


At the Signing of the Gwangju Job Project, a Korean Adoption of the Auto 5000 Model



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The city of Gwangju and Hyundai Motors finally signed an agreement on January 31 on the much-anticipated Gwangju job project. Known as being motivated by the Auto 5000 model introduced at Volkswagen (VW) during 2001-2008, the project's objective is to create a joint venture between the city government and the carmaker. Beginning in 2021, the venture will produce new models of small sport-utility vehicles (SUVs) in an industrial complex in Gwangju. The city government will become the largest shareholder (21%), followed by Hyundai Motors (19%). The latter will also develop the new models to be produced and provide the necessary technological support from plant construction, operation, production and quality control to sales. If the project is implemented successfully, the Gwangju plant will be the first new automobile plant producing Hyundai cars in Korea in more than two decades, with a capacity of 100 thousand cars per annum.

The final hurdle to the agreement was the carmaker's demand to fix the terms of employment until the accumulated production reaches 350 thousand cars. This was demanded in the name of providing stability and reducing uncertainty in the project's earliest phase, while the Feder-

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ation of Korean Trade Unions (FKTU), the labor-side partner of the city government, saw it as a threat to basic labor rights. The agreement collapsed last December over this clause, but the FKTU accepted it this time, with its concerns reflected in the form of an annex.

The key feature of the project is the alignment of incentives among interested parties to create manufacturing jobs in Korea, at a time when the country's manufacturing giants are actively participating in the global value chain (GVC). The Korean economy used to rely heavily on the trickle-down effect generated from manufacturing exports, where manufacturing firms exported and invested their earnings back in Korea, thereby creating jobs, directly and indirectly, and this in turn created domestic demand. This is no longer the case, however, with the development of the GVC. Korean manufacturers now invest elsewhere to leverage, among other things, lower labor costs. To incentivize the carmaker, the project keeps the wage at about half the current level in existing Hyundai Motors plants. Also, the local and central governments will offer fiscal benefits to the venture. At this wage level, the project is expected to create some 1,000 jobs (and 10,000 more indirectly). To compensate for the lower wages, the city and central governments will supplement the workers with support for housing, transportation, education, medical services and etc.

While the project resembles the Auto 5000 model in many aspects, the government's role distinguishes it from the German case. The Auto 5000 model, conceived in the late 1990s by Peter Hartz, who would later design a series of well-known reforms in Germany, was the VW's proposal to IG Metal, its labor counterpart. The government's role was largely limited to facilitating the progress of the negotiations between the two main parties. On the contrary, the Gwangju project is the government's initiative to revitalize the local economy and manufacturing jobs in Korea. Started in 2014, the consecutive city governments of Gwangju, later joined by the central government, designed the scheme, brought all parties into negotiation and actively mediated the negotiations towards the agreement.

Remaining uncertainties in the project's success, at the time of writing this Opinions (February 26), include financing. In particular, it needs to raise a further 168 billion KRW (slightly more than 150 million USD) in equity and borrow 420 billion KRW (slightly less than 376 million USD). Some commentators see this as a challenging prospect, given the bleak outlook of the auto industry. Also, the Korean Confederation of Trade Unions (KCTU), the second largest umbrella trade union after the FKTU, strongly criticizes the agreement. Its worries are somewhat warranted; the lower standard of employment at the Auto 5000 is considered to have somewhat spread to the VW workers' contracts, which was IG Metal's suspicion when

the model was proposed. The KCTU's opposition could potentially harm the stability of the project.

Overall, a big round of applause is warranted to all parties to the agreement for making innovative efforts and showing patience and courage. The project has set an example that manufacturing jobs can still be created in Korea through the cooperation of business, labor and government. Some other regions are known to be working to follow Gwangju's example to revitalize their dwindling manufacturing sector, and the central government is working to encourage and supplement such efforts. In a time when the reduction of manufacturing jobs in developed countries is having far-reaching consequences worldwide, Gwangju's case offers an alternative. **KIEP**