Immigration and Labor Market
Issues in Korea

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I. Introduction

Since the late 1980s, the Korean economy has been faced with labor shortage problems. The well-known rapid growth of the Korean economy was, of course, the main reason of tightened labor markets, especially of the blue-collar workers. Also, many supply-side factors such as the decreasing birth rates and higher advancement rates to the higher schools have reinforced the labor shortage problem. So resulted in the inflow of unskilled workers from Asian developing countries.

Many questions and issues have been raised about the immigration of foreign workers. The spectrum of the issues are very wide from the seemingly simple question: “Are they good for the Korean economy?” to the complex one: “where is a balancing line between economic benefits and social cost?” Policy makers and experts have tried to find efficient and equitable measures to institutionalize the entry and employment of the unskilled migrant workers, while considering their impacts on the Korean economy and society.

However, since the onset of the financial crisis in Korea late 1997, the financial sectors have been suffering from capital crunch, and industrial activities have shrunk substantially. Big shrinkage in the labor demand has been followed and it has sharply pushed up the unemployment rate. The rate of unemployment has been increased from 2.6% in 1997 to 6.8% in 1998, almost three times only in a year. This unexpected shock has also affected the demand for the foreign labor, of course, in many respects which will be discussed later.

The Korean economy was quickly recovered from severe recession in the year of 1999, mainly due to trade surplus. The GDP
has increased almost 10% and the GDP deflator has been decreased by 1.6% in the same year. This quick recovery has boosted the demand for labor, including foreign workers, once again. The Korean government and the ruling party are now trying to introduce a new system to regulate immigration of unskilled workers, of which the main content is to provide employment permit to the qualified employers. This implies that Korea gives up the long-sustained policy to prohibit immigration of unskilled workers, and rather opens door officially to the qualified foreign workers.

This paper introduces the current situation of the migrant workers and the system to regulate their entry and stay in Korea. The policy issues on the immigration are also discussed, focusing on institutionalizing immigration of unskilled workers, preventing illegal workers and social integration of foreign workers. Due to the sharp and sudden increase of unemployment rates, the migration issues have not been raised in the year of 1998. However, since labor shortage in small and medium size enterprises becomes more severe again in recent years, there recurs more attention concerning migrants and employment of foreigners.

This paper starts with sharing of information about recent economic situation and labor market issues, which provides with a basis of deeper understanding to the recent immigration issues.

II . Recent Economic Situation and Labor Market Issues

1. Overview of the Korean Economy
It is well known that Korea has been undergoing rapid changes in political, social and economic areas sometimes accompanied by friction and disorder, since the fall of its authoritarian regime in June 1987. This chapter introduces very briefly a long-term feature of those changes, focusing on changes in the employment structure.

Such labor market problems as labor shortage, job-mismatch and fast increasing wages have been industrial bottlenecks for the Korea's sustained growth, and consequently are blamed for one of the main reasons of the recent economic crisis. Until the early 1970s, Korea was an agrarian society containing a big rural population. With the successful economic growth, however, the Korean labor market passed the era of the Lewis-type “unlimited labor supply” around the year of 1974～75. After this period, the continued immigration of the rural population to the urban areas has sustained high economic growth without facing labor shortage problem. Only the short period from 1978 to 1979 was recorded a wage hike due to the Middle East construction booms, when many skilled Korean workers have migrated to the Middle East countries.

The high growth period of the Korean economy seemed to reach an end with a peak around 1986～88. Table 1 shows that the Korean economy has grown at an annual rate of 7～8 percent after the peak year of 1988. Most economic specialists agree that the year 1989 would be a turning point to the mid-growth period in which an economy grows at an annual rate of 6～8 percent and structural adjustment is occurring. During this transition period, the Korean economy is experiencing higher inflation, widening trade deficit and faster growth of the service sector as Table 1 shows. These major economic statistics imply that the Korean labor market might have passed the period of so-called “limited supply of labor” around 1989.
~ 90, and entered the period of so-called “labor shortage”.

However, the financial crisis begun in late 1997 hit the Korean economy unfavorably. The GNP growth rate was lower than minus 6% in 1998, and per capita GNP has been decreased from about 10,000$ in 1997 to about 6,800$, mainly due to devaluation of the Korean Won and negative rate growth. Many companies, including 5 banks and big steel and car manufacturers were bankrupted, which have brought up unemployment rate. At that time, the major challenge facing Korea is to overcome the current economic crisis as fast as possible. Reform policies for the recovery have been directed to financial and industrial sectors as well as the public sector. With nation-wide pain sharing schemes, the Korean economy has recovered very quickly since mid 1998. In the year of 1999, the economy has grown by more than 10% and prices were successfully settled down.

With this economic situation in mind, we will move to the next section where recent labor market issues are discussed.

