

The South Korean Auto Industry in Transition: A Trade Union Perspective

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Introduction

The automobile industry is in great transformation. The process of digitalization and environmental regulations and digitalization in a variety of countries have resulted in a rapid emergence of new products, such as vehicles that run on electricity or hydrogen, are self-driving and/or connected, and have accelerated the automation of the production process in the workplace (i.e., the “smart factory”). In addition, as a new business model known as the “sharing economy” (mobility services etc.) is emerging, the auto industry is shifting its focus onto services. International trade conflicts and the COVID-19 pandemic are also bringing major changes to the industry’s value chain.

Such great shifts are heightening uncertainty about the future of the auto industry and its labor force. Jobs related to internal combustion engine (ICE) vehicles will disappear. Accordingly, jobs in the industry are on the decline, and some parts suppliers are struggling to stay afloat.

There is no question that the automotive industry is currently undergoing major changes. What these changes bring about depends on the responses. They may serve as disasters, or they can be harbingers of opportunity to create new engines for development. Then, where is the Korean auto industry going? What kind of actions do labor unions need to take?

With these issues in mind, this study first examines the relationship between automakers and (sub)contractors in Korea (Part II). Next, it explores the challenges facing labor unions while analyzing labor relations in the Korean auto industry (Part III) and Korea’s industrial policies (Part IV). It then looks at the counterstrategies of IG Metall, Germany’s metalworkers’ union, during that nation’s transition period and implications for Korea (Part V) before finally drawing overall conclusions (Part VI).

Characteristics of and Changes in Relations between Carmakers and (Sub)contractors in the South Korean Automobile Industry

As the Korean auto industry seeks a way forward through the triple crisis of growing economic nationalism, the future of mobility and the COVID-19 pandemic, the vertical relationship between automakers and their (sub)contractors has caused problems once again. This section examines the specific characteristics and the process of change in these relationships, which are regarded as the key feature of the Korean automobile industry. To this end, the authors engaged in reviews of existing literature, examination of government and auto industry statistics, and interview surveys of parts suppliers with labor unions belonging to the Korean Metal Workers' Union (KMWU), which has branch unions at 17 parts makers. The result of these efforts show that the relationship between Korean automakers and their (sub)contractors has, by and large, remained solidly hierarchical in structure as Hyundai Motor Group (HMG) has maintained a monopoly. This finding is not much different from the presently-accepted diagnosis of the Korean automobile industry thus far.

However, the review of parts suppliers' recent situation helps identify three features that enable this hierarchical structure to be maintained: management of component suppliers through competition; the evolution of HMG's subsidiaries; and joint overseas expansion by HMG and its parts suppliers. First, in order to procure components, HMG has long-induced competition among parts makers by placing the same orders with or procuring parts from different suppliers. However, such a component procurement system has been becoming more systematic and comprehensive. Second, attention should be paid to the growth of HMG's parts supply units, especially Hyundai Mobis. The growth of these manufacturing units has been possible through Hyundai group-level support: for example, HMG acquires profitable parts companies, places parts orders for after-sales services with its subsidiaries and demands that its subsidiaries' components be used. In addition, a variety of situations exist that allow HMG subsidiaries to generate profit in an unfair manner since their activities are relatively less visible than what takes place directly under Hyundai Motor and Kia Motors, which draw greater attention from society. Third, the expansion of parts suppliers to overseas markets with HMG has reinforced the existing subcontract relationship of these parts suppliers. Although Korean parts suppliers began actively advancing overseas around 2005-2010, they failed to move away from their dependence on HMG's overseas plants. As a result, component makers were able to record stable sales until 2015, as the automaker continued expanding its production overseas. After eco-

nomism nationalism re-emerged with onset of the global financial crisis that began in 2007, however, parts suppliers were hit hard, due to narrowing of trade channels, and decisively, a sharp decline in Korean car sales in China as part of that nation's retaliation for the US deploying its Terminal High Altitude Area Defense (THAAD) system on South Korean soil.

