

# REPUBLIC OF KOREA

## Environment

In late 1997 the structural weaknesses of the Korean economy became obvious with the surfacing of factors such as rapidly growing foreign debts, bankruptcy of large corporations, and the financial crisis of neighbouring economies. The financial ratings of the Korean economy plummeted in the international financial market. Foreign financial institutions began to indiscriminately recall loans to Korea, which subsequently contributed to the accelerated depletion of Korea's foreign capital reserves. As a consequence, Korea was forced to turn to the IMF for a bailout loan.

Since the IMF bailout programme was introduced, employment conditions have worsened significantly. The Korean economy had grown at a high growth rate for the previous 30 years and had recorded a near-perfect employment rate since 1980. Except for the period between 1985 and 1987, during which the unemployment rate reached 3.5 per cent on average, the unemployed rate had remained below 3 per cent until 1997; it was as low as 2.0 per cent in 1995 and 1996. In 1997 it soared to 6.8 per cent (1,463,000 persons).

The number of employed was 20.68 million in December 1997 after the beginnings of the financial crisis, but it fell to 19.52 million (-5.6 per cent) in December 1998, a reduction of 1.16 million jobs over a year. The number of female workers suffered a larger decline than that of male workers. By age group, the number of workers in their twenties (-715,000 or -15.3 per cent) and fifties (-266,000 or 8.6 per cent) decreased significantly. The continuation of the economic recession led to a drop in the number of employed in the construction and manufacturing sectors, while the number of self-employed workers or workers employed in the public services sector increased. Jobs such as skilled work, machine operation, simple manual labour and office work declined, whereas professional, technical and administrative jobs increased.

The number of unemployed increased by 1,010,000 (153 per cent) in the 12 months from December 1997 (660,000 unemployed at an unemployment rate of 3.1 per cent) to 1,670,000 (at an unemployment rate of 7.9 per cent) in December 1998.

As regards the gender composition of the unemployed, the numbers of unemployed male and female workers increased 2.6-fold and 2.4-fold on a year-over-year basis, respectively. Male workers account for approximately two-thirds of the total unemployed (this indicates a larger 'discouraged worker' effect among females than males). By age, the unemployed rate increased faster for people in their forties (increasing by 220,000 or 256 per cent) and fifties (increasing by 152,000 or 323 per cent). By educational level, more workers with a poor educational background, below middle-school and high-school, became unemployed.

In light of the rapidly changing labour market, the Government prepared and implemented the 1998 Comprehensive Unemployment Policy, which focused on: (i) support for managerial stabilisation for the minimisation of unemployment; (ii) job creation; (iii) job placement and vocational training; and (iv) support for livelihood security. The Government has also significantly increased the budget for labour market policy measures, allocating an additional amount from the supplementary budget.

## **Policies in Place**

The Korean Government is determined to achieve the early completion of restructuring in all sectors, focusing on job creation based on enhanced competitiveness, and helping unemployed workers make best use of their unemployment period as an opportunity for their vocational development to prepare themselves for the information- and knowledge-based 21<sup>st</sup> century society.

The unemployment policy is divided into two large sections, active policy measures and measures for the re-employment and protection of the unemployed. The active policy measures include: (i) support for job-keeping efforts through managerial stabilisation; and (ii) job creation. The measures for the re-employment and protection of the unemployed include: (i) job placement and vocational training; and (ii) social care.

An increasing number of jobs have been created through public works projects, SOC investment, and the stimulation of the regional economy. The Government now provides stronger support for businesses which make efforts to avoid dismissal and other support for employment security, such as extension of credit guarantees. In preparation for the prolonged unemployment period, employment insurance has been extended to cover workplaces of all sizes, and the social safety net has been enhanced to secure the basic living of the low-income unemployed and workers unemployed from bankrupt businesses. Concurrently, improved vocational training programmes have been designed and implemented to help unemployed workers acquire vocational abilities for re-employment.

## ***Employment of Workers***

### **Public Works Projects**

Public works projects have been designed to create jobs for unemployed people. These projects benefited about 440,000 people in 1998, involving a budget of 1,044.4 billion won. Job creation in the public sector is particularly effective at the time of sudden, massive unemployment, and has been practised by other economies on a large scale.

The selection of people qualified for public works projects is made from those unemployed people who have registered with the job information centre at regional labour authorities and local governments. Priority is given to unemployed people with low or very little income.

