to a GIE, KTG's revenue was one of the government's major sources of income, particularly in the 1950s and 1960s when the national economy was still relatively undeveloped.

KTG's privatization is considered a successful one. The Republic of Korea opened up its tobacco market in 1988, but the share of foreign tobacco companies in the market was still below 5 per cent at the end of 1991. In Japan and Taiwan, by contrast, foreign firms had taken shares of 14.5 per cent and 22 per cent respectively by the end of 1989. In the annual performance evaluation conducted by the Government Invested Enterprise Performance Evaluation Commission, KTG was ranked fairly high. It was ranked 9th out of 23 GIEs in 1987, 8th in 1988, 6th in 1989 and 1990. The process of privatization involved no major management-union conflicts. Nor have there been any labour disputes since 1987 despite the country's generally disturbed industrial relations.

A trade union was established in KTG (then the Office of Monopoly) as early as 1954, just one year after the enactment of the Trade Union Act. Since then the union has played an important role in the Republic of Korea's labour movement, particularly in the 1950s and 1960s when the labour movement had not yet evolved in the private sector. The number of union members was 8,000 at the end of 1990, with an organization rate of almost 100 per cent.

a. Labour productivity

Table 6 shows changes in a number of productivity indices before and after the privatization of KTG. Public profit, net profit, turnover and value added have continued to increase since privatization both in per employee and in absolute terms. KTG's turnover increased at an average annual rate of 4.3 per cent in the three years before privatization, while it has increased by 10.9 per cent annually since privatization. The increase in turnover is even greater in per employee terms since KTG has made substantial reductions in its workforce since privatization. Turnover per employee increased at an average annual rate of 7.7 per cent in the three years before privatization, while the annual rate of increase since privatization has been 17.1 per cent. This outstanding performance is also evident in terms of value added and profits, as shown in Table 6.

The number of cigarettes produced per employee-hour increased at an annual rate of 5.8 per cent in the three years before privatization, while since privatization it has risen by 11.7 per cent annually. The volume of ginseng produced per employee-day has also increased greatly since privatization.

The increases in labour productivity were particularly remarkable in the first year of privatization. In 1988 public profit, turnover and value added per employee grew by 40.2 per cent, 31.7 per cent, and 32.9 per cent, respectively. In the same year, the number of cigarettes produced per employee-hour increased by 19.4 per cent, while the volume of ginseng produced per employee-day rose by 39.9 per cent. There was also a substantial

increase in capital productivity, with the ratio of public profits to fixed capital increasing by 25.0 per cent in 1988.

The good performance of KTG since privatization is attributed to the fact that it has implemented a successful retrenchment scheme and that its sales have increased substantially, despite the opening of the Republic of Korea's tobacco market to foreign firms. The size of the workforce was reduced by 10.6 per cent and 7.2 per cent, respectively in 1988 and 1989. The boost in sales was due to enhanced marketing activities and to a growing preference among Korean consumers for more expensive brands of cigarette. The share of high quality cigarettes in KTG's sales increased from 63 per cent in 1985 to 72 per cent in 1987 and 77 per cent in 1988.

b. Wages and working conditions

Pay in the government authorities in the Republic of Korea is generally lower than in the public authorities or the private sector. After the change in status of KTG employees from public servants to civilians employed in a public enterprise, the wages of KTG employees increased very substantially. Table 6 shows that KTG's labour cost per employee increased by 67.6 per cent in 1987, the first year of privatization. Since the government has pursued a low-wage policy for the public authorities since the late 1980s, the wage increases for 1990 and 1991 were fairly moderate. Highly ranked government officials experienced larger wage increases right after the privatization, while wage increases were higher for low-ranking workers in the following years.

Provisions for paid holidays and compensation for industrial accidents also changed with privatization. The maximum amount of paid annual leave for a public servant is 25 days, with one extra day for every two years of tenure. Under the Labor Standard Act, which applies to public authorities, the maximum is 34 days. Most of the benefits KTG employees had as public servants were retained even after privatization. A special provision was made so that they would not lose the pension benefits they had enjoyed as public servants, since a national pension scheme had not yet been introduced at the time of privatization. But overtime provisions are much more favourable in the public authorities and KTG employees have come to enjoy these too.

c. Employment security

When KTG was privatized, the employment security of most workers was well protected. First, any low-ranking workers who did not want to lose their public servant status were given the option of transferring to another government authority. Second, an early retirement scheme, known as the privileged retirement plan, was introduced in order to reduce the size of the workforce. Third, new hiring was limited for the first few years of privatization.

Under the privileged retirement plan, workers were given, in addition to the ordinary severance payment, a lump-sum payment equivalent to their current monthly wages multiplied by half of their remaining years until the compulsory retirement age. In 1987 and 1988, a total of 1,153 workers took advantage of the plan. As a result, the share in the workforce of the over-50 age cohort decreased from 36.6 per cent in 1986 to 30.5 per cent in 1989. New hiring was also limited: only 35, 251, and 175 workers were hired in 1987, 1988 and 1989, respectively.