<Table 1> Summary statistics of the Korean economy (1988 ~ 99)

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP growth rate(%)</th>
<th>Inflation (%)</th>
<th>Per capita GNP (US dollar)</th>
<th>Trade surplus (US dollar in billion)</th>
<th>Service sector Employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>12.4</td>
<td>7.1</td>
<td>4,127</td>
<td>14.2</td>
<td>50.9</td>
</tr>
<tr>
<td>1989</td>
<td>6.8</td>
<td>5.7</td>
<td>4,994</td>
<td>5.1</td>
<td>52.3</td>
</tr>
<tr>
<td>1990</td>
<td>9.0</td>
<td>8.6</td>
<td>5,659</td>
<td>-2.2</td>
<td>54.4</td>
</tr>
<tr>
<td>1991</td>
<td>8.6</td>
<td>9.7</td>
<td>6,518</td>
<td>-8.3</td>
<td>56.4</td>
</tr>
<tr>
<td>1992</td>
<td>4.7</td>
<td>6.2</td>
<td>7,007</td>
<td>-3.9</td>
<td>58.5</td>
</tr>
<tr>
<td>1993</td>
<td>5.8</td>
<td>4.8</td>
<td>7,446</td>
<td>1.0</td>
<td>61.0</td>
</tr>
<tr>
<td>1994</td>
<td>8.4</td>
<td>6.2</td>
<td>8,467</td>
<td>-3.8</td>
<td>62.5</td>
</tr>
<tr>
<td>1995</td>
<td>9.6</td>
<td>4.5</td>
<td>10,037</td>
<td>-8.5</td>
<td>63.4</td>
</tr>
<tr>
<td>1996</td>
<td>7.1</td>
<td>4.9</td>
<td>11,380</td>
<td>-23.0</td>
<td>65.8</td>
</tr>
<tr>
<td>1997</td>
<td>4.9</td>
<td>4.5</td>
<td>10,307</td>
<td>-8.2</td>
<td>67.6</td>
</tr>
<tr>
<td>1998</td>
<td>-6.7</td>
<td>7.5</td>
<td>6,823</td>
<td>40.5</td>
<td>68.0</td>
</tr>
<tr>
<td>1999</td>
<td>10.7</td>
<td>0.8</td>
<td>8,581</td>
<td>25.0</td>
<td>68.6</td>
</tr>
</tbody>
</table>

Source: Department of Finance and Economy.
2. Changes in the Structure of Labor Supply

In this section, four important changes in the structure of the labor forces are discussed one by one. Those are decreasing young workers, feminization of the labor force, aging workers and rapid improvement of labor quality, each and all of which help us understand why foreign unskilled workers have been flowed into Korea since early 1990s.

**Decreasing Younger Work Force**

In Korea, young population between the ages of 15 to 24 started to decrease around 1995 in absolute number. Moreover, the labor market participation rate of the younger generation aged 15 to 19 has been decreasing since the mid 1970s, mainly due to the increasing advancement rates to the higher educational institutions and partly due to the lack of part-time job opportunities. The decrease of the young population and their labor force participation rate is now one of the main reasons of the labor shortage, especially in the manufacturing sectors.

Though most of young generation are out of the labor market, the youth unemployment rate has been increased. As of 1996, the unemployment rate of ages 15~19 was 8.1 percent, and that of ages 20~24 was 5.9 percent. These rates have hit the peaks of 20.9% and 14.8%, respectively, in 1998. In 1999, those were slightly decreased to 19.7% and 12.8, respectively. Those figures indicate that younger generations among others are now facing great difficulty in finding jobs even though the tight labor market situation recurs in some areas. Therefore, solving the mismatch problems in youth labor markets has
become one of the major targets of Korean labor market policies.

**Feminization of the Labor Force**

More and more Korean females are now entering the labor market. As of 1999, the labor force participation rate of females is about 50 percent and the ratio of female workers to total workers is about 40 percent. The recent increase of the labor force participation of females is mainly due to increasing market wages, smaller size of the family with fewer children, cheaper supply of home appliances, and higher education level of females.

The Korean government continues to provide married women with childcare centers, which help them keep both household and market works by lowering their cost of labor supply. Also, the Equal Employment Act enacted in 1987 prohibits discrimination against females in the following areas as recruitment, promotion, training and job arrangement, etc. The Act is very progressive in the sense that it covers the disparate impact discrimination as well as the disparate treatment discrimination, and that the burden of proof is primarily given to employers. Actually the Act has been playing an important role to improve the status of women in the Korean labor markets, especially in the white-collar jobs in such as banking and insurance. Very recently, the Korean government is trying to find ways to extend and share the burden of maternity leave, which is believed to promote and at least keep women’s participation in the labor markets.

Though more and more females have entered labor markets, however, most of them have found white-collar jobs. This partly explains why labor shortage prevails in the manufacturing sectors.
Aging Workers

The ratio of aged workers of over age 55 to total employment has been increased from 10 percent in 1980 up to around 17 percent in 2000. On the one hand, this simply reflects the change in the age structure of the population, meaning that average workers should work longer than ever in their lifetime to avoid the famous inter-generation debt problem.

On the other hand, aged workers themselves want to work longer simply because they are expected to live longer and are healthy enough even to work in factories and construction sites. In Korea, most of aged workers are non-wage workers (self-employment and family workers), and their primary jobs are in the agricultural and service sectors.

