ECONOMIC CRISIS AND CHANGES IN EMPLOYMENT RELATIONS IN JAPAN AND KOREA

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Abstract
This article explores changes in employment systems in Japan and Korea following the economic crisis of the 1990s. It finds significant changes as well as continuities in both countries that reflect similarities and differences.

Keywords: employment relations, economic crisis, Japan, Korea, East Asia

Following the Asian economic crisis of the late 1990s, traditions and institutions of East Asian countries have come under strong pressure to change. The “East Asian model of capitalism,” which emphasizes government intervention and long-term relationships instead of markets, has come to be regarded as a problem rather than a strength.

Employment relations, an important part of the uniqueness of the East Asian economic system, have also been seen as obstacles to economic recovery. Many observers have argued that employment practices should and will be reformed in line with the Western model. However, studies of Western countries show that globalization and economic crisis do not bring about uniform changes in national industrial and employment relations. Moreover, some scholars argue that there is no evidence to support labor market deregulation or a weakening

of employment stability up to now. Therefore, empirical research is necessary on whether and how much employment relations in East Asian countries have changed.

Against this backdrop, our analysis will compare recent changes in employment relations in Japan and Korea. It focuses on these two, out of many East Asian countries, because their employment relations are quite distinct from those of most Western countries. It is well known that the Japanese employment system, with its characteristic lifetime employment and seniority-based wage structure, differed notably from Western practices. The two attributes were not limited to Japan: Korea shared a similar employment system. In Korea, seniority was a very important factor in salary decisions in the 1990s. Although lifetime employment was generally weak compared to that of Japan, employees of large companies enjoyed job stability because it was difficult to lay off workers. In this regard, long-term employment and seniority-based pay should not be considered exclusive to Japan. Our comparative analysis of the two countries will provide a better understanding of changes in seniority-based wages and long-term employment practices than previous single-country studies, in most cases, Japan.

The major part of this study consists of the review, analysis, and interpretation of statistics from Japan and Korea. We will be selective in our use of statistics because there are many available on employment relations. For the purpose of this study, the most representative statistics, particularly those surveyed or publicized by the government, will be used. The fact that raw data from Japanese government surveys are not available is an obstacle to detailed comparative analysis. Nevertheless, we will present comparable figures based on published statistics in Japan and raw data from surveys in Korea.

Traditional Employment Relations and the Pressure for Change

Japan

Although the Japanese employment system includes such components as on-the-job training, inside promotion, and internal transfers, its most characteristic features are lifetime employment and seniority-based pay. Lifetime employment, the practice of employing workers until their mandatory retirement age, has been firmly established, mainly at large companies, since the 1950s.

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Even during the economic crisis caused by the oil shock in the early 1970s, employers refrained from dismissing employees. Instead, they resorted to such practices as the reduction of overtime and reassigning workers to affiliated companies (shukko).

Seniority-based pay means that a worker’s wages increase according to his or her age and/or length of service. Without a doubt, seniority has been a major factor in determining wages in Japan. Nonetheless, ability as well as seniority was an important determinant of a worker’s wages even in the early 1950s. In the 1960s, the typical Japanese structure was classified as a “combined pay system” in which ability and job content, as well as seniority, were the main determinants of wages. The importance of seniority in wage determination decreased further with the introduction and diffusion of ability-based pay (shokuno kyu) in the 1970s and 1980s. Seniority was often related to pay indirectly, in that a worker’s wages were determined by his or her ability, which generally increased, through training, according to length of service.

These employment practices, praised as major factors in Japan’s economic success until the 1980s, have fallen under harsh criticism since the burst of the economic “bubble” in the early 1990s. Following the bubble economy, as severe recession left many companies with an excess number of employees, employers found themselves under strong pressure to reduce their workforces. Moreover, as an enormous number of baby boomers entered middle and old age in the 1990s, the efficiency of Japanese-style human resource allocation methods—such as shukko and internal redeployment—declined significantly. The system of seniority-based pay has now come under greater pressure than ever to change, because companies are overburdened with labor costs that have increased as the workforce ages.

Korea

Korean employment relations differed from those found in Japan. Whitley argues that Korean firms are reluctant to make the long-term commitments to their workforce that many large Japanese companies do. This observation was correct before the rise of the democratic labor movement in 1987. After that, however, significant changes took place, mainly in large companies. The most noticeable change was the increase in workers’ employment stability within a company. As it became very difficult for employers to dismiss workers deliberately, turnover rates in large companies began to drop. The average monthly wages increased as the workforce ages.

turnover rate for large establishments with 500 or more employees, which had stayed above 3% in the 1980s, dropped to 1.7% in 1997. The increase in employment stability was most striking among blue-collar workers, who had suffered from severe employment instability in the period leading up to 1987. This new stability was generally regarded as a sign of the development of firm internal labor markets in Korea. Despite these developments, the Korean practice was not regarded as lifetime employment because at the time only a small number of workers were near retirement age. Moreover, employers did not commit themselves to the norm of lifetime employment; their acceptance of employment stability was more a pragmatic adaptation to union power.