Table 6. Selected labour productivity indicators: Korea Tobacco and Ginseng Corp.

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Turnover (million won) (A)	1 343 676	1 412 087 (5.1)	1 470 919 (4.2)	1 523 405 (3.6)	1 669 128 (9.6)	1 964 993 (17.7)	2 159 304 (9.9)	2 360 973 (9.3)	2 524 759 (6.9)
Value added (million won) (B)	971 333	1 065 980 (9.7)	1 116 567 (4.7)	1 136 714 (1.8)	1 215 922 (7.0)	1 444 207 (18.8)	1 605 566 (11.2)	1 790 101 (11.5)	1 948 808 (8.9)
Public profit (million won, in 1983 constant prices) (C)	1 092 891	1 134 873 (3.8)	1 126 097 (-0.8)	1 184 922 (5.2)	1 290 019 (8.9)	1 616 236 (25.3)	1 740 594 (7.7)	1 995 569 (14.6)	2 108 474 (5.7)
Net profit (million won) (D)	NA	NA	NA	NA	NA	54 720	1 260 700 (130.4)	198 955 (57.8)	270 900 (36.1)
Wage and welfare costs (million won) (E)	96 884	99 405 (2.6)	104 546 (5.2)	107 362 (2.7)	168 770 (57.2)	188 850 (11.9)	193 671 (2.6)	207 907 (7.4)	222 471 (7.1)
Number of employees (F)	12 656	12 288 (-2.9)	11 916 (-3.0)	11 472 (-3.7)	10 758 (-6.2)	9 616 (-10.6)	8 927 (-7.2)	8 745 (-2.0)	8 646 (-1.1)
A/F	106.17	114.2 (8.2)	123.44 (7.4)	132.79 (7.6)	155.15 (16.8)	204.35 (31.7)	241.89 (18.4)	269.98 (11.6)	292.02 (8.2)
B/F	76.75	86.75 (13.0)	93.70 (8.0)	99.07 (5.7)	113.01 (14.1)	150.19 (32.9)	179.86 (19.8)	204.70 (13.8)	225.40 (10.1)
C/F	86.35	92.36 (7.0)	94.50 (2.3)	103.29 (9.3)	119.91 (16.1)	168.08 (40.2)	194.98 (16.0)	228.20 (17.0)	243.87 (6.9)
D/F	NA	NA	NA	NA	NA	35.69	14.12 (148.1)	22.85 (61.1)	31.33 (37.7)
E/F	7.66	8.89 (16.1)	8.77 (-1.3)	9.36 (6.7)	15.69 (67.6)	19.64 (25.2)	21.70 (10.5)	23.77 (9.6)	25.73 (8.2)
Public profit/Fixed capital	2.29	2.30 (0.5)	2.16 (-6.1)	2.21 (2.1)	2.36 (7.0)	2.95 (25.0)	3.18 (7.9)	3.60 (12.9)	3.71 (3.1)
Number of cigarettes produced per employee-hour	NA	4.20	4.37 (3.9)	4.70 (7.6)	5.63 (19.7)	6.72 (19.4)	7.65 (13.8)	8.46 (10.5)	9.17 (8.5)
Ginseng production per employee-day (kg)	NA	1.48	1.49 (1.2)	1.68 (12.4)	1.85 (10.0)	2.59 (39.9)	2.83 (9.2)	2.91 (2.3)	3.10 (6.5)
Overall economy		11.0	8.7	9.2	8.2	10.1	15.5	21.1	18.8
Rate of wage change (%)									
Inflation rate (%)		3.4	2.3	2.5	2.8	3.0	7.1	5.7	8.6

Notes: Numbers in parentheses are the percentage change with respect to the previous year.

NA = Not available

In the Republic of Korea the occupations of public servants fall into six broad categories: general public administration, police and fire departments; education; technicians; general clerical duties; and judges, attorneys and foreign servicemen. General public administration is a more highly regarded category than either technicians or general clerical duties. With privatization the status of public servants who belonged to the technicians and general clerical duties categories was to some extent raised because most of the distinctions between general public administration and the two other occupational categories were abolished.

Workers in KTG enjoy full employment protection. Unless they commit a criminal offence, or are given a penalty according to the company's regulations, workers are entitled not to be temporarily laid off, or demoted, or displaced against their will. Nor can workers be assigned to another job within one year of being assigned to a job except under special circumstances. Finally, management must give due consideration to where workers live when they are assigned to jobs. These regulations are set out in the collective agreement between the workers and management of KTG. It can therefore be assumed that they have been reasonably observed, considering that trade union activity in the Republic of Korea has expanded since 1987 when KTG was privatized.

d. Human resources management

KTG has put great efforts into transforming itself from a bureaucratic government authority into a concern run on private business lines, despite its legal status as a government-invested enterprise. These efforts have been reflected in its human resources management practices.