In order to promote employment of aged workers in urban and industrial sectors, Korea enacted the Aged Workers Employment Promotion Law in 1991, which recommends establishments with over 300 employees to employ aged workers by more than 3 percent of total employees. The Law also urges the government to provide more training facilities and job information for aged workers. The effects of the Law on labor markets seem to be enormous even though the Law lacks enforcement closure such as punishment or levy. The increased participation of the aged is clearly a reflection of the current labor market situation such as labor shortage.
Improving Level of Education

It is well known that Korean workers are well educated, which is one of major resources of rapid economic growth during the 1960s~70s. The average education years of Korean workers have continued to be longer last 40 years. And mainly due to “Education Reform” in 1980, the higher education, including colleges and universities, became mass education.

As the Table 2 shows, the composition of college graduates among total workers has been increasing from 10.3% in 1980 to 23.2% in 1999. Also, the advancement rates to higher schools have increasing rapidly and continuously. As of 1995, the advancement rate from middle school to high school was already 99% even though the Korean government does not yet provide free middle and high school education. The advancement rate to college or the university is over 60 percent as of 1999, seemingly the highest figure in the world. This fast improvement of education level has been clearly one of the major sources of the so-called “Korean miracle”.

Even though higher education is expected to improve labor productivity in the long run, too rapid improvement of educational levels has brought various job-mismatch problems in the labor markets. For example, there is a greater supply of white-collar workers than demand, and a smaller supply of blue-collar workers than demand, which has resulted in labor shortage in manufacturing sectors.

Tight Labor Market

The following Table 3 broadly shows that the economically active population and the employed have increased at an annual rates of 3.1% and 3.3% on average during the period of 1975~90, respectively. As the number of the employed increased faster than the labor force in this period, the unemployment rate has plunged to a record low level of 2.3 percent in 1991 as compared to 4.4 percent in 1970. Again, the unemployment rate was even lowered to 2.0 percentage around 1995. This level of unemployment is much less than the natural rate of unemployment and implies very tight labor markets.
### Table 3: Changes in Employment and Unemployment (1975 ~ 99)

(Unit: person in thousands, %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Labor force</th>
<th>Participation</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Employed</td>
<td>Unemployed</td>
<td>Rate</td>
</tr>
<tr>
<td>1975</td>
<td>11,692</td>
<td>501</td>
<td>58.3</td>
</tr>
<tr>
<td>1980</td>
<td>13,683</td>
<td>748</td>
<td>59.0</td>
</tr>
<tr>
<td>1985</td>
<td>14,970</td>
<td>622</td>
<td>56.6</td>
</tr>
<tr>
<td>1990</td>
<td>18,085</td>
<td>454</td>
<td>60.0</td>
</tr>
<tr>
<td>1991</td>
<td>18,677</td>
<td>438</td>
<td>60.6</td>
</tr>
<tr>
<td>1992</td>
<td>19,033</td>
<td>466</td>
<td>60.9</td>
</tr>
<tr>
<td>1993</td>
<td>19,328</td>
<td>551</td>
<td>61.1</td>
</tr>
<tr>
<td>1994</td>
<td>19,905</td>
<td>490</td>
<td>61.7</td>
</tr>
<tr>
<td>1995</td>
<td>20,432</td>
<td>420</td>
<td>61.9</td>
</tr>
<tr>
<td>1996</td>
<td>20,817</td>
<td>426</td>
<td>60.7</td>
</tr>
<tr>
<td>1997</td>
<td>21,106</td>
<td>556</td>
<td>62.2</td>
</tr>
<tr>
<td>1999</td>
<td>20,281</td>
<td>1,353</td>
<td>60.5</td>
</tr>
<tr>
<td>2000</td>
<td>21,061</td>
<td>889</td>
<td>60.7</td>
</tr>
</tbody>
</table>

Source: National Statistical Office.

The tight labor market in Korea may be seen by the labor shortage ratio in Table 4. The average labor shortage ratio was 1.8 percent in 1985. However, it rapidly increased to 4.3 percent in 1990. The labor shortage ratio was especially high for the low skilled, production workers in small firms. With the introduction of training program for the foreign workers from November 1991 and increase in illegal foreign workers, the labor shortage ratio became gradually decreased to 2.4 percent in 1997.
What caused the labor shortage in Korea?

On the demand side, labor shortage was due to overheated demand. The accelerated economic growth over the past 1986～1988 period was the main reason for the labor shortage in the manufacturing sector. The average economic growth rate during 1986～1988 period was 11.5 percent and high economic growth rate around 8～9 percent was continued until 1996.

On the supply side, the labor market entry of the baby boom generation born between the late 1950s and early 1960s has mostly ended. This change in the population structure implies that the labor shortage problem is not cyclical but structural.
The labor shortage was severe especially among blue-collar workers, among small and medium size firms, and among unskilled and semi-skilled workers. Such labor shortage problem forced Korean government to change the policy toward foreign workers, so-called "open door policy".

Together with overall tight labor markets, an important sectoral shift in employment has been found in Korea. There has been a shift in the labor force from manufacturing to services and construction. During 1989～91, employment in manufacturing has increased at an average rate of only 1.9% in sharp contrast to an average rate of 14.7 percent in construction and 5.7 percent in service sectors. The rapid increase in employment in construction was due to a two million housing unit construction project. However, the transfer of workers from manufacturing to services reflected workers' choices.