The rise of the Korean labor movement brought about changes in pay systems as well. Seniority became more important in determining pay. Although seniority had been a factor even before 1987, there were ceilings on wage increases for blue-collar workers. These ceilings were generally abolished in large companies after 1987. In addition, unions succeeded in bringing about uniform wage increases irrespective of individual ability or performance. These changes made the Korean wage structure even more seniority-based than that of Japan.\(^7\) Although employers complained of labor market rigidity, the economic boom overshadowed their concerns.

The financial crisis of 1997 was regarded as a sign that existing employment relations needed fundamental revision.\(^8\) Employers argued that the labor market should be made more flexible so they could adjust their workforce to sudden decreases in output. They succeeded in persuading the government to revise labor laws to allow the introduction of layoffs. Employers also wanted to change pay systems so that a worker’s ability and performance, rather than seniority, would determine wages. The aging of the workforce was another factor that encouraged employers to work to change the pay system.

Although the practices of lifetime employment and seniority pay in Japan and Korea have been under strong pressure to change since the onset of the economic crisis, whether and how they have changed remains to be studied empirically. We address these issues in the following two sections.

### Changes in Employment Practices

#### Japan

Changes in employment practices can be understood from data derived both at the corporate and the individual employee level. Company survey results on

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the methods of corporate restructuring indicate whether Japanese employers are relying more on involuntary methods of workforce reduction than previously. At the individual employee level, data on the reasons for worker turnover show whether more workers leave their jobs involuntarily.

The *Survey on Labor Economy Trends*, the most representative survey on corporate restructuring conducted by Japan’s Ministry of Health, Labor, and Welfare (MHLW), shows that the percentage of companies that implemented workforce reduction (such as “honorary” retirement and layoffs) has increased since the late 1990s. From 1.3% in 1995 and 1.5% in 1996, this figure increased to 3.8% in 1999, 2.3% in 2000, 3.8% in 2001, and 4.5% in 2002. The figures from 1999 and after are about three times as high as those in the mid-1990s (see Table 1). This is a noteworthy trend, revealing that not a few employers have changed their manpower policy and that the traditional practice of lifetime employment is being destabilized. However, it should also be noted from Table 1 that the basic principle of lifetime employment is still maintained, in that employers do not use layoffs as their main method of restructuring. In 2002, approximately 27.5% of all companies surveyed underwent labor adjustment during the three-month period when the survey was conducted. Meanwhile, the percentage of companies that relied on layoffs and honorary retirement was only 4.5%. More companies chose overtime restrictions, hiring freezes, reassignments, and *shukko*.

We see a similar situation in turnover and dismissal rates based on the *Survey on Employment Trends*, which contains data on the reasons for worker turnover. Table 2 shows that the turnover rate went up between 1997 and 2002. For companies with more than 1,000 employees, this rate increased from 11.0% in 1997 to 15.9% in 2002.

What is more noticeable are the changes in the dismissal rates. We calculated three different dismissal rates. Dismissal rate 1 is the percentage of those employees, out of all workers, who left their jobs involuntarily during a one-year period because of contract expiration and/or for managerial reasons. Dismissal rate 2 refers to the percentage of workers who left their

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9. “Honorary” retirement is between early retirement and layoff. Formally, it is a voluntary early retirement with a lump-sum payment provided by company. In many cases, however, the company exerts explicit and/or implicit pressures on a group of employees to accept the retirement plan. The involuntary nature of honorary retirement is stronger in Korea than in Japan.

10. This survey looks at the methods of employment adjustment in 5,000 companies nationwide. It is conducted four times a year, and the averages of four surveys conducted in each year from 1995 to 2002 are shown in Table 1.

11. “Managerial reasons” refer to cases in which such causes as downsizing or business rationalization are the reasons employees are laid off; cases in which employees accepted retirement at the company’s request are also included. Plant closing is also included. However, cases in which the employee is laid off for a reason for which he or she is accountable are not included.
<table>
<thead>
<tr>
<th>Year</th>
<th>Restriction of Overtime</th>
<th>Use of Vacation</th>
<th>Suspension for Non-Standard Workers</th>
<th>Suspension of New Hires</th>
<th>Reassignments within Company</th>
<th>Shukko</th>
<th>Temporary Leave</th>
<th>Honorary Retirement and Layoffs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>18.3</td>
<td>3.3</td>
<td>2.3</td>
<td>10.8</td>
<td>9.3</td>
<td>7.5</td>
<td>2.0</td>
<td>1.3</td>
</tr>
<tr>
<td>1996</td>
<td>13.3</td>
<td>3.0</td>
<td>1.8</td>
<td>6.0</td>
<td>7.0</td>
<td>5.8</td>
<td>1.0</td>
<td>1.5</td>
</tr>
<tr>
<td>1997</td>
<td>9.8</td>
<td>3.5</td>
<td>1.5</td>
<td>3.8</td>
<td>6.0</td>
<td>5.0</td>
<td>0.5</td>
<td>1.3</td>
</tr>
<tr>
<td>1998</td>
<td>16.5</td>
<td>4.8</td>
<td>4.0</td>
<td>7.8</td>
<td>9.0</td>
<td>6.0</td>
<td>1.8</td>
<td>2.8</td>
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<tr>
<td>1999</td>
<td>17.8</td>
<td>3.8</td>
<td>3.5</td>
<td>8.3</td>
<td>9.5</td>
<td>6.8</td>
<td>3.0</td>
<td>3.8</td>
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<tr>
<td>2000</td>
<td>12.5</td>
<td>2.8</td>
<td>2.0</td>
<td>5.0</td>
<td>7.3</td>
<td>6.0</td>
<td>1.3</td>
<td>2.3</td>
</tr>
<tr>
<td>2001</td>
<td>14.0</td>
<td>4.3</td>
<td>3.8</td>
<td>6.0</td>
<td>7.8</td>
<td>5.3</td>
<td>1.5</td>
<td>3.8</td>
</tr>
<tr>
<td>2002</td>
<td>14.0</td>
<td>3.8</td>
<td>3.5</td>
<td>5.0</td>
<td>8.5</td>
<td>5.5</td>
<td>2.0</td>
<td>4.5</td>
</tr>
</tbody>
</table>