With privatization a preliminary job analysis was begun in order to forecast long-term manpower needs. When KTG was a government authority, there used to be a specified number of posts available for each grade. In general, the specified posts were more than needed. At the end of 1986, for example, KTG could only fill 11,465 out of the available 13,082 posts. With long-term manpower planning, its management of posts has become more satisfactory. The difference between the number of specified posts and the actual number of employees decreased from 1,617 in 1986 to 796 in 1987 and 249 in 1989.

Post management has also become more flexible. KTG used to need to obtain prior approval from its board in order to increase the number of posts for a grade in a section. Under the new system adopted in 1988, the number of posts for a grade in a section can be changed without prior approval, and the board considers the matter afterwards.

Criteria for job rotation, promotion and performance evaluation were also reviewed. An incentive system was introduced in the first year of privatization, as required by the Government Invested Enterprises Management Act. Under this system, individual employees' bonuses are partly determined by the results of KTG's performance evaluation by the Government Invested Enterprise Performance Evaluation Commission and partly by their own performance. A Management Information System was also introduced in 1988 for more systematic personnel management.

e. Industrial relations

With privatization and the amendment of the Trade Union Act, the employees of KTG have come to enjoy full labour rights. However, there have been no major disputes at KTG since its privatization.

Management and union cooperated throughout the process of privatization, and almost no one was forced to leave KTG against their will. The wages and working conditions of employees who remained after privatization have improved substantially. Labour costs per employee increased by almost 70 per cent in 1987, as mentioned above, and overtime pay started to be given.

Industrial relations at KTG have to some extent improved since privatization: in addition to the union, another forum now exists for workers and management to discuss matters of mutual concern, the Labour and Management Council. Under the Labour and Management Act, in any establishment with 50 or more permanent employees, apart from a government authority, a Labour and Management Council (LMC) must be set up and meet quarterly.⁷ Through the council, KTG's labour and management have been able to settle their differences over major issues peacefully.

3.1.2 Korea Telecom

Korea Telecom was established as a GIE in 1982 when its telecommunications business was removed from the Ministry of Postal Service as telecommunications became an increasingly crucial part of the infrastructure needed for the country's sustained economic development. Most of the employees who worked in the telecommunications sector of the Ministry of Postal Service were transferred to the Korea Telecommunications Authority, which was renamed Korea Telecom in 1990.

Korea Telecom's annual turnover and net profit in 1991 were 4,120 billion won (US\$ 5.415 billion) and 476 billion won (US\$ 0.626 billion), respectively; it employed 58,000 workers. Korea Telecom is considered one of the most popular sources of employment for new university graduates in the Republic of Korea, mainly because telecommunications is seen as a key sector in the next century and Korea Telecom enjoys a monopoly position.

Korea Telecom's privatization is also considered successful. A primary task for the newly privatized industry was to build a circuit facility at a cost of 2 trillion won (US\$ 2.855 billion). This was successfully completed as an investment project under the Republic of Korea's fifth five-year economic and social development plan. From 1981 to 1986, the total number of circuits increased by 140 per cent to 8,903,000, with an additional circuit supply of 6,143,000. This resulted in an increase in the diffusion rate from 8.9 to 19 per 100 over the same period. Moreover, the automation rate increased from 14.1 per cent (88.0 per cent) in 1981 to 65.3 per cent (99.2 per cent) in 1986. The quality of telecommunications services also improved substantially. The average length of time a telephone is out of order dropped from 120.68 minutes per year in 1981 to 28.28 minutes in 1986, and the "completion rate" of city calls increased from 58.3 per cent to 76.4 per cent during the same period. Performance evaluations by the Government Invested Enterprise Performance Evaluation Commission were good: Korea Telecom was ranked first in the 1986 evaluation.

⁷ The LMC's main function is to discuss ways to improve productivity, promote employees' welfare, resolve workers' grievances, and plan the workers' training programmes. The collective agreement covers annual wage increases, severance allowances, bonuses, other wage issues, working hours, kinds of paid leave, holidays, other welfare benefits, compensation for industrial accidents and disease, safety and health, job classification, rules and procedures governing dismissals, job mobility, criteria for promotion, training, and union activities. As trade unions have recently expanded their activities, the scope of bargaining has widened. As bargaining has extended from wages to non-wage issues such as work hours and quality of work life, and even participation in management decision-making, the scope of bargaining has often become itself a cause of disputes. The government has suggested that these issues should be dealt with in the LMCs.

