

Three Dualization Processes in Korea: The Labor Market, Welfare Policy, and Political Representation

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This article examines the nature and trends of economic inequality in Korean society in terms of “dualization” trends in three dimensions: the labor market, social welfare, and political power. First, for the labor market, the article analyzes the various differences in income and access to vocational training between standard and non-standard workers. Secondly, it examines social welfare divides between standard and non-standard workers. Finally, it traces the changes in union membership and the rate of election abstention among the different population groups. There are clear divides in the labor market, social welfare and political power between “insiders” and “outsiders.” These results confirm previous theories that suggested that a high level of protection for insiders and lack of an active labor market policy (ALMP) lead to a high level of dualization. However, this article also suggests that more sophisticated analysis is required to grasp the different dimensions of dualization and its broader consequences.

Keywords: *dualization, labor market, welfare divide, political representation*

Introduction

Observers both within and outside Korea agree that Korea's "formal democracy" is still confronted with staggering socioeconomic challenges, necessitating its more substantive democratization (Choi 2002, 2007). In other words, Korea's procedural democracy, which is the post-1987 legacy concentrated on the citizenry's political rights, is undermined by the ongoing social problems related to distributive justice (Morlino et al 2011, p. 505).

The suicide rate, heated competition, high poverty rate among the elderly, gender inequality, lowest happiness level for children of all OECD countries, and limited support for disabled people all indicate a worsening quality of life in Korea (OECD 2011, 2014). Income inequality has been increasing since the 1997 Asian financial crisis, with the Gini coefficient rising above 0.34 (2011). The relative poverty rate has also steadily risen and is now higher (15%) than in most OECD countries (Cheon et al. 2013).

According to the Bertelsmann Transformation Index,¹ South Korea's democracy status score declined by 0.30 points from 2006 to 2014. Two criteria have shown a particular decline, with Korea now scoring only -0.8 in political and social integration and -0.5 in political participation. As for the socioeconomic level, the rising share of irregular jobs with comparatively low salaries, a lack of job security, and weak labor union organization are a recent worrying trend. In terms of political and social integration, business is well represented with networks and interest groups, while labor unions are much weaker. In addition, the welfare system is generally under-developed and remains segmented.

Therefore, Korean citizens are not satisfied with the government's socio-economic policy. In 2011, when asked whether they agreed or disagreed with the statement "Rich and poor people are treated equally by the government," only a small minority (19 %) marked either "strongly agree" or "agree." In view of the growing economic inequality and the polarization of wealth, only one in five perceived little discrimination based on economic status (Park 2014, p. 45).

Within this context, huge bodies of academic literature and political discourses have focused on the issue of "economic democratization," many authors believing it could resolve issues related to the limits of political

¹ The Bertelsmann Transformation Index (Korea) http://atlas.bti-project.de/share.php?1*2014*CV:CTC:SELKOR*CAT*KOR*REG:TAB (accessed on Jan. 10th 2016).

democratization (Wee 2012; Kim 2012; Shin 2007). Further, a growing number of welfare regime studies² are also examining the socio-economic conditions of Korean society and analyzing the development of the Korean welfare system. But it seems that existing discussions have not been able to reach a consensus on which types of welfare regime fit the Korean case. This is partly because existing explanations lack a clear understanding of the structural drivers of recent changes and comprehensive institutional dynamics.

The first aim of this research is to analyze the recent socio-economic development of Korea through the prism of the “dualization” process. Following the theoretical perspective of the *Varieties of Capitalism* approach (Hall and Soskice 2001), Thelen (2012, 2014) and Rueda (2007, 2014, 2015) have provided the new framework of “dualization,” which explains structural causes and the different mechanisms of change. Even though the degree of dualization varies across countries, workers in many of them are divided between protected “insiders” and unprotected “outsiders” (Rueda et al 2015, p. 89). If a dualized labor market is a worldwide phenomenon, then, what are the main features of the Korean case? This article will provide a comparative view of the dualization process and its Korean peculiarities.

Secondly, this paper tries to understand the institutional complementarity between different dimensions of the dualization process. It aims to examine the nature and trends of labor market changes, the development of the welfare state, and changes in the political representation in Korea as an inter-related process of dualization. By doing so, it attempts to examine the institutional complementarities of the labor protection system, welfare regimes, and the political system as found in Korea.

² There have been continued debates since the publication of *Three Worlds of Welfare Capitalism* (Esping Andersen, 1990), about finding a proper typology for the South Korean (hereafter Korean) welfare state. For example, some categorize Korea as lying between liberal regimes where social policies are usually absent (Cho 2001; Choi 2003) and continental conservative regimes where segmented and family oriented social policies are common (Nam 2002). In addition, others have recently concluded that the Korean welfare state is a hybrid one, an East Asian style developmental welfare system that has recently become mixed with more protective characteristics (Hudson and Kühner 2012). Others regard both Japan and Korea as having a segmented, family oriented welfare regime akin to that of southern European countries (Estevez-Abe and Kim 2014). It is therefore clear that Korea has characteristics of both a liberal and a conservative system (Powell and Kim 2014).

Theoretical Framework: Dualization

Previous dominant understandings of the diversity of different welfare states and labor market policies, mainly the power resource theory³ and the macro-corporatism approach,⁴ cannot explain differences between many countries and also fail to see more complicated phenomena of different modes of liberalization.

To address this second problem, Thelen (2012, 2014) has identified three distinct ideal-typical trajectories of liberalization. These are (1) deregulatory liberalization, associated especially with liberal market economies like the United States; (2) dualizing liberalization, associated with conservative Christian Democratic countries such as Germany; and (3) embedded flexibilization, associated with Scandinavian social democratic countries such as Denmark (Thelen 2014, pp. 12-5).

Of these different forms, this research assumes that the Korean case fits the dualization type most closely. While the Korean case is not comparable to Scandinavian countries, which have a high density of unions organized on a national level, high welfare spending, etc, it is also far from the pure form of deregulation and full-fledged liberalization found in the US. Instead, it bears the legacy of the East Asian type of developmental state's intervention (industrial policy, trade protection, and state corporatism). The following parts of the article will discuss the Korean case in more detail, but it is first necessary to understand the nature and dynamics of the dualization phenomenon.