The economic crisis in November 1997 brought completely new issues to the Korean labor markets: the high and sustained unemployment problem, as many advanced countries have experienced earlier. The unemployment rate started to increase from the beginning of 1998. It was 4.5% in January, 6.7% in April, and 7.6% in July. With help of government programs, including massive public works, to reduce the number of the unemployed, the unemployment rate has been stabilized around 7% since August of 1998. At last, the rate of unemployment in 1998 was recorded 6.8%, of which the figure is the highest one since Korea has launched the economic development plan in the year of 1962. The labor shortage ratio decreased to 0.6 percent in 1998. This sudden decline of employment made labor policies focus on job creation and provision of social safety nets for the unemployed.
Development of Knowledge-based Industry and Shortage of Highly Skilled Workers

With the development of knowledge-based industries (KBI), the demand for highly skilled workers is rapidly increasing in Korea. By defining KBI as industries that R & D expenditure is greater than or equal to one third of total revenue, that the proportion of professional and technical workers is greater than or equal to 20 percent of total employees, that the proportion of university or college graduate workers is greater than or equal to 20 percent of total employees, that the proportion of science and technology related professional and technical workers is greater than or equal to 10 percent of total employees, the Korea Labor Institute (2000) estimated the size of employment in KBI.

Table 5 shows the trend of employment in KBI. Employment in KBI increased from 3,643 thousands in 1993 to 4,514 thousands in 1997, which corresponds to 5.9 percent by an annual growth rate. Due to the financial crisis in November 1997, the employment in KBI decreased to 4,449 thousands in 1998, but it began to be recovered to 4,493 thousands in 1999. Now the proportion of employment in KBI is one fourth of total employment in manufacturing and service industry. As of 1999, out of total employment in KBI, 21.5 percent (968 thousands) are employed in manufacturing industry and other 78.5 percent (3,524 thousands) are employed in service industry.
The employment forecasting by the Korea Labor Institute (2000) is shown in Table 6 and Table 7. Even though the annual employment growth rate in manufacturing industry as a whole will be reduced by 0.45 percent, the annual growth rate in information technology (IT) and high technology manufacturing industries will be 2.15 percent. The annual employment growth rate in service industry as a whole will be 2.40 percent, and that in knowledge-based service industry will be 2.60 percent.

**<Table 5> Trend of Employment in Knowledge-based Industries (KBI)**

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1997</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Employment in</td>
<td>16,426(100.0)</td>
<td>18,693(100.0)</td>
<td>17,766(100.0)</td>
</tr>
<tr>
<td>Manufacturing and</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment in KBI</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Manufacturing</td>
<td>3,643(22.2)</td>
<td>4,514(24.2)</td>
<td>4,493(25.3)</td>
</tr>
<tr>
<td></td>
<td>965 (5.9)</td>
<td>1,061(5.7)</td>
<td>968(5.5)</td>
</tr>
<tr>
<td>• Service</td>
<td>2,677(16.3)</td>
<td>3,452(18.5)</td>
<td>3,524(19.9)</td>
</tr>
</tbody>
</table>

Note: Numbers in parentheses are percentage of employment out of total employment in manufacturing and service industry.

Source: Korea Labor Institute (2000)

The employment forecasting by the Korea Labor Institute (2000) is shown in Table 6 and Table 7. Even though the annual employment growth rate in manufacturing industry as a whole will be reduced by 0.45 percent, the annual growth rate in information technology (IT) and high technology manufacturing industries will be 2.15 percent. The annual employment growth rate in service industry as a whole will be 2.40 percent, and that in knowledge-based service industry will be 2.60 percent.

**<Table 6> Employment Forecasting in Manufacturing Industry by Skill Level**

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2005</th>
<th>2010</th>
<th>Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT &amp; Highly</td>
<td>1,516</td>
<td>1,728</td>
<td>1,877</td>
<td>2.15</td>
</tr>
<tr>
<td>Skilled</td>
<td>(36.0)</td>
<td>(39.4)</td>
<td>(42.6)</td>
<td></td>
</tr>
<tr>
<td>Semi-Skilled</td>
<td>1,065</td>
<td>1,079</td>
<td>1,027</td>
<td>-0.37</td>
</tr>
<tr>
<td></td>
<td>(25.3)</td>
<td>(24.6)</td>
<td>(23.3)</td>
<td></td>
</tr>
<tr>
<td>Low Skilled</td>
<td>1,630</td>
<td>1,579</td>
<td>1,502</td>
<td>-0.81</td>
</tr>
<tr>
<td></td>
<td>(38.7)</td>
<td>(36.0)</td>
<td>(34.1)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4,213</td>
<td>4,388</td>
<td>4,406</td>
<td>0.45</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td>(100)</td>
<td>(100)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Korea Labor Institute (2000)
### Table 7: Employment Forecasting in Service Industry by Skill Level

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2005</th>
<th>2010</th>
<th>Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Knowledge-based Service</strong></td>
<td>4,050 (26.4)</td>
<td>4,637 (26.8)</td>
<td>5,235 (26.9)</td>
<td>2.60</td>
</tr>
<tr>
<td><strong>Other Service</strong></td>
<td>11,291 (73.6)</td>
<td>12,667 (73.2)</td>
<td>14,226 (73.1)</td>
<td>2.34</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>15,341 (100.0)</td>
<td>17,304 (100.0)</td>
<td>19,461 (100.0)</td>
<td>2.40</td>
</tr>
</tbody>
</table>