The Korea Telecom trade union was organized in 1982 at the time of privatization: its members had previously belonged to the Postal Service Union. It has played a leading role in the Federation of Postal Service and Telecommunications Unions (until 1988) and the Federation of the Telecommunications Unions. At the end of 1990, its membership stood at about 48,000.

a. Labour productivity

Many of the selected productivity indicators, in particular those relating to finance, did not change much after the privatization of Korea Telecom, as shown in Table 7. The rate of increase of some of the indicators such as turnover actually decreased. This is mainly because the telecommunications industry was already very profitable even before privatization. A comparison of productivity before and after privatization per employee cannot be made since the number of employees who worked purely in the telecommunications sector under the Ministry of Postal Service cannot be identified.

However, other labour productivity indicators did increase substantially. The number of subscribers per employee, for example, rose from 92.6 in 1982 to 114.4 in 1984 and 144.8 in 1986. This was possible partly because Korea Telecom maintained reasonable control over increases in the size of its workforce. After privatization, Korea Telecom's workforce increased by only 32.4 per cent in five years, while its annual turnover grew by 90.1 per cent over the same period. Korea Telecom also put a great deal of effort into meeting customers' needs. In 1984, for example, it conducted 159 customer satisfaction surveys involving a total of 83,420 customers.

b. Wages and working conditions

The wages of Korea Telecom employees increased substantially with privatization by an average of 60.2 per cent in the first year, according to Park and Lee (1989). The wage increase in the second year after privatization was 25.6 per cent, which was high, considering that the average wage increase for the whole country for the same year was just 11.0 per cent.

Korea Telecom employees also came to enjoy benefits under the Labour Standard Act and labour rights under the Trade Union Act as a result of change of status from public servants to civilians. However, their right to take collective action was limited until the Trade Union Act amendment of 1987 gave employees of public enterprises the right to strike.

c. Employment security

Employment security was not a problem for most employees when Korea Telecom was privatized. The telecommunications business was booming, so Korea Telecom had no need to cut the size of its workforce. In the first five years of privatization, the number of employees in fact rose by 32.4 per cent. Retraining was provided to some redundant workers including telephone operators. An early retirement plan has also been on offer since 1986. However, not many employees have taken advantage of this compared to KTG employees, despite the fact that the two firms' schemes were almost identical. This is mainly because telecommunications is considered such a growth industry in the Republic of Korea.

Korea Telecom employees are well protected. First, a worker cannot be assigned to another job within one year of being assigned to a job unless there are special circumstances.

Table 7. Selected labour productivity indicators: Korea Telecom

	1979	1980	1981	1982	1983	1984	1985	1986	
Turnover (million won) (A)	310 924	488 832 (57.2)	647 253 (32.4)	962 463 (48.7)	1 141 787 (18.6)	1 388 145 (21.6)	1 605 662 (15.7)	1 839 053 (14.5)	
Public profit (million won, in 1982 constant prices) (B)	350 317	428 642 (22.4)	473 432 (10.4)	475 215 (0.4)	593 820 (25.0)	800 668 (34.8)	973 560 (21.6)	1 298 669 (33.4)	
Net profit (million won) (C)	NA	NA	NA	132 570	106 278 (-20.0)	132 228 (24.4)	65 232 (-51.7)	233 043 (257.3)	
Wage and welfare costs (million won) (D)	91 650	126 122 (38.1)	160 229 (27.1)	228 570 (42.7)	325 053 (42.1)	382 156 (17.6)	422 544 (10.6)	458 611 (8.5)	
Number of employees (E)	NA	NA	NA	35 876	40 641 (13.3)	42 602 (4.8)	44 877 (5.3)	47 512 (5.9)	
Public profit/Fixed capital	0.16	0.16	0.15 (-5.6)	0.13 (-17.0)	0.13 (1.6)	0.15 (14.0)	0.15 (3.4)	0.18 (15.1)	
A/E	NA	NA	NA	26.83	28.09 (4.7)	32.58 (16.0)	35.78 (9.8)	38.71 (8.2)	
B/E	NA	NA	NA	13.24	14.61 (10.4)	18.79 (28.6)	21.69 (15.4)	27.33 (26.0)	
C/E	NA	NA	NA	3.70	2.62 (-29.2)	3.10 (18.3)	1.45 (-53.3)	4.9 (217.2)	
D/E	NA	NA	NA	6.37	8.00 (25.6)	9.09 (13.6)	9.42 (3.6)	9.65 (2.4)	
Time out of order per subscriber (minutes)	58.42	73.34 (25.5)	120 68 (64.5)	85.26 (-29.4)	69.38 (-18.6)	51.60 (-25.6)	35.21 (-31.8)	28.28 (-19.7)	
Number of subscribers per employee	NA	NA	NA	92.57	102.85 (11.1)	114.40 (11.2)	128.45 (12.3)	144 76 (12.7)	
Overall economy	Rate of wage change (%)	28.3	23.4	20.7	15.8	11.0	8.7	9.2	8.2
	Inflation rate (%)	18.3	28.7	21.6	7.1	3.4	2.3	2.5	2.8

Note: NA = Not available

Second, only in the case of a criminal offence or a decision of the disciplinary committee can a worker be displaced.

d. Human resources management

Human resources management practices at Korea Telecom have changed a lot since privatization, partly because the structure of employment has changed substantially with the large number of new entrants. The proportion of workers with two years in college or higher education, for example, increased from 10.2 per cent in 1982 to 20.0 per cent in 1986.