The public works programme consists of projects with high productivity, such as the computerisation project that supports the training of computerisation personnel, the computerisation of public facilities, and the construction of on-line library systems; the social welfare project that improves and repairs social welfare facilities like homes for old-age people, orphaned children and disabled people, and schools; public projects like forest planning and internships at research institutes; and environmental protection projects like water pollution prevention and recycling.

After the year 1999 during which unemployment is expected to peak and a total of 2.55 trillion won is allocated to the programme, the size of public works projects will be adjusted according to changes in the labour market. Public works projects after 1999 will mainly focus on long-term unemployed people, the on-site training and voluntary works of unemployed youths, and manpower supply for the so-called 3-D sectors (dirty, dangerous, and difficult) which suffer severe manpower shortages.

Public works projects were originally designed to secure a minimum standard of living for unemployed workers by providing jobs, though temporary. But more productive projects are being developed by local governments and the Government is encouraging private-sector non-profit organisations to become involved in public works projects; for example, by allocating public works participants to these organisations as voluntary workers, thereby expanding community-oriented projects like environmental protection and consumer protection.

### **Enhancement of Vocational Training**

The number of unemployed workers who received vocational training in 1998, when massive increases in unemployment took place, increased 8-fold over 1997 to 360,000. This was largely due to government efforts to encourage unemployed workers to make use of their unemployment period as an opportunity to improve their employability when the economy picks up. Furthermore, the private sector, such as universities and private vocational training facilities, was allowed to provide government-authorised vocational training, which has only previously been available at public vocational training institutes.

In order to re-organise the vocational training structure into a customer-oriented system, regional demand has been studied and demand-oriented training programmes have been developed. Other matters, such as training instructors, training materials and curricula, have also been adjusted to meet demand, and training institutes have been granted greater autonomy. New prospective subjects include the training of Y2K bug specialists and patent managers. Since September 1998, the training voucher system has been introduced in certain selective areas, which allows trainees to choose training institutes and programmes.

For the enhanced efficiency of vocational training, the minimum length of vocational training has been increased from two weeks to four weeks, and the link between vocational training and employment has been strengthened through the assessment of and incentives for post-training job placement.

Vocational training, which has focused on the manufacturing sector in the past, is gradually transforming into a programme focusing on information- and knowledge-based industries to prepare workers for the upcoming information- and knowledge-based society of the 21st century. For this, the development of vocational training programmes for new industries, based on the analysis of manpower supply and demand and future prospects, are called for and accordingly courses leading to qualifications for new industries will be developed. For highly-qualified unemployed people, training courses for knowledge-based service industries, such as international finance, culture, tourism, Internet, and visual art, will be developed, and more instructors trained in new technologies will be recruited. Through these programmes, the unemployment period will be effectively used as an opportunity for vocational ability development.

### **Establishment of a Service Network**

Korea has expanded the job security net, which provides employment-related services such as job placement, unemployment benefits, and guidance on unemployment policy measures. The network of employment security agencies has also been expanded to a total of 99 places (79 job security centres and 20 human resource banks) in late 1998 from 53 places (46 centres at local labour offices and 7 human resource banks) before 1998. Through the expansion of job security agencies, the

Government has laid a foundation for the implementation of more active labour-market policies in job placement, unemployment benefits and vocational training. Also, the number of vocational counsellors recruited from the private sector in order to raise the quality of job security services has increased from 107 in January 1998 to 1,367 at end-1998. As a result, a total of 130,000 unemployed people were re-employed in 1998, a four-fold increase from 30,000 in 1997.

Legal requirements for the establishment and management of private-sector job security centres have been relaxed to promote participation of the private sector. Through the expansion of the job security network and the more systematic management of unemployed people, Korea has made efforts to improve the quality of job security services and the effectiveness of the unemployment policy measures. As a part of this effort, the Work-Net, a cyber job security centre, has been set up to provide on-line information services for jobs offered and wanted, vocational training, and vocational counseling. A database profiling unemployed workers, such as their income levels and family members, is currently under construction.

### ***Social Safety Nets to Alleviate Poverty***

#### **Employment Insurance**

The building-up of the social safety net, which initially aims to stabilise the livelihood of unemployed people, is under way. It focuses on providing opportunities to regain self-independence for unemployed people, rather than a mere income source, in order to prevent the wasting away of their will to work and the continuation of their financial hardships.

With employment insurance as a primary social safety net and strengthened public works and vocational training programmes as a supplementary safety net, extended livelihood protection support, including living costs, free schooling of children, and medical expenses, will be provided for long-term unemployed people with low incomes.

Korea introduced the Employment Insurance System in July 1995, which is the basis of the social safety net. Employment insurance is not only an insurance business which provides unemployment benefits for unemployed workers, but also part of the social security system and labour market policy, which simultaneously promotes re-employment through vocational guidance, job placement, and job security through vocational ability training.