The Korea Labor Institute (2000) surveyed 2,192 firms employing 10 workers or more in 2000 in order to get information of employment plan of those firms during next five years. The survey results are shown in Figure 1, Figure 2, and Figure 3. According to Figure 1, the employment growth rate during next five years will be much higher in knowledge-based industries compared to other industries. According to Figure 2, the employment growth rate of highly skilled workers during next five years will be much higher than that of low skilled workers. Figure 3 shows that the annual employment growth rate in IT industry. According to this, employment in IT industry will increase by annual rate of 5.2 percent as a whole, which will be 2.5 times higher than the average annual employment growth rate in whole industries. Especially, the annual employment growth rate in software (S/W) industry will be 13.5 percent.

The survey result of the Korea Labor Institute (2000) also reported severe labor shortage in IT and highly skilled workers. According to the survey, 44.7 percent of responding firms were suffering from shortage in IT and highly skilled workers. The total number of labor shortage in IT industry is estimated as 43 thousands as of 2000, and the additional labor shortage in IT industry up to the year 2005 is estimated as 142 thousands in Korea (Korea Labor Institute, 2000).

In order to solve labor shortage problem in IT and highly skilled
workers, Korean government has increased the number of students in IT related departments of universities and colleges. The total supply of IT related workers from universities and colleges are 200 thousands per year. However, only 55 percent of them has succeeded in finding jobs. This means that there is great skill mismatch in IT industry. Therefore, not only supplying sufficient IT workers but also upgrading skill level of IT workers are very urgent issues in Korea.

[Figure 1] Employment Growth Rate by Industry (2000 ~ 2005)


[Figure 2] Employment Growth Rate by Occupation (2000 ~ 2005)

In order to invite IT workers from foreign countries, the Korean government recently deregulated immigration of highly skilled IT workers.

**III. Recent Trends in Immigration and Polices**

**1. Immigration Movements to Korea**

**Overview**

Before the mid-1980s, Korea was in the situation of excess supply of labor and was one of the labor exporting countries. In 1963,
out of total employed persons, 63.0 percent were employed in the agriculture, forestry and fishing, and only 8.7 percent were employed in mining and manufacturing. The unemployment rate was 8.1 percent in 1963. The difficulties in finding a job in the domestic market led Koreans to look at foreign labor markets.

Korea's labor export dated back to 1963 when 247 mine workers emigrated to West Germany. From then on, emigration of mine workers' to West Germany increased and in 1965 Korean nurses began to emigrate to West Germany.

Emigration of seamen on foreign ships and construction workers in Thailand's express construction were followed in 1965. These were starting points of emigration of Korean workers (Kang, 1996).

From 1962, Korean government launched the Five-Year Economic Development Plans. With the success of the Five-Year Economic Development Plans, a lot of new jobs were created in the urban areas, and this created massive migration of young people from rural to urban areas. This unlimited supply of labor from rural areas made it possible for Korea to develop its industry with very low labor cost until the mid 1970s. The success of industrialization increased employment in the manufacturing and service sectors and decreased employment in the agricultural, forestry and fishing industry.

In 1970s, Korean construction companies extended their businesses to the Middle East. Right after the first oil crisis in 1974, Korean construction companies rushed to the Middle East, and there was a "Middle East Construction Boom" in Korea. A lot of Korean workers emigrated to the Middle East countries searching for oil dollars and this created shortage of skilled workers in Korean labor market in mid 1970s.

It is said that a country reaches its turning point in migration
when the unlimited supply of labor from the traditional sector of that economy to the modern sector is not available anymore (Lewis, 1954). It is believed that Korea passed that turning point in the mid 1970s (Bai, 1981).

With rapid economic development and increasing outward direct investment to other countries, Korea began to solve high unemployment problem from 1970s.

From the late 1960s, the unemployment rate dropped drastically and it remained at three to four percent level until 1987 except 1980 right after the second oil crisis.

From 1988 to 1997, the unemployment rate dropped further and it remained at two percent level. The two percent level of unemployment rate means labor shortage in Korean labor market. As shown in previous Table 4, labor shortage problem became key issue from 1988 in Korea. Especially labor shortage of unskilled workers and production workers was very severe, and the shortage of labor forced Korean government to import foreign workers under the training program from 1992.

There are three types of migrant workers in Korea: documented employment, industrial trainees and undocumented employment. Registered migrant workers are all professional and technical workers such as professor, researcher, or entertainer. Their status of visa can be classified as university teaching(E-1), language teaching(E-2), research(E-3), technology instructor(E-4), professional(E-5), entertainment(E-6) and specific activities such as pilot(E-7).

The Korean Immigration and Emigration Law permits employment of foreign workers only for skilled workers whose skills are necessary to development of Korean economy. Therefore, legal
migrant workers are all professional and technical workers such as professors, researchers, or entertainers.