A series of extensive job analyses was conducted, and a new payment system introduced.⁸ More responsibilities were given to middle management. Long-term manpower forecasting also began. A Total Quality Circle (TQC) was introduced in 1987. Criteria for job rotation, promotion and performance evaluation are now made public. An incentive system has also been introduced, as required by the Government Invested Enterprises Management Act.

e. Industrial Relations

When Korea Telecom was privatized in 1982, the labour rights of most workers in the Republic of Korea were limited. As a result, the views of the trade union were not seriously considered during the process of privatization, nor was the union offered much opportunity to participate in the process. It should, however, be noted that most union members were in favour of privatization because of the substantial improvements in wages.

3.1.3 Privatization through the People's Share Programme

The People's Share Programme was originally intended to sell 5 trillion won (US\$ 7.1 billion) worth of government-held shares in six selected public enterprises over the period 1988-92. In April 1988, 34.1 per cent of the shares in the Pohang Steel and Iron Co. (POSCO) were sold to the public under the programme and in May 1989 the Korea Electric Power Corp. (KEPCO) was partially privatized. However, the programme has not been implemented further mainly because of the troubled state of the country's stock market.

POSCO, which was established in the early 1960s, has become one of the biggest steel firms in the world. Its success within a short period of time is well known worldwide. In 1991 its annual turnover and net profit were 5,827 billion won (US\$ 7.659 billion) and 146 billion won (US\$ 0.192), respectively. The number of employees at the end of 1991 was 25,000. KEPCO, which was established in 1943, is the only power company in the Republic of Korea. It employed 35,000 workers at the end of 1991. Its annual turnover and net profit for 1991 were 5,702 billion won (US\$ 7.495 billion) and 719 billion won (US\$ 0.945 billion), respectively.

The government claims that one of the benefits which the employees of the public enterprises privatized under the People's Share Programme can enjoy is capital gain through participating in the programme, as a proportion of the shares are set aside for employees. POSCO employees were offered, on average, 313 shares each, while KEPCO employees were offered around 1,000 shares each. Employees who did not sell their shares for three

⁸ Based on the job analysis, the payment system changed from the public servant system to one which is more appropriate for Korea Telecom's needs.

years were supposed to benefit from some capital gain because the purchase price of the shares was set much below the market price as well as below the price offered to the general public.

However, the capital gains for employees have turned out to be small. Song and Song (1992) estimated that the profit rates for the shares in the two public enterprises have decreased substantially since the implementation of the programme. For POSCO employees, the estimated profit rate decreased from 294.3 per cent in June 1988 to 78.2 per cent in December 1989, 32.9 per cent in December 1990 and 22.1 per cent in December 1991, as shown in Table 8. The estimated profit rate for KEPCO employees also decreased from 152.7 per cent in August 1989 to 37.9 per cent in December 1990 and 23.9 per cent in December 1991. Considering that the interest rate for an ordinary saving account is about 15 per cent in the Republic of Korea, the capital gains for employees seem to be much smaller than expected. Members of the general public who sold their stocks after 1990 actually experienced some capital losses. The poor profit rates are attributed mainly to the troubled state of the stock market, which is described in the next section.

Table 8. Estimated profit rates for shares in the Korea Electric Power Corp. and the Pohang Steel and Iron Corp.

		Aug. 1989	Dec. 1989	Dec. 1990	Dec. 1991	
Korea Electric Power Corp.	Ordinary purchase	0.769	0.735	0.154	0.103	
	Discounted purchase	1.527	1.478	0.379	0.239	
		June 1988	Dec. 1988	Dec. 1989	Dec. 1990	Dec. 1991
Pohang Steel and Iron Corp.	Ordinary purchase	1.760	1.573	0.491	0.180	0.117
	Discounted purchase	2.943	2.676	0.782	0.329	0.221

Source: Song and Song, 1992.

In introducing the People's Share Programme as a means of privatization, the government claimed that the efficiency of the privatizing public enterprises would be increased by having a substantial number of shareholders involved in the decision-making process. However, this expectation has not been realized for either POSCO or KEPCO, mainly because the government has remained the major shareholder in both enterprises. The government still holds 35 per cent of POSCO's shares and 79 per cent of KEPCO's.