Considering these situations and the features of recent subcontract relations in the Korean automobile industry, labor unions will need to address several issues. The first is a problem created by the continuing lopsided nature of the subcontract relationship. The second is reorganization of HMG's governance focusing on its module affiliates. HMG has declared that it is remaking itself as a mobility company, and labor unions would be wise to take a close look at the actual and substantial effects of such a directional change. The last is changes in overseas production and the global value chain (GVC). Since the GVC is expected to change amid the tendency toward stronger economic nationalism caused by the fallout of the global financial crisis and the pandemic, it is necessary to analyze the impact of such changes on the Korean auto industry and examine that industry's prospects.

How should labor unions respond to these three features of the current subcontracting structure? Considering the bargaining structure of the Korean auto industry and the coming transition of that industry, the labor union response should be to ensure that each industry-level union intervenes, in practical terms, in the industrial policy making process. The depth of the changes underway in the auto industry have not occurred since the emergence of internal combustion engines, and industrial intervention by labor unions is needed more than at any other time. The impact of changes to the industry and on the subcontract and employment conditions and structures is clear, making the participation of workers, who are stakeholders here, critical. There are currently a number of channels through which these labor unions can present demands for guarantees of this worker participation, including the Automotive Forum of Labor, Management and Government and the Future Forum of Labor, Management and Government for the Ulsan Automobile Industry, hosted by the Ministry of Trade, Industry and Energy. Labor unions have to become key players in ensuring a fair transition through these public spheres, and at the same time, creating a space for industry-level intervention, as seen in Germany's National Platform Future of Mobility (NPM).

Changes to Labor Relations in the South Korean Automobile Industry, and Prospects

In 2019, Korea was the world's 7th largest vehicle manufacturer, responsible for 3.95 million units produced and 2.43 million units exported. The Korean automobile industry, which manufactured 1.45 million units in 1991, produced 4.65 million units in 2011, but its domestic production has continued to decline since then.

The overseas production of Korean automakers began in 1997 when HMG established its first overseas production plant in Turkey. It now operates 13 automotive plants in seven countries. In 2011, 52.1% of Hyundai Motor's production occurred overseas, while Kia Motors' overseas production surpassed its domestic production in 2016, when the former stood at 52.5%.

In the 1990s, there were six Korean automakers competing for market share. However, as an outcome of the Asian Financial Crisis (which began in 1997), only two companies—Hyundai Motor Company and Kia Motors—remained Korean, while three of the others became foreign-funded operations.

In 1998, labor unions were organized in all six automaker companies and were affiliated with the Korean Metal Workers Federation (KMWU). At the time, Samsung Motors had no labor union, but as of 2020, labor unions have been organized in all automotive companies. Metal workers' unions are also in operation at all carmakers, although the unions at SsangYong Motor and Renault Samsung Motors are minority unions.

Towards organizing industry-level unions, the three metal unions—the National Federation of Democratic Metal Workers Union, the Federation of Automotive Unions and the Confederation of Hyundai Group Labor Unions—joined forces to establish the Metal Industries Federation (MIF) on February 15, 1998. When it was launched, the MIF made it clear that founding industry-level unions in the metal industry was the organization-wide goal of the integrated MIF. The KMWU was officially founded on February 8, 2001 by resolution of the MIF delegate convention after three years of discussions. The two metal industry organizations—the MIF and the KMWU—then co-existed for several years, during which the MIF sought to persuade its member unions to join the industry-level union (KMWU), before disbanding in December 2006 at a delegate conference on industry-based integration. For its part, the KMWU grew into a unitary organization with 150,000 members that aimed to establish a comprehensive industry-level union. Meanwhile, unions at automakers played a key part in raising important issues in Korean society and marking major milestones in the Korean labor movement. They

were the vanguard in the struggle against capitalists. In this regard, their struggles and experiences served as a barometer of Korean labor market trends.

Neoliberalism took hold in Korea in the aftermath of the 1997 Asian Financial Crisis and labor-management agreements in 1998, which resulted in layoffs and passage of the Worker Dispatch Act. The democratic union movement in Korea began prioritizing employment over everything else, and by extension, the Moon Jae-in administration has made jobs a top priority. Today, there is urgent need for direction in overcoming the widespread neoliberal labor relations in Korean society. Above all else, labor union activists in the automotive sector with the ability to organize are called to work towards forging labor relations that are more democratic and equal, take the initiative to identify the necessary agenda, and persuade workers in the field.

