

Issues in the Restructuring of the Korean Shipbuilding Industry

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“Restructuring” was the buzzword that defined Korean society and economy in the wake of the Asian financial crisis of the late 1990s. It has returned with similar vigour. This time, the origin is the shipbuilding industry.

The shipbuilding industry has been the star of the Korean economy until now, providing massive exports and employment. At the end of 2014, there were 16 shipbuilding companies in total, with another 5 800 or so businesses of varying sizes tied up in the same industrial ecosystem. Since 2000, the Korean shipbuilding industry has been growing at an astonishing pace, focusing on high-end vessels, taking advantage of cheap and flexible subcontract labour, expanding the non-shipbuilding areas of its business including the development of offshore plants, and increasing offshore production.

The global financial crisis of 2008, however, has hit the industry hard, while the plummeting oil price since 2014 has radically contracted the demand for offshore oil plants. The offshore plant businesses of all the Big Three shipbuilding companies¹ began to produce deficits in 2014 and operating losses over the last three years. The Korean government, which waited for the market to naturally solve the problem, belatedly organised the Industrial and Corporate Restructuring Council, led by the FSS (the Financial Supervisory Service) and other government departments, in October last year. The Council announced the three principles of restructuring² in April this year, and began to exert mounting pressure on individual shipbuilding companies through banks. The three principles provide a guise of consistency, but can be reduced to making cuts to facilities and the number of employees.

Opposite positions on the shipbuilding industry crisis

Progressive policy experts and labour activists both agree that the Korean shipbuilding industry today is trapped in a crisis. Yet they oppose the government’s main solution to the crisis – namely, reducing production facilities and the number of employees. The Korean government has been asserting – without sufficient proof – that the Korean shipbuilding industry is ‘dying,’ and heavy handed restructuring based on streamlining and mergers is in order to prepare for the increasingly uncertain future of the international economic environment. The government, accordingly, has been forcing shipbuilding companies to lose ‘unnecessary’ assets and employees.

Yet there is a growing criticism of the government’s proposed solution. Park Jong-shik (2015), for instance, argued that the government’s assertion that the shipbuilding industry is dying serves the propagandistic purpose of discouraging further investment in the industry and inducing existing businesses to escape the industry, rather than describing a real and concrete phenomenon. Moreover, that assertion could well increase job insecurity and income losses for existing workers in the industry. The Korean Confederation of Trade Unions (KCTU) has also condemned the government’s assertion of industrial decline, emphasising instead that the current crisis is only a natural part of business cycle fluctuations in the aftermath of the global financial crisis of 2008 and the intensifying global competition. KCTU argues that the current crisis is a confluence of multiple factors, such as the worldwide recession, the plummeting oil price, the consequential drops in the demand for shipping and marine transportation, and the excessive competition among Korean, Chinese, and

Japanese shipbuilding companies that together share 90 percent of the entire global shipbuilding market. The Korean government already tackled the excessive competition in Korea by streamlining and merging medium-to-large shipbuilding companies in 2009, reducing their number from thirty to six. The labour community thus worries that the government’s heightened rhetoric of the industrial crisis serves to increase social support for drastically reducing facilities and workers.

Government unilaterally forces massive layoffs

The Korean government’s policy in fact serves to conceal management failures and corrupt practices across the shipbuilding industry, and instead merely emphasises massive layoffs as the key to successful restructuring. The Big 3 companies have been implementing layoffs and accepting voluntary resignations since last year. Hyundai Heavy Industries (HHI) began its restructuring process by reducing the number of office workers in 2015, and it plans to lay off factory workers this year as well. Daewoo Shipbuilding and Marine Engineering (DSME) likewise plans to lay off thousands of regular and full-status workers.

But restructuring is expected to hit in-house subcontracting workers³ - whose numbers have dramatically multiplied in previous years - the hardest. HHI has fired 8 500 in-house subcontracting workers since 2014 and from April 2016, while DSME laid off 5 340 workers. Tens of thousands of workers will likely lose their jobs in the coming months. The Big 3 have hired relatively few new regular and full-status workers over the past decade, resorting instead to in-house subcontracting workers to satisfy their growing demand for factory workers (KMWU, 2016). As the economic environment has grown all the more unpredictable, these companies sought to ensure the flexibility of their personnel by hiring these in-house subcontracting workers, while paying far less in wages and also avoiding all the duties of employers. The automobile, steel, and all other major manufacturing industries in Korea today rely on in-house subcontracting labour, but the shipbuilding industry’s dependency is the greatest. Frequent injuries and deaths of workers plague shipbuilding companies, including HHI, with 78 percent of victims being in-house subcontracting workers. HHI is even nicknamed ‘the death factory’.

Growing need for a social consensus

The heavy handed and unilateral approach to restructuring, centered on reducing facilities and workers, is unlikely to solve the problems of the current crisis in the shipbuilding industry and likely to face mounting resistance from workers, especially in the absence of a society-wide consensus on the cause and solution of the current shipbuilding crisis.

What can we do otherwise? First, we need to investigate and determine managements’ responsibilities for failing to manage their businesses wisely and excessively expanding unprofitable new businesses. Second, we need to provide greater job security and social security for workers threatened with massive layoffs. Third, we need to outgrow the business model based on cheap and precarious internal subcontract labour, and force the compa-

nies to hire more workers directly, thereby providing better working conditions. Fourth, the Korean government needs to devise channels for society-wide dialogue that seeks solutions through the participation of all stakeholders, including unions and management (KCTU, 2016). Korean society already experienced acute social conflicts during the Asian financial crisis of 1997 amid massive layoffs and restructuring. It is critical for us to avoid falling into the same trap by building a social consensus with the participation of all involved, including labour unions, the government and companies.

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Footnotes

1 The Big 3 of the Korean shipbuilding industry are Hyundai Heavy Industries (HHI), Samsung Heavy Industries (SHI), and Daewoo Shipbuilding and Marine Engineering (DSME).

2 The three announced principles were: 1. debt readjustment based on each company's own self-help plan; 2. constant restructuring of at-risk companies based on credit evaluations of individual companies and major debt relations; and 3. prompt restructuring led by the government and banks toward enhancing the competitiveness of the industry as a whole. After the government's announcement, creditor banks forced shipbuilding companies to create so-called self-help plans centered on reducing facilities and numbers of employees.

3 Internal subcontract labour refers to labour that is arranged and procured under the disguise of subcontracts for the purpose of finishing jobs on the sites of main or prime contractors. Internal subcontract workers, though hired by apparent third parties working on subcontracts, are tied to the main or prime contractors as much as employees hired directly by prime contractors (shipbuilding companies). Although the vast majority of internal subcontract workers perform the same jobs as company-hired ones, they are paid lower wages and even denied the protection of the three basic rights of labour, guaranteed by the Korean Constitution, which are granted to company-hired workers. (Son Jeong-sun, 2004).