jobs for managerial reasons. Dismissal rate 3 was calculated by subtracting the number of workers reassigned to affiliated companies (shukko) from dismissal rate 2.

These three sets of figures in Table 2 illustrate the degree to which dismissal rates have increased recently. Considering all workers in companies with five or more employees, dismissal rate 1 increased from 1.9% in 1989 to 3.3% in 1999 and 4.0% in 2002. Dismissal rate 2 rose from 1.0% in 1989 to 1.7% in 1999 and 2.0% in 2002, while dismissal rate 3 grew from 0.7% in 1989 to 1.2% in 1999 and 1.5% in 2002. All three dismissal rates began to increase from the mid-1990s, and by 2002 they were twice as high as those in 1989. The figures pertaining to large businesses with 1,000 or more employees also show an increase in each dismissal rate. What is noticeable is the increase of dismissal rate 3, which was 0.3% in 1989 and dipped as low as 0.1% in 1992 and 1997, only to rise sharply to 1.4% in 2002. This shows that shukko, a traditional method of employment adjustment used to avoid dismissal, is not very instrumental these days.

Although dismissal rates in Japan have soared in recent years, it is also true that rates are still relatively low. Dismissal rate 3, for example, sat at 1.5% in 2002, meaning that only 15 out of every 1,000 employees in businesses with five or more workers were laid off or made to retire early. This rate is lower than that of the U.S. According to an announcement of the Current Population Survey Supplement results by the U.S. Bureau of Labor Statistics, the number

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover Rate</th>
<th>Dismissal Rate 1</th>
<th>Dismissal Rate 2</th>
<th>Dismissal Rate 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>15.1</td>
<td>1.9</td>
<td>1.0</td>
<td>0.7</td>
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<tr>
<td>1992</td>
<td>14.6</td>
<td>2.0</td>
<td>0.8</td>
<td>0.5</td>
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<tr>
<td>1997</td>
<td>15.2</td>
<td>2.8</td>
<td>1.1</td>
<td>0.7</td>
</tr>
<tr>
<td>1999</td>
<td>15.0</td>
<td>3.3</td>
<td>1.7</td>
<td>1.2</td>
</tr>
<tr>
<td>2001</td>
<td>16.9</td>
<td>3.8</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>2002</td>
<td>16.5</td>
<td>4.0</td>
<td>2.0</td>
<td>1.5</td>
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</tr>
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<tbody>
<tr>
<td>1989</td>
<td>12.6</td>
<td>1.8</td>
<td>0.7</td>
<td>0.3</td>
</tr>
<tr>
<td>1992</td>
<td>11.6</td>
<td>1.3</td>
<td>0.4</td>
<td>0.1</td>
</tr>
<tr>
<td>1997</td>
<td>11.0</td>
<td>1.8</td>
<td>0.8</td>
<td>0.1</td>
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<td>1.7</td>
<td>1.1</td>
</tr>
<tr>
<td>2002</td>
<td>15.9</td>
<td>3.8</td>
<td>2.6</td>
<td>1.4</td>
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</tbody>
</table>

of American workers over the age of 20 who experienced displacement\(^\text{12}\) during the three-year period from January 1999 to December 2001 was 9.9 million. If the number of workers displaced every year is around 3.3 million, the annual displacement rate in the U.S. reaches 2.8%.\(^\text{13}\) Although a wholly accurate comparison is not possible, owing to differences in statistical methods between Japan and the U.S., we can safely say that the dismissal rate in Japan is considerably lower than in the U.S. The number seems even lower when we consider that the number of multiple displacements experienced by a worker in the past three years is counted only once by the U.S., while Japan counts each instance of displacement.

To sum up, employment stability has weakened in Japan since the late 1990s. While it is too early to confirm whether this trend is temporary, stemming from the current economic situation, or signals the start of a long-term structural change, it is clear that significant changes are taking place. However, the principle of lifetime employment is still alive. Involuntary workforce reduction is used as a last resort by employers, and the dismissal rate is much lower compared with that in the U.S. Although Japan is witnessing significant changes in employment practices, these do not amount to a paradigm shift.