What is the core nature of "dualization"? Dualization is "a process that is characterized by the differential treatment of insiders and outsiders and that can take the form of newly created institutional dualisms or the deepening of existing institutional dualisms." Dualization also implies that "policies increasingly differentiate rights, entitlements, and services provided to different categories of recipients." This process is very likely to lead to greater

³ Different levels of equality and social solidarity are correlated to the strength of organized labor. The power resource theory holds that the stronger the labor movement (strength of labor unions, social democratic political parties) the more such pressures can be resisted, thus preserving higher levels of social solidarity. See especially Korpi (1983, 1989).

⁴ Macro corporatism (and tripartism) continues to produce higher levels of social solidarity by promoting ongoing compromise among groups with divergent economic interests. In this context the government can intervene directly in wage bargaining and impose settlements (Katzenstein 1985, Martin and Swank 2012).

social divides (Emmenegger 2012, p. 10).

The most typical case in the existing literature is Germany, where economic transformation has come with the cost of labor market dualization (Palier and Thelen 2010; Thelen 2014; Martin Duane 2012; Emmenegger et al. 2012). Many have argued that the growing labor market dualization in Germany is the result of neoliberal and postindustrial pressures that have eroded the pre-existing collective bargaining system. As a result, trade unions concentrate their resources on protecting a slowly shrinking core of workers while leaving outsiders – such as young people, women, and the long-term unemployed – behind (Hassel 2012).

According to Rueda (2007), dualization is not only an economic phenomenon but a result of electoral politics, in which powerful social democratic parties allied with strong labor movements may well promote, rather than inhibit, inequality. He explains that dualization emerges as a result of electoral politics in which social democratic parties choose to support the interests of insiders rather than outsiders (Rueda 2007). Thelen has brilliantly characterized the core mechanism of dualization as “stabilizing the core” on the one hand, while “flexibilizing the periphery” on the other (2014, pp. 131-8).

Apart from electoral politics, Rueda also emphasized two most important factors: the degree of employment protections and the lack of an active labor market policy (hereafter ALMP) to help the unemployed find a job by providing training opportunities (Rueda 2014).

Thelen’s analysis of the dualization of Germany showed that existing institutions for employment protection for the core workforces – mainly male workers in manufacturing – remained similar after deindustrialization, while less-protected service sector jobs were made more flexible. This “selective liberalization” led to the emergence of a second labor market in which less-skilled, married female workers tend to hold lower paid “mini-jobs” to supplement their household income. The existing welfare scheme has been reformed accordingly, while ALMP and the well-developed skill training system have not developed further or have even declined (Thelen 2014, pp. 130-44).

Given this emphasis on two core institutional factors (employment protection, AMLP), Rueda recently pointed out historical origins of the dualization phenomenon. It is an especially common phenomenon in countries that industrialized late, whose industrialization policies tended to develop an inward-looking economy with a high level of insider protection (Rueda 2015).

Therefore, an analysis of the patterns and causes of dualization should examine how the historical “origins” of employment protection, the economic development strategy of a country, and the generosity of ALMP are correlated.

In addition, there is a fundamental driver of this social transformation: So-called “deindustrialization” – the labor market’s shift towards the service sector – has led to a significant decline of relatively well-paid jobs in manufacturing, even in those countries that still rely heavily on the manufacturing sector to generate wealth, such as Germany and Korea. Today, employment in the service sector outnumbers jobs in industry in all OECD countries (Emmenegger 2012, p. 9).

The service sector is traditionally less regulated and unionized and also exhibits a skill bifurcation between high and low general skills (Fleckenstein et al. 2011). This is also connected to the “feminization of employment” trend, as women have increasingly entered the labor market. Female employment rates approach or even match male employment rates in many countries (Esteves-Abe 2005).

These changes in the economic dimension have not only affected the labor market but also changed the context for social policy making and related politics, such as party politics, elections, and welfare policies. In particular, social policies have become less effective at reducing inequality (OECD 2008). That is, new inequalities are not just a result of income inequality but may also stem from welfare policies intended to reduce them. This reduced efficiency is most likely to emerge in conservative welfare regimes in which benefits are tied to occupational status. Such systems⁵ are more likely to lead to the emergence of an “insider-outsider” divide (Esping-Andersen 1999).

Therefore, the degree of dualization should be determined not solely by measuring the generosity of the ALMP policy and employment protection but by considering a broader set of socio-economic policies. More specifically, labor market policy, social policy and electoral politics are interconnected institutional arrangements crucial to understanding the dualization process (Emmenegger 2012, pp. 1-8, 17.) Häuserman has

⁵ Liberal countries generally have flexible and high levels of inequality, with welfare policies focused on poverty prevention. Nordic welfare states generally have low levels of income inequality, encompassing trade unions, and universalistic welfare state policies. Continental, southern European regimes’ industrial trade unions tend to represent inside labor (Palier and Thelen 2010) and their social policy benefits are proportional to contributions. Unemployment and non-standard work usually leads to incomplete, insufficient social rights (Häusermann 2012, pp. 30-1).

accordingly suggested that three dimensional insider-outsider divides are important: labor market divides, in terms of earning and training; social protection divides, welfare coverage, and benefits; and political integration divides, if labor market outsiders are politically underrepresented and alienated from democratic decision making (Häusermann 2012, p. 30).

Against this backdrop, this article will explore the nature, process, and consequences of dualization in Korea. To do so, it will examine dualization trends in the following three dimensions: the labor market, social welfare, and political power.

First, for the labor market, this article analyses the level of employment protection from a comparative perspective. It also examines the degree of the income gap and differences in access to vocational training. To measure a degree of dualization in Korea, it will examine the development of active labor market policies. Secondly, regarding social welfare, this article will study differences in pension benefits and other social welfare divides. By explaining the original design of Korean welfare system, it will show how the segmented structure of the previous welfare system is now facilitating the exclusion of vulnerable populations. Finally, to evaluate dualization in respect to political power, this study traces the changes in union membership and the election abstention rate among the different population groups.

By emphasizing the significance of previous explanations and also shedding light on the particular aspect of dualization in Korea, the article will draw some conclusions about the current status and tendency of democracy in Korea.

Dualization with Korean Characteristics

Dualization of the Labor Market

Labor market duality has been one of the key issues in the Korean political debate since the early 2000s. Most of these debates have been dominated by a concern with social inequality, job insecurity, and discrimination, coupled with the issue of polarization in income distribution (Cho et al 2008; Jung 2011; Nam 2007).