The impact of partial privatization on the two public enterprises does not seem to have been great, as shown in Tables 9 and 10. Some of the productivity indicators have actually declined since privatization, mainly because of the relatively poor performance of the national economy since the late 1980s. The GNP growth rate dropped from 12.4 per cent in 1988 to 6.7 per cent in 1989; it increased to 9.0 per cent in 1990, but this was still below the GNP growth rates of over 12 per cent experienced in 1986-88.

Human resource management practices have not changed much at either POSCO and KEPCO as a result of the partial privatization. However, industrial relations in the two firms have changed substantially along with the overall changes in the industrial relations scene in the Republic of Korea. The POSCO trade union was organized in 1988. Most of the differences between university graduates and high school graduates as regards wages, promotion, job rotation, etc., were abolished and a skill payment system was introduced in

1990.⁹ This change in the payment system meant that the average wages of POSCO employees increased by more than 20 per cent in that year. KEPCO has a long history of unionization, but there have been some recent changes in industrial relations. For example, the union played a key role in organizing a campaign to restore the severance payment schedule, whose benefits were reduced in the early 1980s by the military government. However, these changes in industrial relations at the two firms are considered to have little to do with privatization itself.

3.1.4 Total privatization: The Korea Stock Exchange

The Korea Stock Exchange was established in 1956 with joint contributions from banks, insurance companies and securities firms. With the enactment of the Securities and Exchange Act, the Exchange was reorganized into a joint stock corporation in 1962. In 1983, with the amendment of the Securities and Exchange Act, the Exchange was again reorganized into a non-profit, government-owned corporation and came to be included as one of the GIEs in 1984 with the enactment of the Government Invested Enterprises Management Act in 1984. In 1988, the Exchange was totally privatized into a membership corporation as the government sold its two-thirds share-holding in the Exchange to the member firms.

The privatization of the Korea Stock Exchange took place as part of the mid-term plan for internationalization of the Republic of Korea's capital market during the period 1989-92. However, its overall relationship with the government, including the Ministry of Finance, has not changed much since privatization. Under the Securities and Exchange Act most of the Exchange's business activities are still regulated by the Ministry of Finance, and the Chairman of the Exchange is still appointed by the Minister.

Table 11 shows that the labour productivity indicators for the Exchange have declined since privatization. This is due to the overall decline of the country's stock market since 1988. The Korean Composite Stock Price Index (KCSPI) decreased from 1,007.77 on 1 April 1989 to 909.72 on 31 December 1989 to 696.11 on 31 December 1990 and finally to 610.92 on 31 December 1991.

Human resources management practices and industrial relations at the Korea Stock Exchange have remained more or less unchanged. However, employees' wages and working conditions have to some extent improved since the government began to interfere less with internal matters such as wages, employee numbers and the structure of the organization. The costs of wages and welfare benefits per employee increased by 21.9 per cent and the number of employees rose by 18.9 per cent in 1988. New job titles were created in the first year of privatization, which meant that more employees were promoted.

⁹ Individual workers' wages and/or promotion in the Republic of Korea mainly depend on their educational attainment, age and tenure. Under the skill payment system, which originates in Japanese wage practices, workers can be promoted (hence, their lifetime wages can be increased) if their skills meet certain requirements set by the company.

4. Concluding remarks

The case studies show that in the Republic of Korea, privatization has not meant workers losing benefits which they previously enjoyed. Even for employees of government authorities which changed to public authorities, wages and working conditions improved substantially with privatization. The employment security of employees in the privatizing organizations was on the whole well protected: almost no one was forced to leave an organization against their will.

This can be attributed to a number of factors. First, the privatized enterprises have remained part of the public sector, or like the Korea Stock Exchange, are seen as organizations which serve the public interest. Second, the performance of the national economy in the last three decades has been remarkable. This has meant that any major retrenchment schemes in the public sector would have been socially unacceptable. Finally, some of the privatized enterprises, including KTG, have done reasonably well in transforming themselves from bureaucratic government authorities to organizations run on private business lines.

Effects of privatization on other labour market outcomes such as labour productivity and human resources management practices have been mixed. In the newly created public authorities such as KTG and Korea Telecom, whose relationship with the government underwent a fundamental change, both labour productivity and human resources management improved. In the other three organizations, including the Korea Stock Exchange, whose relationship with the government remained virtually the same after privatization, little change was observed, which was to be expected since the government still remained in control of most of their activities.

Even when the current privatization scheme, which has been suspended since 1990, is re-implemented, and completed, little improvement in efficiency is expected in most privatizing enterprises since the government will still remain the major shareholder. The current privatization plan should therefore be reconsidered with a view to improving efficiency in the various operational aspects of public enterprises, including human resources management and industrial relations.

Real privatization within the context of a restructuring of the public sector, not just selling some portion of government shares to the public, would be the best way to increase efficiency as well as to achieve industrial peace in the public sector. Privatization should be introduced with proper regulations including controls on prices of services and increased competition. On the other hand, another measure to reduce the agent cost should be found for the government-financed authorities and government-subsidized authorities, because the high agent cost is not only due to the non-profit nature of these organizations.