**Korea**

Reliable data at the corporate level that would allow us to compare employment practices before and after the economic crisis are not available because systematic surveying started only recently. Therefore, we will review only recent situations.

The best survey on employment practices is the *Establishment Survey* conducted by the Korea Labor Institute. According to the survey, companies that performed labor restructuring in the year 2001 made up 19.8% of 1,443 companies surveyed. More specifically, 10.2% of those surveyed implemented “honorary” retirement, 8.6% conducted layoffs, and 1.2% engaged in contract suspension of non-regular workers. In addition, 2.4% of respondents transferred employees to affiliates or related companies.\(^\text{14}\) Compared to the Japanese

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12. A January 2004 report of survey data is published at <http://www.census.gov/apsd/techdoc/cps/cpsjan04.pdf>. “Displaced worker” means a worker who lost a job or left because of any of the following: his/her plant or company closed or moved, his/her position or shift was abolished, he/she had insufficient work, or another such reason. This definition is cited from <http://www.bls.gov/news.release/disp.nr0.htm>, accessed March 3, 2004.

13. The total number of paid employees was 124 million in 2001. Out of total employees, the percentage of those aged over 20 is 95%. Therefore, the estimated number of paid workers over 20 is around 117.8 million (95% of 124 million). By dividing 3.3 million, the number of annual displaced workers, by 117.8 million, we get the percentage, 2.8%.

situation as shown in Table 1, honorary retirement and layoffs are more widely used than transfers or contract suspensions. It is also clear that honorary retirement is more often used than Western-style layoffs.

Comprehensive information on turnovers and dismissals is available in the raw data of the Korean Employment Insurance Database: most companies in Korea are involved with employment insurance, reporting the specifics of employee turnover. Table 3 shows the turnover and dismissal rates before and after the economic crisis, based on this data. Only post-1996 figures are used because companies with 30 or more employees were mandated to participate in employment insurance only after 1996.

We calculated three dismissal rates for Korea. Dismissal rate 1 is the percentage of those persons, out of all workers, who left their jobs involuntarily during a one-year period because of such reasons as contract expiration, workplace closing, suspension of business, layoffs, or managerial reasons including honorary retirement. Dismissal rate 2 was calculated by subtracting from dismissal rate 1 the number of those who left because of contract expiration. And dismissal rate 3 is the percentage of workers, out of all workers, who left their jobs because of layoffs or managerial reasons.

These three dismissal rates for Korea are not the same as those for Japan because survey methods are different between the two countries. In particular, reasons for turnover categorized in “managerial reasons” are not the same. But

<table>
<thead>
<tr>
<th>Turnover Rate</th>
<th>Dismissal Rate 1</th>
<th>Dismissal Rate 2</th>
<th>Dismissal Rate 3</th>
</tr>
</thead>
</table>
| 30 employees or more  
1996 | 19.8 | 1.5 | 1.2 | 0.4 |
| 1997 | 20.9 | 3.2 | 2.9 | 1.4 |
| 1998 | 26.5 | 10.2 | 9.4 | 7.1 |
| 1999 | 22.2 | 6.0 | 4.8 | 3.6 |
| 2000 | 25.1 | 6.0 | 4.3 | 3.0 |
| 2001 | 25.4 | 6.9 | 5.5 | 4.2 |
| 2002 | 19.8 | 4.8 | 3.7 | 2.9 |
| 1,000 employees or more  
1996 | 11.4 | 0.4 | 0.2 | 0.2 |
| 1997 | 12.7 | 1.5 | 1.2 | 1.1 |
| 1998 | 21.1 | 9.1 | 8.2 | 7.3 |
| 1999 | 15.2 | 4.5 | 3.3 | 3.0 |
| 2000 | 17.7 | 4.8 | 3.0 | 2.1 |
| 2001 | 18.4 | 6.2 | 4.8 | 3.9 |
| 2002 | 12.6 | 3.7 | 2.6 | 2.3 |

differences in the surveys are not so large as to make comparison impossible. It would be safe to say that dismissal rate 3 for Japan is similar to dismissal rate 2 or 3 for Korea because *shukko* is not common in Korea.

Figures in Table 3 show that dismissal rates have greatly increased since the economic crisis. Dismissal rate 2 for companies with 30 or more employees was 1.2% in 1996. In 1998, the year when the economic crisis hit Korea, this figure shot up to 9.4%. Though the rate has decreased since then, it was still 5.5% in 2001 and 3.7% in 2002. The same situation applies to large businesses with 1,000 or more employees. The rate was 0.2% in 1996 but has remained around 3% since 1999, revealing the degree to which employment stability was affected during and after the crisis.

Compared with Japan, it would be safe to say that the dismissal rates in Korea have reached a higher point, in that both dismissal rates 2 and 3 for Korea are much higher than dismissal rate 3 for Japan. In the case of large companies with 1,000 or more employees, dismissal rates 2 and 3 for Korea were 4.8% and 3.9%, respectively, in 2001, while dismissal rate 3 for Japan in large companies was only 1.1%.  