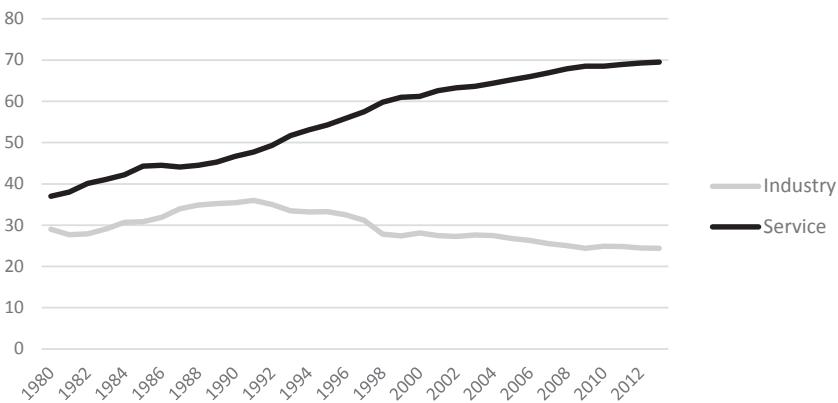
The flexible labor market policy introduced in 1998 has made it easier to lay off employees and legalized temporary work. Korean employers responded to the liberalization by gradually paring down the core workforce through a combination of regular and early retirements and by hiring more

non-standard workers to cut labor costs.

The transformation of Korea's labor market since 1997 is much more dramatic than the effects of dualization in Germany (Kang 2010). Many authors have also recognized that Korea's financial market and especially its labor market have been fully liberalized (Ok 2012), surpassing even Japan in this regard, as this liberalization has affected even previously protected jobs (Yun 2014), in contrast to the relatively moderate level of changes in Japan and Taiwan (Fields 2012). This is despite the fact that employment deregulation was much more politically contentious in Korea than in Japan, with labor and business often clashing; in the end, however, labor agreed to the reforms.

As in many other advanced capitalist countries, the structural force of labor market change was deindustrialization. The share of employment in the manufacturing sector has been declining since 1980s, while that in the service sector has grown at the expense of a sharp decline in agricultural employment. In Korea, the proportion of employees in the industrial sector rose from 29% in 1980 to 36% in 1991, before falling to 24.4% in 2013, while the service sector rose from 37% to 47.7% and then to 69.5%, respectively.

Following this deindustrialization tendency, Korean society has experienced a growing share of non-standard employment in the last decades. The survey data showed that the share of non-standard workers among all wage and salary earners increased to over 50% following the financial crisis. The non-standard workforce has increased the most rapidly

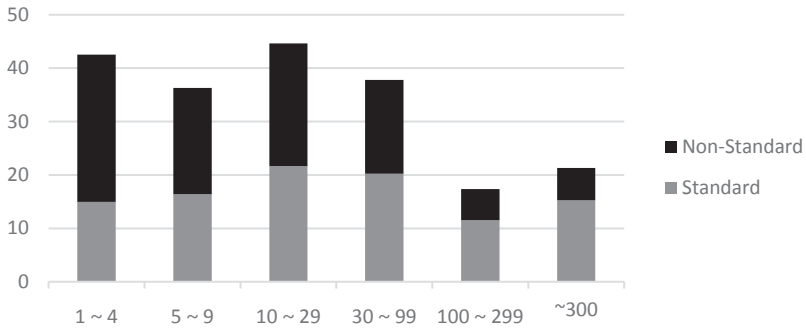


SOURCE.—World Bank, World Development Indicators.

FIG. 1.—Share of Employment in Industry and Service

in recent years – from a share of 16.6% in the 2001 survey to 32.4% in the 2014 survey. It is the second highest among OECD countries and the share’s level has been very stable during the last decade.

Among those engaged in non-standard employment, temporary employment is the most common and is largely concentrated in service sectors rather than manufacturing, particularly in small enterprises (see Figure 2). This concentration is more pronounced in Korea than in the rest of the OECD countries. While the incidence of temporary employment in industry (mining, manufacturing, and construction) is twice as high as the



SOURCE.—KLI, 2014 *Statistics of Non-Regular Workers*.

FIG. 2.—Proportion of Non-Standard Workers According to the Size of Firms



SOURCE.—OECD (2013) *Indicators of Employment Protection (1985–2013)*.

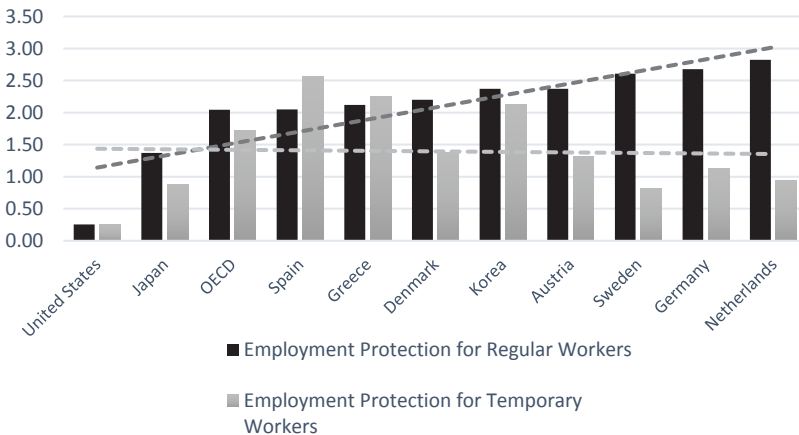
FIG. 3.—Level of Employment Protection (1985-2013)

OECD average, it is three times as high in the service sector. According to the Korean Ministry of Labor, the incidence of temporary employment is over 30% in wholesale and retail trade, restaurants, hotels, finance, insurance, real estate, and business services. The high rate of self-employment (27.4% of the working population) itself is a Korean particularity, and is one of the largest shares of all OECD countries (OECD 2014).

As many previous authors have suggested, this clear dualization tendency is connected to the relatively high level of employment protection for standard workers that Korea offers. Unlike liberal countries, which have the lowest levels of insider protection (less than 1 in indexes), the employment protection index of Korea lies between 2-3, placing Korea in the largest group, which also includes Denmark, Norway, Finland, Germany, and Italy (Figure 3).

Thelen contrasted the high level of employment protection for standard full-time workers with the low level of protection for non-standard workers in many countries such as Sweden, Germany, and the Netherlands (2014, p. 143). In Korea, however, temporary workers are afforded a level of legal protection similar to that of standard workers, which means that legal protection has virtually no effect on non-standard workers' comparative income and job security (Figure 4).

