

Social Dialogue in Times of Crisis: What Can We Learn from the Past?

(Part 3 : The Asian financial crisis of 1997 - 1998)¹

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When Asia was hit by a financial crisis in 1997-98, most of the local economic „tigres“ did not have efficient systems of industrial relations. In some of them, even the basic prerequisites for sound tripartism and social dialogue were lacking. The crisis presented an opportunity to find pragmatic solutions to its painful social impacts, to build consensus on the policies required to renew economic growth and, last but not least, to accelerate democratization processes.

Some country examples

In the Republic of **Korea**, the financial crisis seemed to be a culmination of declining economic competitiveness which had begun in the early 1990s. Just a month after November 19, 1997, when the Republic of Korea decided to seek help from the IMF, the value of the Korean *won* fell by about 50 percent against the US dollar, and the stock market dropped some 60 percent. In fact, the eleventh largest world economy suddenly became an economy surviving on overnight loans from international monetary institutions.²

The IMF bailout programme, accompanied by various conditions, including the request to improve labour market flexibility, provided a finance package of US\$ 65 billion. The impact of the crisis on industrial relations was immediate; as a result of downsizing, Korean unions lost about 50,000 members during the first nine months of the crisis. In reaction to this they vehemently opposed restructuring programs, mobilized their members and the general public and called for a series of general strikes. At the same time, however, there was an apparent trend towards concession bargaining, and from 1997 wage levels for most workers deteriorated.

The financial crisis had a very significant impact on institutional and legal frameworks of social dialogue and on the employment relationship. It led the three

¹ [Part 1 \(An introduction\)](#) was published on 23 March 2009 and [Part 2 \(Social dialogue and recession in the 1970-80s in industrialized economies\)](#) was published on 21 April 2009.

² Kim, D.O. and Kim, S. (2003) 'Globalization, financial crisis and industrial relations: The case of South Korea', *Industrial Relations: A journal of economy and society*, vol. 42, no. 3, pp. 341-367.

actors to form the Korea Tripartite Commission, which otherwise would not have been possible because of the hostile relationship between unions and the state.

The Commission had two major objectives: to contribute to economic restructuring and to involve social partners in the revision of Korean labour law, in line with OECD and ILO standards. Indeed, these two international institutions contributed significantly to a radical change in official labour policy through political pressure and technical assistance.

The Commission quickly reached a compromise on the main goals of economic reforms and on the principle of fair burden sharing (January 1998) as well as other major agenda items. The Government's involvement in negotiations was an important factor of success; the president personally led intensive negotiations for some time. The Social Agreement which was adopted on February 9, 1998 accepted layoffs as an economic reality, but also enlarged significantly workers' basic rights, by substantially expanding freedom of association and the right to bargain collectively in both the private and public sectors. Without doubt, this "Great Compromise", improved the government's crisis-management capacity, was instrumental in reaching national consensus³, and helped the country overcome the credit crunch.

But the financial crisis also had a long-term impact on industrial relations. First, it reinforced the shift to industrial unions and therefore towards greater centralisation of industrial relations. Second, and unlike the experience in many other countries, it reinforced long-term union membership and the unionisation ratio. Third it increased employees' general interest in and reliance on trade unionism.

In **Singapore**, to counter the economic crisis, the government introduced new labour policies, accelerating the adoption of the Japanese-style employee involvement system, such as work excellence committees, work improvement teams and quality control circles, all of which were introduced in the early 1980s. In the mid-1980s, the National Wage Council abandoned uniform wage increases, giving employers considerably more flexibility.⁴ During the financial crisis, layoffs were minimized as a result of a tripartite agreement in which employers received financial incentives if they avoided layoffs.⁵ Tripartite institutions, as well as ad-hoc tripartite agreements, have been very effective in articulating conflicting interests between the three parties and in formulating and implementing social and economic policies.⁶

In the **Philippines** and **Malaysia**, as in the Republic of Korea, the state initiated a tripartite system to help overcome the 1997-98 financial crisis; the Malaysian Tripartite National Advisory Council was entrusted with the role of drafting guidelines on how to handle industrial restructuring and the introduction of

³ Ki Choi, Y. (2007) [Social dialogue in Korea](#).

⁴ Morley, M.J., Gunning P. and Collins, D.G. (2006) *Global industrial relations*, London: Routledge.

⁵ Kuruvilla, S. and Erickson, C.L. (1999) 'Change and transformation in Asian industrial relations', *Industrial Relations: A journal of economy and society*, vol. 41, no. 2, pp. 171-227.

⁶ Ishikawa, J. (2003) [Key Features of National Social Dialogue: A Social Dialogue Resource Book](#), Geneva: ILO.

performance-based pay. However, in contrast to the Republic of Korea, these state-driven experiments turned out to have only limited impact and failed to produce lasting results.⁷

“When the financial crisis hit **Indonesia** in 1997, it drew attention to many of the deficiencies in the country’s industrial relations system, in particular to the lack of consultations and involvement of the social partners in policy-making on labour and employment matters. But as the crisis worsened, organized labour began to push for social dialogue as a means to finding solutions to the resultant problems, such as seeking alternatives to layoffs.”⁸

Both employers’ and workers’ provided their members with a range of services and advice to promote the use of for alternatives to mass redundancies, for example through reducing working time, eliminating overtime, alternating work shifts, cutting production costs and alternating home rest periods. Yet the spread and efficiency of these measures were limited, not only because of the gravity of the crisis, but also because mutual trust and cooperation was not deeply rooted.

In January 1998, a tripartite meeting to discuss the labour market situation was the first step in promoting social dialogue as a way to deal with the crisis. Recommendations adopted by this meeting included maximizing efforts to create harmonious employment conditions, minimizing layoffs by considering alternatives such as reducing working time, and promoting negotiations between workers and employers on the management of layoffs where they were unavoidable. The impact of these initiatives was constrained by government repression and constraints on freedom of association. However, the financial crisis “precipitated many of the positive changes that eventually took place, including calls for democracy, changes in the government, requests for ILO assistance in reforming the country’s labour laws, the opening up of freedom of association which led to the creation of independent unions, and the ratification of all of the ILO’s core Conventions.

The crisis revealed that the social partners were weak, especially the trade unions and that although tripartite structures existed, they were ineffective.”⁹ As a result, national and regional tripartite bodies were established and reformed, bipartite consultations in enterprises were introduced, a new labour dispute settlement system was created which introduced labour courts, and labour law was reformed in close consultation with the social partners. While the effectiveness of tripartite dialogue has been criticized by some observers, it has, nevertheless, enjoyed some successes by providing support for labour law reforms and the ratification of the ILO core Conventions, certainly also due to the direction, guidance, and support the ILO provided to the process.

⁷ Kim, D.O. and Kim, S. (2003) 'Globalization, financial crisis and industrial relations: The case of South Korea', *Industrial Relations: A journal of economy and society*, vol. 42, no. 3, pp. 341-367.

⁸ Kelly, P. (2002) [Promoting democracy and peace through social dialogue: a study of the social dialogue institutions and processes in Indonesia](#), Geneva: ILO.

⁹ Kelly, P. (2002) [Promoting democracy and peace through social dialogue: a study of the social dialogue institutions and processes in Indonesia](#), Geneva: ILO.

Further reading

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