As these figures show, Korean workers are facing greater instability in their jobs today. It has now become socially understood that if a company is in difficulty, it has to let go some of its employees. In particular, middle-aged workers are facing greater employment instability because they get higher wages than younger workers under seniority-based pay systems. A recent survey by a Korean newspaper showed that Korean managerial workers believe their actual average retirement age is 47. This is the reason why words such as *saojeong* (literally, forty-five retire) or *oryukdo* (literally, fifty-six thief) became common expressions.

Korea’s employment practices, however, remain distinct from the Western model. Unlike redundancy dismissal in the U.S., Korea uses honorary retirement as a principal tool for employment restructuring. For this, a company pays out the salary amount for one to two years as a lump sum payment. Moreover, among those workers belonging to a labor union, only voluntary retirement is generally allowed because unions resist forced retirement. Honorary retirement is implemented mainly for non-union groups including managerial workers and non-standard workers.

Although we cannot directly calculate dismissal rates for union members and non-union members separately based on the raw data of the *Korean Employment*

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15. By comparing the dismissal rate in Korea with the displacement rate in the U.S., we can say that the dismissal rate in Korea is almost as high as or even higher than the displacement rate in the U.S.


17. *Saojeong* means that age 45 is the actual retirement age, and *oryukdo* means that if you still work in the company at age 56, you are a thief.
Insurance Database, the difference in dismissal rates for white-collar and blue-collar workers can serve as an indicator of union protection because white-collar managers are generally excluded from unions. We calculated dismissal rate for workers with one or more years of service in large establishments employing 500 or more employees in the manufacturing sector. We did this because most businesses with 500 or more employees are unionized and many workers with service of less than a year are non-standard workers excluded from unions. Our results show that while dismissal rates for white-collar workers were 2.1% in 1999 and 2001, those for blue-collar workers were 1.0% in 1999 and 1.5% in 2001. This contrasts with the American case, in which displacement is more common among blue-collar workers, especially during recessions. During 1991 to 1993 in the U.S., the rate of displacement was 13.8% among craftsmen and women, machine operators, and laborers versus 10.2% among managers, 6.4% among professional and technical workers, 9.3% among sales and administrative workers, and 6.2% among service workers. During the recession of 1981 to 1983, the displacement rate was 21.1% among craftsmen and women, operatives, and laborers but only 7.7% among managers and 8.2% among sales and administration workers.\(^{18}\)

In summary, employment stability in Korea has become much weaker since the economic crisis, and job security is no longer guaranteed. White-collar workers, who once enjoyed the benefits of stable employment, are at the front lines of this dramatic change. We would say that as far as white-collar workers are concerned, Korea has witnessed a paradigm shift in employment practices. However, more liberal employment practices such as American-style employment-at-will have not yet been implemented. Involuntary workforce reduction of labor union members remains more difficult, providing them with a stronger sense of employment stability.

Changes in Pay Systems

Japan

As with employment practices, changes in the seniority-based system of compensation can be considered in two ways: first, by following changes in pay systems at the corporate level and second, by noting the degree of wage increase relative to the length of service at the individual employee level.

Statistics on pay systems at the corporate level can be found in the reports of the General Survey on Working Conditions published by the MHLW.\(^ {19}\)

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\(^{19}\) This survey is conducted on about 5,300 sample companies out of those that have more than 30 regular employees. It was called the *General Survey on Wages and Working Hours System* until 1999.
Because the ministry surveys different items every year, it is not easy to get a clear picture of changes in the compensation system based on the agency’s statistics. Still, two important facts are revealed. First, in deciding each individual’s wages, the employee’s capability and performance have become more important than his or her seniority. An important mechanism that sustains Japan’s seniority-based pay is the annual wage increase (*teiki shokyu*), which applies to almost all workers every year.20 These days, however, more companies are reducing or altogether abolishing the practice. According to the report of the 1999 *General Survey on Wages and Working Hours System*, 53% of all surveyed companies had revised their pay systems within the past three years. Among these, only 20% had boosted the amount of the annual increase; 57% had reduced it and 20% abolished the practice altogether. About 21% of firms that had revised their pay systems increased the weighting of job-based pay; 30% expanded ability-based pay; and 30% increased performance-based pay.21

The second fact is that seniority remains one of the prime factors in pay-related decisions. According to the report of the 2001 *General Survey on Working Conditions*, age and length of service were important factors in determining base salary. When questioned about critical factors that decide base salary and given the option of multiple responses, the companies replied “position or job” (70.6%), “ability” (77.3%), “performance” (62.3%), and “age along with length of service” (79.0%). In large companies with 1,000 or more employees, responses were “position or job” (53.0%), “ability” (86.2%), “performance” (70.1%), and “age along with length of service” (79.7%).22

Another fact that reveals changes in Japan’s pay systems is the expansion of the annual salary system, similar to the system applied to office workers in Western countries.23 The number of workers subject to this system is limited. The report of the *General Survey on Working Conditions* conducted in 2002 showed that the percentage of companies that had adopted the annual salary system was 11.7%; among large companies this figure was as high as 28.8%. However, on the whole only 1.7% of all respondent firms had adopted the annual wage system as their main pay system. Moreover, within those companies that had adopted the system, only 14% of workers were actually subject to it, only 12.3% in large companies.24 This means the annual salary system is applied to only about 1.5% of all employees.