The Korean Immigration and Emigration Law did not allow unskilled foreign workers to enter Korea for the purpose of employment except in the case of trainees. With globalization of production since late 1980s, big companies needed to train foreign workers in their Korean factories, who would go back to work in their overseas branches. In November 1991, the Korean government permitted this kind of training within one year and this was the beginning of the industrial and technical training program.

As mentioned earlier, there was severe shortage of production workers in early 1990s in Korea. The medium and small size companies asked government to permit employing foreign workers. In order to solve labor shortage problem, Korean government introduced the industrial training program in November 1993, which permits the medium and small size companies without foreign factories in the manufacturing sector to employ foreigners as trainees. Employers who were suffered from labor shortage welcomed the foreign trainees. Even though Korea introduced the training program for foreigners, Korean Immigration and Emigration Law does not allow unskilled foreigners to enter Korea as employees.

Three industries can bring foreign trainees without any foreign affiliation: manufacturing, fishing, and construction industries. The industrial trainee system was first introduced to help small and medium size manufacturing sector. In 1996, it was expanded to include the fishing and the construction sectors. Trainees under this category are to return to their home countries after a maximum of three years.

As wages have increased and labor shortage became much more severe since mid 1990s, undocumented migrant workers came
to Korea to find employment opportunities, of which the figure has jumped up from 65 thousands in 1992 to 148 thousands in 1997. Though that number was once decreased to 100 thousands in 1998 due to lack of demand and substitution with domestic workers, it is increasing again since 1999. They are classified as illegal in the sense of violation of the Immigration and Emigration Law of Korea. Most of illegal workers are ones who have stayed to work longer than the period of stay permission. Also, many migrant workers violated their purpose of stay (namely, the status of visa) to be undocumented. Not many but some foreign workers entered Korea without any legal permission of stay. All those workers can be classified as illegal migrant workers.

Any foreigner who stays in Korea after his/her visa expires is subject to the fine of up to one million Korean Won. The Korean immigration authorities differentiate fines depending on the length of period the foreigners overstayed. Illegal foreign workers also have to pay the cost incurred to send them back to their home countries.

Korean employers who hire illegal foreign workers are also subject to penalties. In October 1996, the Korean government toughened these sanctions in order to reduce the growing number of illegal foreign workers. Korean employers can be imprisoned for less than three years (one year before October 1996) or they can be given a fine of less than 10 million Korean Won (5 million Korean Won before October 1996). The Korean employers also have to pay the cost of returning their foreign employees to their home countries if the illegal foreign workers can not pay the cost.

The Table 8 shows that all three types of migrant workers have been increased until 1997 due to labor shortage. However, the figure of total migrant workers has sharply dropped down in 1998 due to the economic shock. And quick recovery of the Korean economy has again brought the foreign workers to the Korean labor markets since 1999.
After the financial crisis, many Korean people believe that foreign workers should be sent to their home countries since even Korean nationals find it difficult to find a job. The first step for reducing foreign workers was to banish undocumented foreign workers. So Korean government offered an amnesty program to undocumented foreign workers. Those who reported to the authorities from January to March 1998 were allowed to leave the country without paying the fines. About 53 thousand undocumented foreign workers left the country under this program. The number of undocumented foreign workers decreased from 148,048 persons on December 1997 to 95,027 persons on June 1998 (Yoo, 1998).

A growing number of the foreign trainees were also losing their jobs. From January to November 1997, 589 companies gave up 2,024 trainees, while 4,050 foreign trainees in 1,226 companies lost their training companies from December 1997 to March 1998 (Y. Park, 1998).

Source: Ministry of Justice.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>legal stay</th>
<th>illegal stay</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>sub-total</td>
<td>Employed</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>73,868</td>
<td>8,340</td>
<td>3,395</td>
</tr>
<tr>
<td>1993</td>
<td>66,919</td>
<td>12,411</td>
<td>3,767</td>
</tr>
<tr>
<td>1994</td>
<td>81,824</td>
<td>33,593</td>
<td>5,265</td>
</tr>
<tr>
<td>1995</td>
<td>128,906</td>
<td>47,040</td>
<td>8,228</td>
</tr>
<tr>
<td>1996</td>
<td>210,494</td>
<td>81,440</td>
<td>13,420</td>
</tr>
<tr>
<td>1997</td>
<td>245,399</td>
<td>97,351</td>
<td>15,900</td>
</tr>
<tr>
<td>1998</td>
<td>157,689</td>
<td>58,152</td>
<td>11,143</td>
</tr>
<tr>
<td>1999</td>
<td>217,384</td>
<td>82,046</td>
<td>12,592</td>
</tr>
<tr>
<td>2000.8</td>
<td>267,627</td>
<td>95,126 (35.5)</td>
<td>16,094 (5.9)</td>
</tr>
</tbody>
</table>

Source: Ministry of Justice.
However, there was not observed much, if any, social pressure to reduce migrant workers who are mostly employed in the medium and small-sized manufacturing plants. During the period of 1998-1999, the Korean government has subsidized employers who replaced migrant workers by domestic workers. But very few employers have applied to this program. It seems that lower wages in these sectors keep foreign workers from being replaced by domestic workers even though there were many jobless Koreans. As a result, there was no important change in immigration policies at least in 1998 and 1999.