Even though there is no serious gap in the level of legal protection for standard and non-standard workers, there is a large income gap between



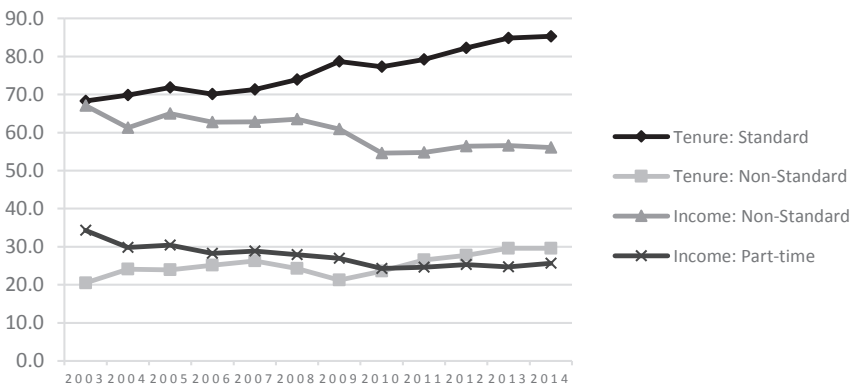
SOURCE.—Stats.oecd.org.

FIG. 4.—Employment Protection for Permanent and Temporary Workers

standard and non-standard workers and an even larger gap between men and women. As of August 2015, non-standard workers in Korea were paid 55.8% of the hourly wages of standard workers (Figure 5).

A clearer tendency can be seen in the income divide between workers in large firms versus those in small and medium-size firms. The wage gap between workers in large enterprises and those in SMEs began to widen after 1990. The average wages of workers in firms with 30-99 workers as a percentage of those in firms with over 500 workers declined from 99% in 1980 to 60% by 2008. This wage differential between small and large firms is larger than the wage differential between standard and non-standard workers. That is, while non-standard workers employed at large firms (with more than 300 employees) are paid less than standard workers employed in the same firms, they are actually paid more than standard workers working at smaller firms.

This income divide is linked to job tenure. Tenure and job retention rates in Korea are well below OECD averages. Even for standard workers average tenure is about one year below that of the US and four to six years below the levels found in the EU and Japan (Martin et al., 2005). Today, Korea features short to medium term average employment tenure, averaging 6.2 years in 2010 (Ministry of Employment and Labor 2012). This is far shorter than the median for Japanese companies (Witt 2014) and only slightly longer than the median tenure of 4.4 years of US firms in 2010. In 2010, average tenure for small firms (5-9 employees) was 4.5 years, compared to 9 years for large firms (500 employees).



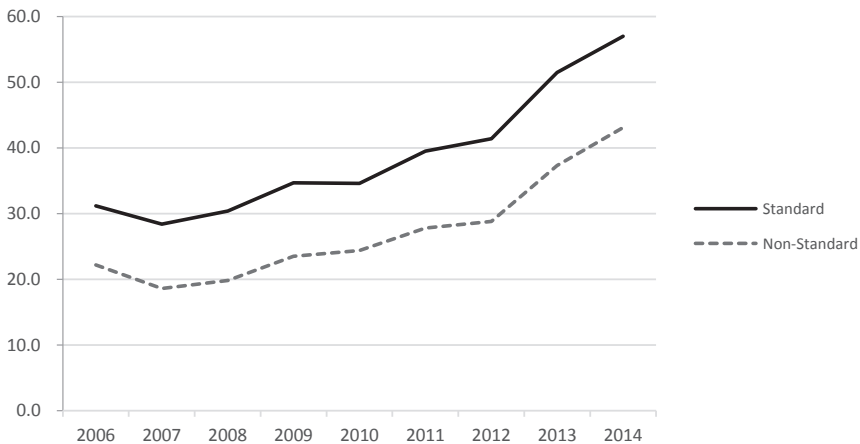
SOURCE.—National Statistical Office, Annual Survey of the Working Population.

FIG. 5.—Relative Wage Level and Job Tenure of Workers

In Korea, 62% of temporary workers have been in their current jobs for less than one year and only 18% for more than three years. By contrast, permanent workers enjoy much longer job tenure – only 30% have worked in their current jobs for less than one year and over 46% for more than three years (Figure 5). The job tenure of temporary workers in Korea is only slightly shorter than the OECD average, but that of Korea's permanent workers falls significantly below the average (46%) – and particularly the EU-15 average. The percentage of workers with more than 10 years of job tenure is only 23% while it is 57% in France (OECD 2013, pp. 157-58).

This job tenure trend is connected to how workers are trained. Training opportunities and support for workers also show a dualized nature. Surveys show that about 15% of standard workers had participated in some job training over the previous 12 months, but only 2% of non-standard workers had done the same. Non-standard/temporary employees in Korea receive significantly less job training, not only compared to permanent workers in Korea itself but also compared to temporary workers in other OECD countries.

These differences are not just a matter of standard versus non-standard workers and large versus small firms, but also exhibit a gender divide. Even though the level of women's participation in economic activity has increased in last decade, a high gap between men and women still exists (21%). In 2015, this gap was the 5th highest of all OECD countries (OECD Better Life Index



SOURCE.—KLI, 2014 *Statistics of Non-Regular Workers*.

FIG. 6.—Training Experience of Standard/Non-Standard Workers

2015).

Many female workers who leave the labor market for marriage and/or childbirth have difficulty finding permanent employment and are forced to take up temporary jobs when they return to the labor market. The concentration of women in atypical jobs has been attributed to the institutional legacy of state corporatism, which left behind a paternalistic culture and paternalistic institutions (Lee 2015). Jeong (2005) found that the incidence of non-standard work for females especially increases after the age of 30, representing the lack of a proper family policy. As of 2014, women are more likely than men to have a non-standard type of job, as 71% of part-time workers and 93% of domestic workers are women while 61% of standard workers are men (KLI 2014).

This tendency is quite stable, as since 2003 the share of women holding non-standard jobs has stayed at 40% as compared to men's 25% (KLI 2014). Accordingly, in 2013 women earned just 65% of the income of men, the largest gender gap of any OECD country (Ministry of Labor and Employment, 2013).

Dualization of Welfare Policy

Do the social policies of Korea then effectively protect the population or do they facilitate inequality? It is important to understand the historical origins of Korea's social policy design. The Korean welfare system has arguably been instrumental in economic development, as the country is often referred to as a "developmental welfare state" (Goodman et al., 1998; Holliday, 2000; Kwon, 1999, 2005). Under such a regime, social policy is regarded as an instrument for economic development, giving priority to the social protection of those with strategic importance for industrialization, while leaving the poor and vulnerable outside the welfare system.