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20. Nominal wage increase comprises two parts in Japan: annual wage increase and “base-up.” The latter is a general increase to meet the rise in the cost of living.
We now turn to the changes in the wage structure based on the correlation of actual wage increase to an employee’s length of service. To measure this accurately, a variety of human resource and structural factors should be controlled. However, we were not in a position to conduct this analysis because the raw data of wage surveys were not available. Therefore, we simply calculated the increase in the amount of wages as compared to the increase in the length of service, based on the reports of the *Basic Survey on Wage Structure* published by Japan’s MHLW.25

Table 4 shows the relative wages of long-term employees compared with those who have worked less than a year. We can see that the relative wages of employees with long-term service declined between 1989 and 2001. For example, in companies with 10 or more employees the relative wage of workers employed for 15–19 years was 224.1 as against 100 for those having been in the company less than one year in 1989. This ratio continued to fall, reaching 202.9 in 2001. The decline was sharper in large companies, from 265.2 in 1989 to 229.8 in 2001. This trend is also present for those with 20–24 years and 25–29 years of employment. Trends both at the corporate and the individual level show that Japan’s pay systems are moving away from seniority-based pay. It should also be noted, however, that seniority is still an important determinant of pay. In addition, changes in seniority-based pay are more prominent among white-collar workers than their blue-collar counterparts. For example, statistics on the annual salary system show that the system is introduced primarily

<table>
<thead>
<tr>
<th>Relative Wages by the Length of Service in Japan (Men)</th>
<th>15–19 Years</th>
<th>20–24 Years</th>
<th>25–29 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 employees or more</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>224.1</td>
<td>245.1</td>
<td>278.9</td>
</tr>
<tr>
<td>1993</td>
<td>218.5</td>
<td>248.2</td>
<td>270.4</td>
</tr>
<tr>
<td>1996</td>
<td>209.9</td>
<td>240.0</td>
<td>261.2</td>
</tr>
<tr>
<td>1999</td>
<td>208.1</td>
<td>231.9</td>
<td>261.2</td>
</tr>
<tr>
<td>2001</td>
<td>202.9</td>
<td>226.3</td>
<td>251.5</td>
</tr>
<tr>
<td>1,000 employees or more</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>265.2</td>
<td>284.7</td>
<td>322.1</td>
</tr>
<tr>
<td>1993</td>
<td>270.9</td>
<td>298.4</td>
<td>322.7</td>
</tr>
<tr>
<td>1996</td>
<td>252.3</td>
<td>284.7</td>
<td>300.7</td>
</tr>
<tr>
<td>1999</td>
<td>247.0</td>
<td>281.8</td>
<td>301.3</td>
</tr>
<tr>
<td>2001</td>
<td>229.8</td>
<td>256.1</td>
<td>278.1</td>
</tr>
</tbody>
</table>

NOTE: Figures are the wages of respective worker groups compared with the wages of employees with service of less than a year (100 for less than one year).

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at the management level. The change in the wage profile is also larger in the case of white-collar workers. Our calculation, based on the reports of the *Basic Survey on Wage Structure*, shows that the wage ratio of those with 20–24 years of service, compared to those with less than one year, dropped from 305.8 in 1989 to 300.2 in 1996 and as low as 259.7 in 2001 among white-collar workers. However, for blue-collar workers the trend is not so clearly demonstrated: their ratio changed from 249.0 in 1989 to 258.1 in 1996, and 241.1 in 2001.

**Korea**

Korea’s pay systems have also undergone significant changes since the economic crisis. As mentioned before, Korea’s systems, different from those of Japan, had been strongly seniority-based beginning in 1987. Neither the individual’s ability nor performance counted much in wage determination. After the economic crisis, employers aggressively introduced the annual salary system in order to change seniority-based pay.26 According to a survey conducted by the Ministry of Labor on companies with 100 or more employees, the percentage of companies that adopted the annual salary system was only 1.6% in 1996. This number rose to 3.6% in 1997 and 12.7% in 1999. We found by analyzing the raw data of the *Basic Survey on Wage Structure*, the most representative wage-related survey in Korea, that the number of workers subject to the annual salary system is increasing at a rapid pace. Within companies with 10 or more employees, only 1.3% of the employees were under the annual salary system in 1996. This had increased to 7.7% by 1999, and 15.1% in 2001.

However, Korea’s pay systems are still focused on seniority. Even in companies that introduced the annual salary system, seniority is still the most important factor in actual pay-related decisions. According to a survey conducted by the Korea Labor Institute in 2001 that dealt with 1,003 companies, more than 50% of the firms chose seniority-based pay as their main approach from among several options including job-based, ability-based, and performance-based pay systems.27 Case studies at the corporate level also show that Korea’s pay systems are more strongly connected to seniority than those of Japan.