As Korea began to recover its economy, the number of foreign workers began to be increased from 1999. As of August 2000, there are 268 thousand foreign workers including trainees and undocumented workers, which is 1.2 percent of total employment.

Among the foreign workers in Korea, documented workers who have received work permits are only 16 thousands (5.9 percent of total foreign workers). Language teachers are consisting of almost half among them. We expect that foreign professionals will increase very fast as the Korean government recently deregulated the immigration policy on IT workers, for example, abolition of the maximum period of stay. Also, in 1998, the Korean government has deregulated most of the foreign investment policies just after the financial crisis, which is expected to invite more professionals related to the foreign direct investment and portfolio investment in Korea. Very recently, the Korean government announced much more deregulation to promote especially for the information technology (IT) workers to immigrate into Korea.

As of August 2000, there are about 79 thousands of foreign trainees (29.6 percent of total foreign workers), who are *de facto* workers employed in the medium-and small-size manufacturing firms
as industrial trainees, and in the big companies as overseas investment related trainees. The number of trainees has also increased until 1997. After then it has once decreased in 1998 due to economic crisis, and increased since 1999.

There exists no exact statistics about undocumented migrant workers. However, they can be estimated from the figure of foreign illegal stay. The Table 8 shows that the illegal migration has recently increased very fast. As of August 2000, the illegal foreign workers are totaled about 173 thousands (64.5 percent of total foreign workers), and most of them are expected to be employed without work permission. About 38% of illegal workers come from China and more than half of those are Chinese with Korean ancestors.

**Unskilled migrant workers**

In principle, the migration of unskilled workers has not been allowed in Korea. However, there are found two types of unskilled migrant workers. First type is the *de facto* worker under the industrial and technical training program, and the second is the illegal migrant worker. The worker-cum-trainees are limited to have positions in the manufacturing sectors such as textile, machinery, electronics, chemicals, toys or musical instruments. But illegal workers are after found to work in the service sectors such as construction or restaurants as well as in the manufacturing sectors.

There does not exist official information about their working conditions simply because these two types of workers are not given work permits in Korea. However, there are some field studies investigating their working conditions. Combining pieces of information from these studies, we may draw a rough picture. Average
age of unskilled migrant workers is about 32 years, less than half are married, and the average years of education is above 10 years, etc.

They are reported to receive about 80% of Korean workers' wages in the same factory according to some surveys. Because responsibilities on job, working hours and labor productivity are different between domestic and migrant workers, however, we cannot yet conclude that there exists employers' discrimination against migrant workers.

2. Immigration Policies

There are many policy issues on immigration on which the Korean government have faced. Listing up only the important ones, those are
(1) promoting the immigration of professionals,
(2) institutionalizing the immigration of unskilled migrant workers,
(3) preventing illegal migrant workers,
(4) integrating the foreigners into the Korean society.

Deregulation on the immigration of professionals.

As the Korean economy has been globalized, there was increasing demand for foreign professionals who could transfer their knowledge, skills and technologies to the Korean people. Furthermore, free mobility of highly skilled workers provides a foundation to promote foreign investments.

For this, the Korean government has recently revised the Immigration and Emigration Law to ease for foreign professional and
technicians to come to work in Korea. For example, maximum period of stay was abolished so as to permit almost unlimited stay in Korea. Administrative regulations on the entry and stay of professionals were eased and required procedures were simplified so as to issue the visa quickly. This open door policy to the professionals will be strengthened in near future. One-stop service will be provided and acquisition of nationality will be eased, if name a few.

**Institutionalizing the immigration of unskilled migrant workers**

As labor shortage of blue-collar workers became more severe, there was increasing demand for unskilled migrant workers whose reservation wages were reported to be much lower than those of domestic workers. In this situation, there were two competing views on this issue: pros and cons.

The pros argument is that the migrant workers are not competing, rather compensating with domestic workers. Furthermore, the medium and small size firms cannot afford to move their production site overseas to find low-paid workers. So, the employment of unskilled foreign workers is necessary for both firms and their domestic workers to keep in business.

The cons argument says that the pros argument can be true only within a certain limit. If the number of unskilled foreign workers exceed a certain limit, they will substitute domestic workers. And, more importantly, the cons argument points that the immigration of unskilled workers would delay the industrial restructuring required to keep the Korean economy competitive.

After long debates, in-between policy was introduced, which was coined as the industrial and technical training program with
quotas given to 14 Asian countries. Minimum wages were guaranteed to the worker-trainees and they were covered by the industrial accident and sickness insurance. However, some labor rights such as strikes are reserved until now to the trainees. In 1998, the Korean government introduced a kind of work permit to allow industrial trainees to work only after some period of training (two years), which is coined as “work permit after training”. Now, some of trainees have received that permit and are working as documented workers.