Many recent studies have discovered significant similarities among Asian countries' welfare development and it is widely recognized that Korea, Japan, and Taiwan have followed the Bismarckian social insurance model (Hwang 2012). Social security systems in these countries are divided into two groups. On the one hand, occupationally based social insurance schemes provide generous benefits to the most productive sectors of the society – mainly full-time male industrial workers, public sector employees, military personnel, and teachers, as well as their families. As they were the core agents of the developmental coalition, these classes enjoy high benefits with low contributions. Ordinary citizens, meanwhile, can access only low levels of

welfare service. Public social insurance provides only limited welfare coverage to those in nonproductive sectors – the self-employed, nonstandard workers, workers in small industries, single unmarried women, single parent families, the disabled, and the elderly (Peng and Wong, 2008, 2010). Such welfare systems were introduced in the early 1960's, incrementally increasing the number of beneficiaries and the range of benefits, and were sometimes intended to finance an economic development plan.

This developmental path is connected to the nature of industrialization in the respective countries. As Rueda showed, dualization of the labor market and social welfare is connected to the nature of industrialization itself. In both OECD and developing countries internally oriented industrialization was accompanied by strong protectionism for labor market insiders, which later lead to the labor markets' dualization. Unlike some countries that developed industry in the context of an open market, late-developing countries pursued import substitution industrialization (ISI). ISI emphasizes supporting heavy industry to service domestic demand, implementing protective policies such as trade protection, creating and subsidizing infant industries, overvaluing exchange rates to promote the importation of capital goods, and extracting surpluses from commodity exports in order to finance the industrialization project (Rueda et al. 2015, pp. 90-93).

Therefore, the so-called "developmental welfare system" can be understood as a set of protective policies for labor and capital that originated from historical experiences of late industrialization⁶. How, then, can we understand more recent changes in welfare services and labor market policies?

Welfare policies in Korea have been reformed in conjunction with labor market policy reforms to compensate for increased labor market dualization. The development of recent welfare policy shows several specific patterns.

First of all, the general social expenditure has increased. In total, Korean social expenditure as a proportion of GDP rose from 3.9% in 1990 to 10.8% in 2012, and has thereafter hovered around 9.5% (OECD 2015). The scale of Korean welfare state expansion reflects the extent of economic devastation inflicted by the economic crisis.

After 2002, however, the Korean government shifted the focus of welfare state expansion from the immediate economic rescue of crisis victims to

⁶ Even though Korean economic development was achieved through export-oriented industrial policy (not ISI), the Korean government has generally protected domestic industry through trade policy. In this regard, highly developed insider protection can be partly explained by the delayed nature of industrialization.

welfare support oriented towards families and the labor market. Korea has been grappling with economic downturns since 1990 and the government has consequently begun to reconfigure their welfare state. In particular, there has been a shift in the targets of welfare state protection, from full-time male industrial workers to more peripheral, marginalized, and vulnerable population groups such as women, youth, children, and the elderly (Peng 2014, p. 391).

Further, like Japan and Taiwan Korea has a rapidly aging population that threatens future economic development. This is accompanied by family restructuring, a decline in marriage and fertility rates, reduced resources for taxation, and a lack of labor forces (Hwang 2012). As the number of people who support the social welfare system has declined, a new demand for social policy reform has emerged (Choi 2012). The combination of defamilialization, early retirement, inadequate old age security, and rural depopulation have made elderly people socially and economically vulnerable, and old age income security has become a politically sensitive issue in Japan and Korea.

In this regard, Peng (2014) argued that although labor market insiders did benefit from welfare expansion, the main beneficiaries were the outsiders. For example, the expansion of old age insurance, increased work-family reconciliation policies such as parental leave, and universal long-term care for the elderly benefited both insiders and outsiders. Moreover, social care programs such as child care and elderly care benefited mainly women, who were more likely to be the outsiders, as these programs provided support for them and also created new jobs in care services that would likely employ women.

Such social policies oriented around compensation show the general idea behind the government's choices. Korea and Japan are countries that have chosen family policy over immigration policy (Chan et al. 2011). Both countries have started to introduce policies addressing child care and establishing a long-term care system (Campbell and Ikegami 2000; Peng 2010).

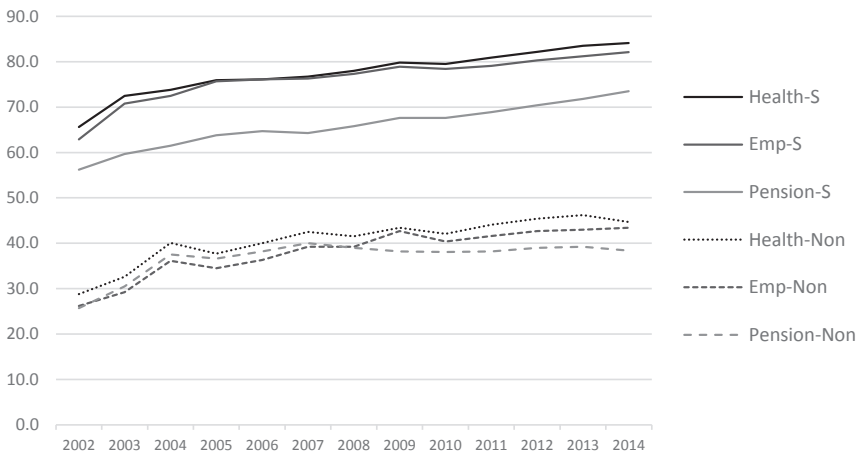
First of all, the Korean government responded to the conflict between life and work as the number of female workers increased (Fleckenstein and Lee 2014). When the government generally recognized that women's participation in the labor market is beneficial to the national economy, it more widely accepted women's demands (Hwang 2012). In this regard, family policies, represented by the child-care policy, are especially improving in Korea. Although the child-care system in Korea was initially targeted only at

low-income families, it is now expanding (Kim 2009; Peng 2012).

The Korean response to the child-care crisis was quicker and more preventive than Japan's, and government expenditure for child care has rapidly increased (An 2013; Estevez-Abe and Kim 2014). Expenditures for child and elderly care rose sharply under the Roh Moo-hyun government's social investment policy reforms (Peng 2009). The national government budget for early childhood education increased, with the portion for child care nearly quintupling. Since the 2012 presidential election, the Korean government has begun adhering to a free child-care service policy.