We now examine changes in wage structure based on the range of wage increase related to the actual increase in the duration of employment. We calculate these figures from the raw data of the *Basic Survey on Wage Structure*; the results are shown in Table 5. We can see from the table that the wage gap between senior employees and those who have been at the company less than one year has been reduced since 1989. For example, in companies with 10 or more employees, the relative wage of those employed for 15–19 years was 286 against

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100 for those who had been in the company less than one year in 1989. This ratio continued to fall, reaching 238.3 to 100 in 2001. Compared with Japan, the reduction in the wage gap is greater in companies with 10 or more employees. As in the case of Japan, the decline of the practice of seniority-based pay in Korea is visible mainly among white-collar workers. Our calculations, based on the raw data of the Basic Survey on Wage Structure, show that the relative wage of white-collar employees with 20–24 years of service compared to those with less than one year in large companies went down from 276.7 in 1989 to 234.6 in 2001. In contrast, blue-collar workers with 20–24 years of service experienced an increase, albeit a small one, in relative wages, from 266.8 in 1989 to 280.6 in 1996, and 284.9 in 2001.

### Changes, Continuities, and Differences

The above findings show that there have been considerable changes in employment practices and pay systems in Japan and Korea. What is striking is the general weakening of job stability. While this trend is more prominent in Korea, Japan is also experiencing a growth in employment instability. Pay systems in the two countries are also undergoing changes toward the Western model.

However, there are also strong continuities in employment relations. This is clearer in Japan, where the tradition of lifetime employment is still alive.\(^{28}\)

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Though significant changes have been made in pay systems, seniority is still an important factor in determining pay.\textsuperscript{29} In the case of Korea, although dismissal rates have increased dramatically, employment relations retain many traits different from those in Western countries, such as honorary retirement and seniority-based pay.\textsuperscript{30} Despite the pressures to move toward the Western model, Japan and Korea each maintain unique features in employment relations. From these observations, we are able to say that further changes in employment relations, if any, will produce hybrid types rather than replicas of the Western, especially the U.S., model.\textsuperscript{31}

When we consider what has changed and what has remained constant in employment practices, our attention is drawn to the fact that the extent of change differs depending on the category of employee. In both Japan and Korea, changes in long-term employment and seniority-based pay are most obvious among white-collar workers. The difference in changes in employment relations between Korea and Japan is also to be noted. Overall, Korea is experiencing more drastic changes than Japan, especially considering its higher frequency of layoffs. However, some workers’ groups, especially those of blue-collar workers in large companies, that are protected by labor unions, enjoy job security in Korea. As a result, labor market segmentation into “core” and “periphery” is more conspicuous in Korea than in Japan.\textsuperscript{32}

What could explain these differences? Previous studies focused on factors such as institutions, employment strategy, and power relations in explaining national differences in the transformation of industrial and employment relations.\textsuperscript{33} We argue that institutions are not a major factor in explaining these dif-


\textsuperscript{30} Our analysis of the raw data of the \textit{Korean Employment Insurance Database} shows that honorary retirement comprised more than 50% of involuntary departures from employment, while layoffs accounted for only 3%-4% in 2001 and 2002 in Korea.


\textsuperscript{32} The differences in employment stability and working conditions between standard workers and non-standard workers, and those between workers employed in large companies and workers employed in small- and medium-sized companies, were larger in Korea than in Japan. EeHwan Jung, “Bijungyu Nodong ui Sungkyuk gwa gu Yoin” [A comparison of the characteristics of non-standard workers in Korea and Japan], \textit{Han-gook Sahoihak} [Korean Journal of Sociology] 36:1 (February 2002), pp. 83–112.

ferences because both countries share similar labor market institutions: labor standard laws, especially the clauses regarding layoffs and collective bargaining mechanisms, are quite similar. Differences in changes of employment relations in Japan and Korea can be explained instead by three factors: the economic efficiency of existing employment practices, employer strategies and social norms supporting these strategies, and power relations between labor and management.

First, the economic efficiency of existing employment practices is higher in Japan than in Korea. Japan’s lifetime employment and seniority-based pay are rooted in training systems and skills development: as employees continue their employment, they gain higher skill levels within the company, with relative correlation between salary and skill level. Even seniority-based pay is employed in a way to encourage competition among workers. On the other hand, in Korea internal training systems are not strongly rooted and not fully linked with incentives and compensation, so the gap between wages and productivity grows with employees’ length of service. Also, wage increases are based on the principle of equality and do not necessarily encourage or inspire competition. Although employment practices in the two countries are similar in the aspects of long-term employment and seniority-based pay, the actual operations of these practices are very different. This is why Korean employers have stronger incentives to initiate changes in employment relations.

Second, employers’ strategies and social norms also play a part. Lack of efficiency alone cannot explain why Korean employers chose downsizing rather than internal flexibility to face economic difficulties. Korean employers, unlike their Japanese counterparts, who generally adhere to the idea of lifetime employment, tried to use the economic crisis as a pivotal moment for introducing Western-style layoffs. An exemplary case is attempted layoffs at Hyundai Motor, a company that typifies Korean industry. In 1998 when the economic crisis hit Korea, the company let go about 4,000 employees through honorary retirement; it then sent out unilateral layoff notifications to a further 4,830 employees. At this time, Hyundai Motor was regarded as acting on behalf of all Korean employers, who wanted to introduce the practice of layoffs. The absence of a strong social norm of employment protection was the main background for this strategy. In Japan, the social norm is that the employer should do his or her best for employment stability. In Korea, there is a similar norm, but it is not as strong as in Japan. We agree with Frenkel and Peetz when they argue that culture is important in limiting globalization’s push for flexibility.