Employment insurance was first applied to workplaces with 30 employees or more until 1997, but was extended to workplaces with 10 employees or more in January 1998 and to workplaces with five employees or more in the following March. In October 1998, it was further extended to workplaces with four employees or less, effectively covering all workers.

Unemployment benefits are provided for workers who have worked at workplaces covered by employment insurance for six months or longer and become unemployed non-voluntarily. The benefit period varies between two and seven months. From 1 April 1999, all workers will be eligible for unemployment benefits. Korea is currently implementing the special extended benefit system, which provides extended unemployment benefits for a maximum of 60 days in special cases like a sharp increase in unemployment. This system has been in operation since July 1998 when the unemployment situation became acutely serious.

The Korean Government, clearly aware of the importance of job-keeping efforts, is enforcing the "support system for sustaining employment", which subsidises one-half to two-thirds of the wages and training expenses for six months for employers who do not dismiss workers made redundant for managerial reasons such as business downsizing, reduced production, sluggish sales, and stockpiling, and maintain full employment through workforce redeployment, work-hour cutbacks, vocational training, temporary leave, and dispatch outside the company.

Another incentive, the "bounty for active recruitment", is available to employers who hire five workers or more per quarter or 5 per cent of their average monthly workforce from workers displaced due to employment adjustment. These employers will be provided with one-third to one-half of the wages paid to new recruits for six months.

Korea is also trying to ensure the flexibility of its employment security measures. For example, the "subsidy for sustaining employment" and "bounty for active recruitment" will be further extended, with an increased support amount and relaxed eligibility requirements, in the first half of 1999 when the worst unemployment situation is expected.

### ***Implementation and Evaluation***

#### **Implementation of Unemployment Measures**

Korea has set up an unemployment measures committee, chaired by the Prime Minister and composed of related cabinet ministers, which regulates mid- and short-term unemployment measures, monitors the implementation of these measures, and oversees the process of unemployment measure development.

Unemployment measures formulated by the committee are implemented by relevant government authorities, depending on the nature of the measures. Unemployed workers can receive guidance on unemployment measures and participate in public projects through a nationwide network of 119 job security agencies nationwide and also job information centres set up under local governments.

For information on unemployment measures and labour market policies, such as employment insurance and vocational training, people need to dial 1588-1919 and they will be put through to the nearest job security centre.

Those seeking jobs can also access, from home through the Internet and the Work-Net, information on jobs offered and available vocational training programmes and even receive vocational counseling and take vocational aptitude tests.

#### **The Assessment of Labour Market Policies**

For the effective assessment of labour market policies, the "Unemployment Measure Monitoring Centre" has been established under the Korea Labour Institute, which periodically monitors and assesses unemployment measures and advises on improvements.

A window appropriately titled "Unemployment Measures by the People" has opened on the Internet homepage of the government to gather opinions and suggestions of the people. The Government is also consulting academia, the press, and private organisations about unemployment policies.

The Ministry of Labour and the Ministry of Government Administration and Home Affairs have set up separate divisions for unemployment measures to monitor the progress of and supplement unemployment policy measures. Local governments have

also set up a special office to monitor unemployment measures and regional trends in employment.

### **Performance of Unemployment Measures**

To cope with the massive unemployment resulting from the financial crisis, the "Comprehensive Unemployment Policy", which focuses on: (i) job creation; (ii) employment stabilisation; (iii) vocational training and job placement; and (iv) livelihood protection for unemployed people, was established to benefit approximately 3 million unemployed people through public works projects, vocational training and unemployment benefits between April and December 1998.

In 1998, the social safety net was extensively strengthened to address sudden, high unemployment. Employment insurance has been extended to cover workplaces of all sizes. Vocational training courses were given to a total 360,000 unemployed persons (an 8-fold increase over 1997), to help them make best of their unemployment period as an opportunity for vocational ability development.

The Government has also promoted employment stabilisation at small and medium companies through active economic policies, support for corporate job-retention efforts, early government purchases from small and medium companies, and credit guarantee extensions. Employment security centres and private-sector vocational counsellors have been expanded to cope with increasing demands for job-placement services and unemployment benefits.

Unemployment, which had increased since the financial crisis, began to decrease in August 1998 and fell for the following three consecutive months and has stabilised at 1.5 million in the fourth quarter, 1998, thereby greatly contributing to social stabilisation and also supporting the efficient restructuring of the public, corporate, financial, and labour sectors.