After Japan, Korea is also the second country in Asia to adopt a long-term care system (Chon 2012, 2013; Kim and Choi 2013), which is a social insurance system especially for elderly people that exists alongside the pre-existing national health care system (Chon 2014). In Japan, the Long-Term Care Insurance Scheme (LTCI) was introduced in 2000, when the population share over 65 had reached 17.2%; in Korea, it was introduced and implemented in 2008, when the elderly population was 10.3% of the total population, universalizing care of the elderly. A revised government budget estimates the number of LTCI recipients to have risen to 320,000 recipients by 2013 (MOHWFA 2010).

However, even with these significant social policy expansions Korea has failed to fully compensate the loss of employment and income security experienced by workers on the outside. For example, employers agreed to



SOURCE.—KLI, 2014 *Statistics of Non-Regular Workers*.

FIG. 7.—Membership Rates for Health, Employment, and Pension Schemes

expand their child care policies but opposed more parental leave and other similar family-friendly policies. Employer organizations and male industrial workers – the insiders – have had crucial influences on this issue (Fleckenstein and Lee 2014).

More importantly, welfare policy showed dualized levels of protection, split between standard and non-standard workers. Even though Korea expanded Workers' Compensation Insurance and Unemployment Insurance to cover all workplaces, including the self-employed and unpaid family workers, a significant proportion of non-standard workers is still not adequately covered. In 2014, the enrollment rates for the national pension, national health insurance, and employment insurance programs for standard employees were 82.1%, 84.1%, and 73.5% respectively, but only 38.4%, 44.7%, and 43.4% respectively for non-standard workers (see Figure 7).

Alongside this public welfare divide, company welfare increases the gap between core industry workers and service sector workers. In many cases, insiders already had access to generous pensions and family support through their company welfare. Furthermore, disparities in company welfare benefits increased between workers in large enterprises and SMEs, with the differentials between firms with 30 to 99 employees and those with over 1,000 employees dropping from 80% in 1984 to 43% in 2003. Korea's labor movement, dominated by unions of large enterprises, further contributed to the widening gap between the large enterprises and SMEs. As corporate welfare costs expanded eleven-fold, the divide between workers in large firms and SMEs widened (Kim 2002).

Gaps between the wages and company welfare provided to workers in large enterprises and SMEs and between those in standard and non-standard employment continue to widen. Therefore, income inequality has not narrowed; on the contrary, it has widened since 2000 in both Korea and Japan. Nor has new social investment made any change to gender inequality, and total fertility rates remain very low (1.4 in Japan and 1.3 in South Korea in 2012) despite notable expansion in public childcare (Ito Peng 2014, p. 403).

In sum, the welfare system of Korea has developed from its original Bismarckian design; therefore, it has a structure segmented between standard and non-standard workers, with sharply differing participation rates in the National Pension scheme, National Health Care, and Unemployment Insurance system. Concerning this social policy design, non-standard workers are not compensated less, but are excluded from both public welfare and enterprise-level company welfare benefits. Therefore, it is unlikely that the expansion of the welfare state will stem the increasing labor market

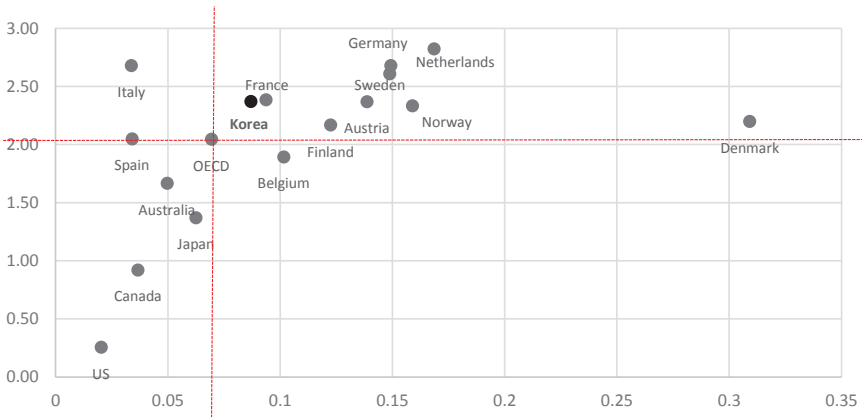


FIG. 8.—Regular Employment Protection and ALMP Generosity (2013)

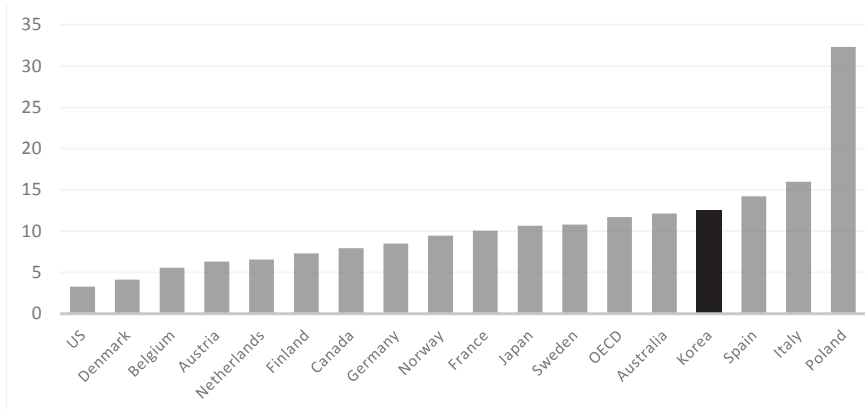
dualization. Rather, the focus on expanding social care jobs may exacerbate and further dualization.

Finally, it is important to look at a significant factor for dualization analysis: ALMPs. ALMPs in Korea consist of training programs, wage subsidies, and job creation in the public sector (public works programs). However, all these programs have been significantly cut back since 2000. Instead, a new program, called the “social jobs program”, has recently been introduced, which aims to create jobs in the non-profit sector. As of 2011, however, public expenditure on labor market policies in Korea as a percentage of GDP is still low (0.28% of GDP), although it increased slightly to 0.29% of GDP in 2012. Expenditure per unemployed person (both active and passive) is below the OECD average.

As it lacks an appropriate ALMP level, Korea can be identified as a highly dualized country. As shown in Figure 8, according to Rueda’s (2014) two-dimensional categorization, Korea belongs to the group in the upper right quadrant, but lies very close to Italy and Spain, which all have high levels of standard employment protection while lacking generous AMLPs.

However, unlike these countries Korea exhibits a very low level of unemployment (less than 3.2% in 2013). But the total share of unemployment and non-standard employment in Korea is as high as in most OECD countries (37% in 2013, OECD 2015).