Table 9. Selected labour productivity indicators: Korea Electric Power Corp.

	1985	1986	1987	1988	1989	1990	1991
Assets (million won) (A)	12 249 179	12 569 776 (2.6)	12 566 492 (-0.03)	12 584 035 (0.1)	13 021 769 (3.5)	13 843 516 (6.3)	15 969 315 (15.4)
Turnover (million won) (B)	3 425 340	3 649 170 (6.5)	4 006 401 (9.8)	4 421 233 (10.4)	4 568 253 (3.3)	5 031 742 (10.1)	5 702 157 (13.3)
Net profit (million won) (C)	253 280	322 871 (27.5)	481 114 (49.0)	891 433 (85.3)	766 117 (-14.1)	605 831 (-20.9)	719 049 (18.7)
Wage and welfare costs (million won) (D)	NA	226 330	258 956 (14.4)	314 176 (21.3)	387 200 (23.2)	452 224 (16.8)	530 434 (17.3)
Number of employees (E)	22 770	23 696 (4.1)	25 212 (6.4)	25 999 (3.1)	26 147 (0.6)	27 337 (4.6)	28 278 (3.4)
A/E	538.0	530.5 (-1.4)	498.4 (-6.1)	484.0 (-2.9)	498.0 (2.9)	506.4 (1.7)	564.7 (11.5)
B/E	150.4	154.0 (2.4)	159.0 (3.2)	170.1 (7.0)	174.7 (2.7)	184.1 (5.4)	201.6 (9.5)
C/E	11.1	13.6 (22.5)	19.1 (40.4)	34.3 (79.6)	29.3 (-14.6)	22.2 (-24.2)	25.4 (14.4)
D/E	NA	9.6	10.3 (7.3)	12.1 (17.5)	14.8 (22.3)	16.5 (11.5)	18.8 (13.9)
Overall economy							
Rate of wage change (%)	9.2	8.2	10.1	15.5	21.1	18.8	17.5
Inflation rate (%)	2.5	2.8	3.0	7.1	5.7	8.6	9.7

Note: NA = not available

Table 10. Selected labour productivity indicators: Pohang Steel and Iron Corp.

	1985	1986	1987	1988	1989	1990	1991
Assets (million won) (A)	3 327 309	4 479 527 (34.6)	5 139 175 (14.7)	5 562 5195 (8.2)	8 944 0049 (3.5)	9 874 8226 (10.4)	10 646 231 (7.8))
Turnover (million won) (B)	2 047 252	2 241 622 (9.5)	2 919 369 (30.2)	3 701 118 (26.8)	4 364 288 (17.9)	4 805 023 (10.1)	5 827 412 (21.2)
Net profit (million won) (C)	61 729	62 010 (0.5)	70 331 (13.4)	134 357 (91.0)	114 511 (-14.8)	79 025 (-31.0)	145 680 (84.3)
Wage and welfare costs (million won) (D)	101 421	114 307 (12.7)	162 483 (42.1)	182 912 (12.6)	256 014 (40.0)	311 480 (21.7)	402 462 (29.2)
Number of employees (E)	15 000	16 500 (10.0)	19 094 (15.7)	19 353 (1.4)	20 402 (5.4)	22 537 (10.5)	25 074 (11.3)
A/E	221.8	271.5 (22.4)	269.2 (-8.5)	287.4 (6.8)	438.4 (52.5)	438.2 (-0.04)	424.6 (-3.1)
B/E	136.5	176.9 (29.6)	152.9 (-13.6)	191.2 (25.0)	213.9 (11.9)	213.2 (-0.3)	232.4 (8.9)
C/E	4.1	3.8 (-7.3)	3.7 (-9.8)	6.9 (86.5)	5.6 (-18.8)	3.5 (-37.5)	5.84 (65.7)
D/E	6.8	6.9 (1.5)	8.5 (23.2)	9.5 (31.6)	12.5 (31.6)	13.8 (10.4)	16.1 (16.7)
Overall economy							
Rate of wage change (%)	9.2	8.2	10.1	15.5	21.1	18.8	17.5
Inflation rate (%)	2.5	2.8	3.0	7.1	5.7	8.6	9.7