In the early 90's, efforts by large factory unions and activists and nationwide political support allowed the KTUC to comprehensively expand the democratic union movement. However, no nationwide political front is in place now. There is also no public leadership in this area. The hierarchy in HMG's labor relations has been consolidated amongst its affiliates, despite the representative nature of HMG's auto union. Formation of desirable (democratic) labor relations are essential to preparations for the future of vehicles, with such relations expanded beyond HMG's individualized labor relations and into the industry itself. Now is the time for both automakers and parts suppliers to seek sustainable development during industrial transition, but preparations remain woefully inadequate. Efforts are needed more than anything else to reach an "agreement for the future" as Germany's labor and management were able to do. Consideration for parts makers and government support through industrial policy need to be accompanied by efforts to build a healthy industrial ecosystem for automakers. It is also essential for the KMWU to take on a view of the entire industry and prepare to establish a mutually-beneficial structure for automakers and their sub(contractors), with the cooperative aspects to include academia. Therefore, ahead of the coming industry shift towards the future, the KMWU will need to help organize a cooperative structure involving automakers, their subsidiaries, and parts makers, and expand that structure to labor, management, the public and private sectors, and academia.

Analysis of South Korean Industrial Policy and Alternatives to the Trade Union Movement

- Focusing on Responses to the Transition toward Cars of the Future

“Industrial policy” is narrowly defined as “government policy on industrial and business activities.” However, a variety of stakeholders continually intervene in the making of government industrial policy. If industrial policymakers consist of more actors beyond the state, industrial policy can be broadly defined as “a set of measures and demands that allows the different classes that make up society (e.g. working class, farmers and fishermen, capitalists, the self-employed) to be involved in industrial policymaking to protect their own socio-economic interests.”

Industrial policies vary by country, era, and subject class. For example, in Korea, foreign capital came mainly in the form of “loans” prior to the Asian Financial Crisis, and industrial policy focused on the development of domestic automakers. After the crisis, however, foreign direct investment increased, and Daewoo Motor, Samsung Motors, and SsangYong Motor were all sold to foreign entities, forcing the government to expand its industrial policy beyond simply helping local carmakers. In recent years, with globalization and escalating trade conflict between the world powers, trade policy tends to intertwine with industrial policy.

Korea’s Moon Jae-in administration summarizes its industrial policy as focused on “innovative growth,” which, for the auto industry, takes shape as a strategy to foster “future cars,” such as electric vehicles (EVs) and self-driving cars. “Innovative growth” suits the auto industry well, as the “catch-up growth strategy” designed for the combustion engine age of vehicles no longer works in the coming age of EVs and autonomous driving.

The strategy of the Moon Jae-in administration, in terms of developing cars for the future, is subdivided into increasing the penetration rate of EVs, which requires addressing the lack of infrastructure (charging stations, etc.), improving underdeveloped self-driving technology and operating self-driving test beds (such as K-City), and helping parts suppliers accelerate their own shift toward vehicles of the future.

Meanwhile, the COVID-19 pandemic has shifted the overall landscape of the automotive industry. The lockdowns that have taken place in most countries have not only hit car production and sales hard, but also car sharing, which is a key element in the future of cars.

On the other hand, development of infrastructure that promotes the EV transition has been accelerated. In addition, as the bottleneck in supply of car components is blamed for negatively affecting car production the most, supply chain management is changing from the existing “just-in-time” approach to the “just-in-case” approach.

Capitalists in the auto industry have begun devising very active industrial strategies in the transition to future vehicles and during the COVID-19 era. Their strategies can be summarized as follows: shifting auto production from their car plants to external key parts manufacturers; reorganizing the industry to include parts makers without unions as key suppliers; maintaining a low intensity of restructuring to stabilize labor relations during the transition period; and weakening the capacity of democratic unions and eventually ensuring that capitalists have a strong advantage in a newly-transitioned automobile industry.