The particularity of Korea’s low unemployment rate and low level of labor market policy demands a more sophisticated index to correctly measure the degree of dualization. Thus, I calculated the ratio of employment



SOURCE.—OECD Employment Outlook 2014, Employment Protection Indicator.

FIG. 9.—Level of Dualization (EPL / LMP Generosity)

protection over LMP expenditure generosity in place of the ALMP generosity suggested by Rueda (2014), who used the ratio of active labor market policy to GDP over the ratio of the unemployment rate of the labor force. According to my measure, Korea shows a very high level of discrepancy between employment protection for regular workers and its lack of labor market policies to support the unemployed (Figure 9).

In this regard, the degree of dualization should be understood by not only measuring the generosity of the ALMP policy but by considering a broader set of socio-economic policies. Especially important are the exclusion of many non-standard workers from basic social insurance schemes (Health, Unemployment, and Pension) and the fact that many new welfare policies offer no actual benefits to vulnerable populations.

The Dualization of Political Representation

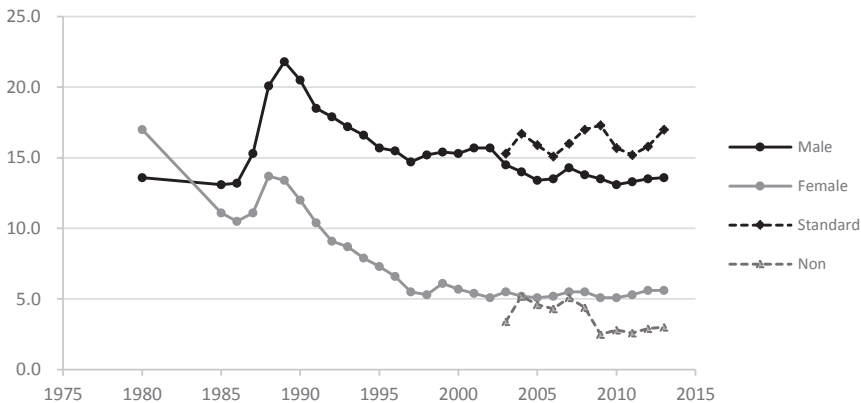
Dualization is not limited to the labor market and social welfare services but is related to and supported by the political power divide. In this regard, it is important to understand the historical legacies of economic development under authoritarian regimes. First of all, unions in Asia could not become powerful under authoritarian regimes, which heavily restricted their political activities. Authoritarian regimes usually controlled unions with exclusionary corporatist arrangements that sharply limited the workers' ability to mobilize collectively (Caraway 2015, p. 1, Deyo 1989). Ruling conservative parties

opposed high rates of unionization, but they granted state-backed unions monopoly status. The political representation of organized labor has therefore largely been an unsuccessful project in East Asian democracies when compared to polities in other regions. In these countries, unions entered the democratic era as depoliticized and enfeebled organizations that had only weak links to their membership base and usually to political parties (Caraway 2015, 2016; Lee 2011).

In addition, organized labor rapidly lost their remaining sources of political power due to deindustrialization and the tendency towards liberalization. For example, the union density in Korea began to decline in the 1990s, and the role of unions in setting wage standards for workers in Korean SMEs began to decline as well. After peaking at 19.8% in 1989, union density fell to 9% in 2014 (KOILAF 2015).

Further, non-standard workers lack even a minimal base of organizational power, as the labor movement has been slow to organize workers in non-traditional employment (service sector and non-standard workers). These workers are admittedly difficult to organize. In Korea, the unionization rate of non-standard workers was 3.1%, as compared to 16.9% for standard workers in 2014 (KOILAF 2015).

The enterprise-based union system also contributed to increased labor market dualization after the 1990s. Most labor negotiations in Korea are conducted at the enterprise level, and those unions are closely tied to the success of their companies. This creates a strong sense of enterprise



SOURCES.—KLI, *2014 Statistics of Non-Regular Workers*; Ministry of Employment and Labor, *National Labor Union Organization Status*, each year.

FIG. 10.—Labor Union Density

consciousness, which ensures a high level of labor-management cooperation. Large enterprise unions also have little incentive to form nationwide or sector-wide industrial unions with small enterprise unions. During the 1990s, large enterprise unions became increasingly focused on protecting the benefits of their own members.

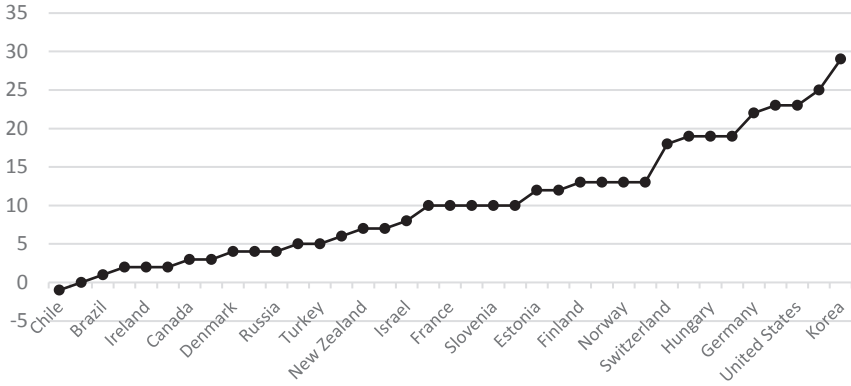
The unionization rate of Korean workers in enterprises with 300+ employees was 45.4% in 2008; the rate for enterprises with less than 30 workers was only 0.2%. Therefore, enterprise unionism discourages the formation of broad-based labor solidarity and during economically hard times reinforces the existing labor market divide between insiders and outsiders based on firm size (Ito Peng 2012, p. 232). Only 5% of non-standard workers, as opposed to 17% of standard workers, are trade union members⁷.

While Korean labor in general has only limited power resources, as represented by their low union density and weak linkages to political parties, non-standard workers lack even these few resources, as they are not organized and have no relationship with political parties. This overall weakness of organizational power is related to the failure of political representation itself, which is connected to the political system. The current political system of Korea is a single term presidency, majoritarian election system, which tends to represent middle-income groups, thereby failing to represent the “outsiders” of the deindustrialized society. In contrast, a proportional political system is associated with a higher level of (re) distribution (Iversen and Soskice 2009, 2015).

This power-resource asymmetry combined with a less proportional and less distributive political system is associated with the divide in political representation, as people with high socio-economic status tend to participate more heavily in the political decision making process (voter turnout for the top 20% is 99%), while those of low socio-economic status facilitate them by not exercising their political right to vote (voter turnout for the bottom 20% is 70%).