Note: NA = not available

Table 11. Selected labour productivity indicators: Korea Stock Exchange

	1984	1985	1986	1987	1988	1989	1990	1991
Turnover (million won) (A)	5 792	6 774 (17.0)	11 237 (65.9)	20 674 (84.0)	31 419 (52.0)	18 044 (-42.6)	13 148 (-27.1)	18 840 (43.3)
Net profit (million won) (B)	583	1 572 (169.6)	5 534 (252.0)	13 593 (145.6)	20 942 (54.1)	6 260 (-70.1)	1 104 (-82.4)	625 (-43.4)
Wage and welfare costs (million won) (C)	2 894	3 338 (15.3)	3 488 (4.5)	3 946 (13.1)	5 682 (44.0)	7 244 (27.5)	8 235 (13.7)	9 752 (18.4)
Number of employees (D)	307	296 (-3.6)	284 (-4.1)	307 (8.1)	365 (18.9)	401 (9.9)	418 (4.2)	463 (10.8)
A/D	18.9	22.9 (21.2)	39.6 (72.9)	67.3 (69.9)	86.1 (27.9)	45.0 (-47.7)	31.5 (-30.0)	40.7 (29.2)
B/D	1.9	5.3 (178.9)	19.5 (267.9)	44.3 (127.2)	57.4 (29.6)	15.6 (-72.8)	2.6 (-83.3)	1.3 (-50.0)
C/D	9.4	11.3 (20.2)	12.3 (8.8)	12.8 (4.1)	15.6 (21.9)	18.1 (16.0)	19.7 (8.8)	21.1 (7.1)
Overall economy								
Rate of wage change (%)	8.7	9.2	8.2	10.1	15.5	21.1	18.8	17.5
Inflation rate (%)	2.3	2.5	2.8	3.0	7.1	5.7	8.6	9.7

Bibliography

Bai, M.: "Turning point in the Korean economy" in *The Developing Economies*, Vol. 19, No. 1 (1981).

Government Invested Enterprises Performance Evaluation Committee, ROK: *Report on government-invested enterprises performance evaluation* (Seoul, 1984-91).

Kang, Shin Il: *Korea's privatization plans and past experiences* (Seoul, Korea Development Institute, 1988).

Korea Electric Power Corp.: *Report on management performance* (Seoul, 1984-91).

—: *Annual Report* (Seoul, 1984-91).

Korea Stock Exchange: *Report on management performance* (Seoul, 1984-91).

—: *Annual Report* (Seoul, 1984-91).

Korea Telecom: *Report on management performance* (Seoul, 1984-91).

—: *Annual Report* (Seoul, 1984-91).

Korea Tobacco and Ginseng Corp.: *Report on management performance* (Daejeon, 1988-91).

—: *Annual Report* (Daejeon, 1988-91).

Park, Young-bum: *Study on investment efficiency in government-invested enterprises* (Seoul, Korea Institute for Economics and Technology, 1988).

—: *State regulation, the labor market and economic development in South Korea*, paper presented at an International Workshop organized by the International Institute for Labour Studies (Bali, Indonesia, 1992).

—: *Public sector pay in Korea* (Geneva, ILO, forthcoming).

—; Lee, Sang-duck: *Public sector industrial relations in Korea* (Seoul, Korea Labor Institute, 1989).

Pohang Steel and Iron Co.: *Report on management performance* (Seoul, 1984-91).

—: *Annual Report* (Seoul, 1984-91).

Song, Dae-hi; Song, M.: "Analysis of the economic effects of the public enterprise privatization through the People's Share Program" in *Public Enterprise Studies*, Vol. 4, No. 1 (1992).

Interdepartmental Project on Structural Adjustment

Occasional Papers

1. *Stabilisation, structural adjustment and social policies in Costa Rica: The role of compensatory programmes.* Report of an interdepartmental mission, 4-9 May 1992 (Geneva, October 1992).

also published in Spanish:

Estabilización, ajuste estructural y políticas sociales en Costa Rica: El papel de los programas compensatorios, Informe de una misión interdepartamental, 4 al 9 de mayo de 1992 (Geneva, April 1993).

2. P. Egger: *Travaux publics et emploi pour les jeunes travailleurs dans une économie sous ajustement: L'expérience de l'AGETIP au Sénégal* (Geneva, November 1992).
3. A. Marinakis: *Public sector employment in developing countries: An overview of past and present trends* (Geneva, December 1992).
4. D. Tajgman: *Structural adjustment and international labour standards: A case study of Ghana* (Geneva, March 1993).
5. J. Gaude: *Système de compensation sociale et ajustement structurel: Etude de cas au Honduras* (Geneva, March 1993).
6. A. Marinakis: *Wage indexation, flexibility and inflation: Some Latin American experiences during the 1980s* (Geneva, April 1993).
7. R. Plant: *Labour standards and structural adjustment in Hungary* (Geneva, April 1993).
8. G. Pyatt: *Fiscal policies which support adjustment and balanced development* (Geneva, May 1993).
9. A.N. Mathur: *The experience of consultation during structural adjustment in India (1990-92)* (Geneva, May 1993).
10. R. Plant: *Labour standards and structural adjustment in Mexico* (Geneva, July 1993).
11. P. Egger, P. Garnier and J. Gaude: *Ajustement structurel et compensation sociale: Etudes de cas au Honduras, Madagascar et Sénégal* (Geneva, July 1993).

ISBN 92-2-109119-8