However, the first automakers to adopt these strategies have been domestic ones whose development the government has prioritized. For example, Hyundai Motor and Kia Motors are already changing their suppliers of power electronics modules—core EV components—to parts companies without unions, and have also begun outsourcing other processes that are not related to EVs at all. Parts-producing subcontractors for foreign capital are manufacturing only ICE car parts, at least until ICE manufacturing disappears, or manufacturing electric car parts only after concessions from workers (agreeing to outsource production, agreeing to create regional jobs towards mutual growth for labor and management, etc.). Most parts makers preparing for the future of cars are doing the same thing—establishing their own subsidiaries or outsourcing production in order to avoid democratic unions.

Against this backdrop, metal workers’ and other democratic unions need to carefully analyze the actual impact of changes in the auto industry due to the pandemic and the transition towards cars of the future, while at the same time, coming up with ways to immediately counter the industrial reorganization being pushed by auto industry capitalists—namely, by standing against the outsourcing of core parts and the placement of orders exclusively with parts makers that have no unions. Some urgent tasks that are needed right now are:

- Creating an automaker and parts supplier production map to carefully analyze routes through which key components for EVs are supplied to automakers;
- Preventing production from being outsourced during labor-management talks with major car companies on allocating workers to EV production lines and establishing model cases to maintain employment and labor conditions;
- Establishing democratic unions in non-unionized parts makers (battery, motor and electronic parts makers) with which capitalists place orders for core components; and
- Organizing non-regular workers and building class solidarity in the logistics sector, which forms the channel between automakers and parts suppliers.

The power of auto industry capitalists, who are “super clients” in the Korean auto industry, means they operate as they want since they account for the lion’s share of demand for some 20,000 components. Grasping the point of the above-mentioned tasks will show us alternatives for the democratic union movement in the transition of the automobile industry and the future car era.

Along with these urgent responses, it is also necessary to establish industrial policies to facilitate the working class responding proactively to the transition towards future vehicles and the COVID-19 pandemic. As capitalists welcome the unveiling of different versions of “green” new deals by the Moon Jae-in administration and other governments around the world, the meaning of “green” is not limited to “eco-friendly” but to also imply “non-unionized.” Considering this, discussions are needed post haste.

What attitudes the union movement will take toward this “green” movement is also related to labor’s participation in management (e.g. self-imposed control, control of industries), namely, to the questions, “What kind of vehicles and how many will be produced at what speed? How many workers will be needed?” These questions are not limited to the metal industry or to policies for automobile production and employment but also to public transport and environmental policy. Therefore, plans need to be made to motivate discussions on the attitude towards “green” issues at the national union-level and come up with industrial policies from these discussions.

Oversea Case:

The response of IG Metall to the Transition

The global economy is now in a time of great transition amid digitization, climate change, the development of future mobility and new business models and the tendency towards protectionism, as well as the recent coronavirus pandemic. Against this backdrop, the IG Metall is responding with a clear position of “fair transition” in three areas—workplace, industry-level bargaining, and industrial policy. This multi-layered response has great implications for Korean labor unions.

IG Metall intervenes in industrial policymaking at the central and regional level through a variety of channels. The central union participates in the Industry 4.0 platform and the Alliance for the Future of Industries, social consultative bodies for digitalization of the manufacturing industry and sharper international competitiveness. What is discussed here has a great influence on the establishment of future industrial strategies. Channels for central-level interventions in the auto industry include the Automotive Summit and the National Platform Future of Mobility (NPM). The former is attended by the chancellor, auto industry-related ministers, and representatives of labor and management, and provides a venue to talk about the issues in and policy support for the auto industry. Quite casual in nature, the Summit consists of leaders with political influence, so agreements made here quickly develop into policy and are implemented. It has contributed greatly to overcoming the recent COVID-19 crisis and helping small businesses make the necessary transition. The NPM has organized six divisions of some 240 people gathered from labor, management, the private and public sectors and academic circles to design the future of mobility. Each division provides policy recommendations to protect the competitiveness of and jobs in German companies. The head of IG Metall belongs to the steering committee of the NPM and leads the 4th division, adjusting the direction and agenda of the entire platform. The key theme of this division is employment and education during the mobility shift. It sees the strengthening of worker ability to adapt to technological changes as the most effective means of employment security at this time of transition, and works with companies and the government to improve and expand the education and retraining system. It also discusses ways to sharpen competitiveness and create jobs through the fostering of suppliers of electric batteries, motors, and electronic parts that are rapidly increasing in demand and subsequently expanding the domestic value chain. In addition, it actively cooperates in the innovation of local industrial structures by participating in “strategic dialogues” held by local governments and encourages small component makers to invest in new products and business models. This

multi-layered participation of IG Metall at the central and regional level acts as a powerful force for fair transition.