A third factor, the power relationship between labor and management, must also be considered. Had the strategies of employers been employed as planned, changes in employment relations would have been even more dramatic in Korea. Labor relations there have been a very important factor in blocking this from happening. As in the case of Japan, labor-management relations in Korea are based on enterprise unions, but the Korean unions are very different: they are highly aggressive and wield solid organizational power. Korea’s enterprise unions have successfully blocked employers’ labor restructuring or, at the very least, have changed how the restructuring would take place. In the Hyundai Motors case above, the company tried to lay off 4,830 of its workforce, but its labor union resisted with sit-in strikes in which families of union members participated. In the end, the company was able to lay off only 277 employees. Resistance against layoffs did not come at Hyundai Motors alone but was a general phenomenon. Korean labor unions’ biggest objective during the period from 1998 to 2003 was to “block the restructuring”; as a result, the number of strikes soared after the economic crisis from only 80 in the mid-1990s to 322 in 2002. Several workers committed suicide to protest the restructuring. Facing this very strong resistance, Korean employers could not change employment practices very much, especially for unionized workers.

Conclusion
This study has outlined changes in employment relations in Japan and Korea, focusing on what these systems share and how they differ, particularly since 1997, when the countries faced a severe economic crisis. Instead of summing up major findings and arguments here, we would like to suggest the contributions that this article makes to the study of comparative industrial and employment relations.

First, this study expands the scope of previous studies on globalization and national industrial and employment relations. According to research conducted on Western countries, globalization did affect employment relations, but changes varied according to national context. Our study shows that this also applies to East Asian countries such as Japan and Korea. While East Asian employment relations, especially those involving long-term employment and seniority-based pay, are changing under strong pressures from globalization and economic crisis, their main traits are being maintained (if not completely). Further changes in employment relations, if any, are expected to produce hybrid types rather than replicas of the Western, especially the U.S., model. Situations in both countries show that changes are dependent on national contexts. These

findings support the case against the convergence thesis, which argues that globalization will bring about uniform changes worldwide.

Second, this study shows that attention should be paid to recent changes, as well as continuities, in East Asian employment practices. Previous studies on the Japanese employment system (in particular, lifetime employment) have generally focused on its robustness. Chuma suggested that employment adjustments made during 1991–99 were not more severe than those carried out during the 1970s oil crisis, implying that the recent increase in employment adjustments may be temporary and stem from the Japanese recession.38 Watanabe argued that while wage systems in Japan have undergone drastic changes, no major changes were discernible in the practice of lifetime employment there in the late 1990s.39 Our study, however, shows that considerable changes might have taken place recently in Japan’s employment practices.

Moreover, the Korean case reveals that the practice of long-term employment is not necessarily robust in a country with a Confucian tradition, as is often posited. From these observations, we can say that despite the effects of national institutions and culture that cause divergences among nations in both business organization and employment systems, the influence of globalization is strong, especially in the circumstance of economic crisis.

Third, our study shows that apparently similar changes can be the result of quite different dynamics. Japan and Korea share similar employment practices and have experienced similar changes in these practices. However, the contexts of these changes are quite different. In Japan, lifetime employment and seniority-based pay are preserved based on economic efficiency and social norms. In Korea, power relations are the principal reason for continuities in employment stability and seniority-based pay. Locke and Thelen, using a comparative study of Sweden, Germany, Italy, and the U.S., argued that the same practice or trend had a different significance according to national context.40 Our study shows that this insight also applies to Japan and Korea.

This article also contributes to broader comparative understanding. It is widely known that Korean industry, the banking sector in particular, has endured a more radical restructuring since the economic crisis than has its Japanese counterpart.41 As a result, the structure of business in the two countries has become more dissimilar. Our study demonstrates a generally increasing dissimilarity between employment practices in Japan and Korea. Korea initially achieved

economic success emulating the Japanese business model. Democratization made Korean politics and society similar to those of Japan. Now, Korea is looking for another model for future development, which could augment their divergence.

Can we generalize our findings to other East Asian countries? Although we are not in a position to answer this question formally because of the scarcity of information, we tentatively suggest that our findings can be applied in part to major East Asian economies. One of these, Taiwan, shares changes in employment practices with Japan and Korea—its employment stability has weakened since the Asian financial crisis. Many Taiwanese firms have undergone radical restructuring including downsizing, and, as a result, involuntary turnover has increased. The similarity, however, stops there. Taiwan’s employment practices were already quite different from those of Japan and Korea before the Asian financial crisis. Its pay systems were not seniority-based and life-time employment was rare. Consequently, the scope and direction of changes in Taiwan since the crisis are distinct from those of Japan and Korea. In particular, there have not been considerable changes in pay systems since the crisis in Taiwan. This divergence is in line with our argument that changes in employment relations are dependent on national contexts.