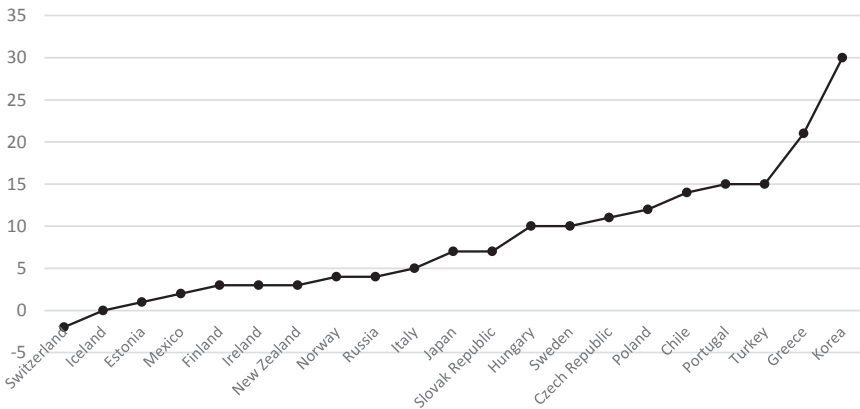
The limited social foundation of political representation, social association, and organization can be observed from the figure below, which shows the quality of the social network. While the upper 20% of the population has well-developed social support networks, the bottom 20% does not. The 30% gap in political participation and social networks between the

⁷ Korean labor law does not allow non-standard employees to be members of enterprise unions and has from the start prohibited workers from organizing on an industry or national level. Authoritarian regimes in Korea used labor laws to institute single unionism and to forbid unions from forming links to the political opposition (Sohn 2014).



SOURCE.—OECD Better Life Index 2015, OECD.stat.

FIG. 11.—Voter Turnout Gap Between Highly/Lowly Educated Groups



SOURCE.—OECD Better Life Index 2015, OECD.stat.

FIG. 12.—Support Network Divide Between Highly/Lowly Educated Groups

rich and the poor is the highest of all OECD countries (OECD Better Life Index 2015).

In sum, non-standard workers' union membership is quite low and non-standard workers and women are far less represented in labor organizations. Election participation and the quality of social networks of lower socio-economic groups is 30% lower than that of higher socio-economic groups.

Conclusion

This research has attempted to understand the concrete dynamics and institutional complementarity that lie behind current patterns of dualization in Korea. While previous research only focused on the level of employment protection and the generosity of ALMP, this article points out the particularity of Korea's dualization.

Korean peculiarities are grounded in their historical origins and the nature of industrialization, which have led to strong protections for core workforces, which largely consist of standard workers in big export-oriented enterprises with higher incomes and longer job tenures. Adding to the problems created by the original design of the developmental welfare system, rapidly implemented but still under-developed welfare policies did not properly respond to the quick transition to deindustrialization, especially for non-standard workers. Further, even though the Korean political system has been democratized from its previous authoritarian regime, it is still largely middle-class-oriented and majoritarian in nature. Therefore, Korean democratization has also not been very successful in resolving problems related to duality, as the extent of Korea's dualization is now one of the highest of all OECD countries. This research confirmed this high degree of dualization by measuring the level of employment protection and labor market policy expenditure.

More specifically, dualization in Korea encompasses three dimensions that show different patterns and different orientations.

First, the labor market is clearly divided into standard and non-standard workers, men and women, and large and small enterprises. These patterns of dualization reflect a specific developmental strategy, as governmental support during the industrialization process helped large manufacturing enterprises to grow and thus successfully adapt to the more competitive internationalized economic environment. In this way, Korean labor market policies were largely determined by the coalition of export-oriented firms that most benefited from these policies, the conservative two parties, and large enterprise's male laborers. As Thelen pointed out, export-oriented firms benefit doubly from the growth of a more flexible labor market – both through lower service prices and through lower taxes (Thelen 2012, 2014). However, new emerging female workers and non-standard workers in SMEs and the service sector did not have access to this pre-existing protective system.

In this regard, the dualization of the Korean labor market shares a similarity with those countries that have a relatively strong export-oriented manufacturing sector, as an income gap between standard and non-standard workers is clearly visible along the line of export-oriented large enterprises and domestic demand-oriented SMEs.

Second, the welfare system is also divided into company welfare/public welfare and standard/non-standard workers. These divisions also originated from the developmental welfare regime, which is segmented according to occupational type and favors core manufacturing workforces and civil servants. Although recent social policy development has largely aimed at compensating vulnerable populations, with an emphasis on family and elderly policies, the current level of social expenditure is not significant enough to ease the social consequences of dualization. The Korean welfare system has not fully considered implementing generous unemployment policy, especially ALMPs, which represent the core element of the “golden triangle” of the Danish model (Thelen 2014,142). Further, non-standard workers and female workers often cannot even access public health care, unemployment insurance services, and training opportunities like standard workers can. This lead not just to dualization but to an exclusion of non-standard workers from welfare policy, which confirms previous explanations that a dualized welfare system does not enhance distributive equality but rather facilitates growing inequality.

Third, these divides are related to the power divide in political representation. Korean labor generally has limited power resources as it has low union density and collaborates only weakly with political parties, weaknesses that also originated from the historical experience of an authoritarian regime. Democratization has not helped Korean labor to form an independent political party or strong unions. Under the pressure of deindustrialization, non-standard workers furthermore do not even have union membership and are virtually uninvolved in major politics. Segmented and unorganized non-standard workers are more likely to abstain from electoral politics and to have social networks of low quality, thereby lacking the social foundation of institutional politics.

In this way, this article has attempted to find a comprehensive aspect of dualization in Korea, focusing on institutional complementarity between the divided labor market, the divided welfare system, and the asymmetrical political power distribution. As this attempt is indirect and heuristic in nature, further empirical and theoretical sophistication is required to find a direct correlation and a solid foundation to generalize the findings.

These results, however, show that both Korea's "big-enterprise-led industrialization under the developmental state" and its legacies after democratization facilitated not only labor market duality but a comprehensive dualization in multiple dimensions under the pressures of liberalization and deindustrialization. This seems to be a third path of evolution for late-developed, late-democratized countries that were incorporated into the global market. This hybrid type of liberalization – less coordinated than CMEs, less liberalized than LMEs – should be studied further. To this end, we must develop a more sophisticated analysis of dualization, striving to understand the dynamic interactions between industrialization, democratization, and liberalization.

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