Looking at labor relations in the workplace and at the industry level, Germany provides Korea—where industry-level bargaining does not work properly—much to think about. It is the power of a centralized union that allows the nation’s largest metalworkers union to participate in different consultative bodies and intervene in the establishment of industrial policy. Corporate unions cannot perform such a role. In this age of transition, IG Metall is paying great attention to bringing innovation to workplaces to strengthen qualitative bargaining, and particularly, to ensure that education and technological innovation contribute to the humanization of labor. IG Metall is expanding the scope of its focus to “labor design,” which creates the future of labor and is not limited to its distribution and protection, which are the traditional functions of unions. There is much evidence that a union’s focus needs to be on expanding its functions as society prepares for the coming transitions.

The “crisis agreement” it signed in the face of the COVID-19 pandemic in March 2020 demonstrates the union’s active ability to cope with crisis. The agreement postponed wage negotiations and guaranteed employment through shortened working hours and has proven to be a win-win situation. The German metal industry has been able, through the agreement, to retain employment for skilled workers even in crisis, and is expected to rapidly recover once the pandemic ends.

The implication for the workplace, more than anything else, is the value of joint decisions and agreements for the future. Joint decisions, Germany’s unique way of labor participation, are made by management and workplace councils regarding major issues for the workplace. Such approaches are increasingly required in this age of transition and contribute greatly to eliminating worker uncertainty about the future.

IG Metall has recently taken the lead in creating a “Map of Transition” that shows the actual changes at individual workplaces (in employment, working conditions, skills, etc.), thereby identifying specific tasks for the workplace councils, and urges them to conclude an agreement about the future with their company. The union emphasizes that such an agreement should include the company’s plans for mid- to long-term investment, employment, training and manpower development, and guarantees to maintain the domestic production base.

To sum up, Germany's largest metalworkers union is striving for a fair transition in three areas: workplaces, industry-level bargaining and industrial policy. This has many implications for Korea, where worker anxiety increases during times of transition due to the employer practice of excluding labor in corporate management, the weakness of umbrella unions, and the lack of union involvement in industrial policymaking.

Conclusion

The Korean auto industry is, in general, manifesting serious problems during this time of transition. Automakers' relations with their (sub)contractors are hindering the development of innovative capabilities, which are required for the transition of parts makers that are under pressure to cut prices. New orders on parts for future automobiles are moving to the subsidiaries (Hyundai Mobis) of automakers (Hyundai Motor). Instead of a fair development of the industrial ecosystem, the weight of auto industry *chaebol* is increasing. The same is true with industrial relations. Neoliberal attempts by capitalists to weaken unions is becoming serious in the midst of transition. The production of core components for future vehicles is allocated to companies without unions. Industrial policy lacks a comprehensive perspective into the shift of mobility. It is, however, particularly important that this shift be examined, along with public transport and environmental policy, which today focus solely on growth and competitiveness.

The situation in Korea is far from a just transition. To make things worse, labor unions have not shown the ability to properly respond to this. Industry-level unions are urgently needed to forge a democratic relationship with management so that they can intervene in the establishment of industrial policies. In this sense, the industrial policies of Germany and the responses of that nation's largest metalworkers' union provide a lot to think about. Unions in Korea, in particular, need to refer to Germany's NPM towards improving the internal stability of the Automotive Forum of Labor, Management and Government, and at the same time, organize consultative bodies for industrial policymaking at the central and regional level. In addition, a "future agreement" should be concluded at the workplace level to ensure a fair transition without sacrificing workers.

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