As industrial trainees and undocumented workers have increased year by year, many challenging issues have appeared. First is simply the administration issue. The Korean Federation of Small Business (KFSB) was authorized to administer the industrial training program, say, job orientation and industrial safety orientation on entry. There was growing doubts about the KFSB's capacity to administer fast increasing worker trainees, especially in the working fields. The second issue is that many trainees became illegal migrant workers after the expiration date of stay and even some trainees are found to move to other factories without any permission right after the entry. This issue raised the need for a stronger scheme of regulation on the immigration of unskilled workers. The third and most important issue is the rapid increase in the wages of migrant workers. At the initial stage of the training program, the trainees' wages were about half of domestic workers'. But the market forces soon pushed up the migrants' wages to the level of their productivity, being estimated about 80% of those of domestic workers.

Many academics and policymakers have raised a question: Is there any better scheme to maximize the economic benefits from the immigration of unskilled workers without discriminating them economically and socially? The employment permit was once
suggested as a policy alternative for solving these complicated issues since early stage of immigration of unskilled workers. Singapore and Taiwan have already introduced the employment levy systems and their systems were seemed to be successful to deal with the short-term immigration of unskilled workers. After long debates among stakeholders, the in-between policy is again adopted in 1997. The Korean government allowed industrial trainees to work only after some period of training (two years), just as Japan did several years ago. This is called as “work permit after training”. Now, some of trainees have received that permit and are allowed to work as documented workers.

However, the issue of foreign workers has been no longer hot in the years of 1997 and 1998 since huge numbers of the domestic workers have been unemployed then. However, the quick recovery of the Korean economy seems to bring the issue back to the stage since 1999. In 2000, Korean government and the ruling party of Korea had a plan to change current training system to the employment permit system in very near future. This was for Korea to declare officially to allow unskilled migrant workers to have jobs. With this work permit provision, it was expected that monitoring on employment of undocumented workers would be strengthened. However, because a lot of employers are strongly against government plan, it is still very uncertain whether the National Assembly will pass the bill for the employment permit system.

**Preventing illegal migrant workers**

Illegal migrant workers themselves are free riders to the economy, especially to the social welfare system such as subsidized
transportation, public park or medical insurance. So they are often blamed as bringing the social cost to the host country. Trade unions argue further that illegal migrant workers are usually cheap labor so as to replace domestic workers. On the other hand, where employers are permitted to employ the migrant workers by paying employment tax or levy, employers who employ the illegal migrants are themselves free riders to the economy.

Social and economic costs, and the free rider's problems are the main reasons for a society to prevent the illegal migrant workers. But it also costs to the society to regulate them (for example, monitoring cost) so that the government tries to find an efficient way to reduce the illegal migrants as little as possible.

Empirical studies point that higher entry cost (especially the brokerage fees) is one of the main reasons for foreign workers to stay longer in Korea. The Korean government has prohibited the domestic private recruitment agencies to deal with migrant workers, and now the KFSB is the only authorized window to recruit the worker-trainees in Korea.

The Korean government has tried to find more transparent methods to select migrant workers abroad. For this, cooperation between sending and receiving countries is essential, and bilateral agreements on the migration could be considered for this purpose. Very recently the Korean government raised the penalty to the employers employing illegal migrant workers, to unscrupulous brokers, and to illegal migrants themselves. The government has also provided labor officers to investigate migration-related issues. However, it is too early to judge the effectiveness of this line of policy. Labor shortage was also a reason for the government not to strength monitoring over undocumented workers in Korea.
Social integration of migrant workers

Legal migrant workers are given the same social benefits as the domestic workers. They are well-educated professionals and have high-paid jobs in Korea so that there seems little problem of integrating them into the Korean society. Illegal migrants are covered by the industrial accidents insurance which is the bottom line protection of human rights, though employers did not pay insurance fees for them. And their wages are protected. However, they are excluded from any other social protection measures because they do not pay any, and their status of stay is not legal.

Worker-cum-trainees are protected by the selected 8 articles of Labor standards Law (say, over-time payment), Industrial Safety Law and Minimum Wage Law. They are also covered by the medical insurance and the industrial accidents insurance. This protection was recently extended to the trainees in Korean mother companies. However, since a trainee’s length of stay is at maximum 3 years and there is little risk of unemployment, the unemployment benefits and public pensions are not applied to the trainees. They themselves do not want to pay such insurance premium with little probability of receiving the defined benefits.

The worker-trainees are required to receive at least 10 days socio-cultural orientation to help understand the Korean language and society before entry. They are also provided with 3 days orientation programs to help them adjust quickly in the Korean economy right after entry.

Social integration of any foreign worker into the Korean society is,
in general, difficult because the Korean people have been long time integrated by blood and have shared the same culture. Cultural pluralism is new to Koreans, and international marriage is very unpopular in Korea. However, as globalization speeds up, the Korean people would know how to live together with people of different language, face, religion and culture.

**Administration of Training System**

Overall policy for foreign workers and the quota of foreign industrial trainees are decided by the Committee for Foreign Workers’ Policy, which is chaired by the Prime Minister and composed of related ministers. Administrative guidelines, such as selecting origin countries and allocating quota to each country, are handled by the Office for Small Business of the government.

The foreign trainee system for manufacturing firms without a foreign affiliation is managed by the Korea Federation of Small Business (KFSB). The KFSB manages the trainee system with the aim of helping the small manufacturing sector by supplying unskilled labor.

Companies need to put a security deposit of 300 thousand Korean Won per trainee to KFSB. If a trainee flees the deposit has to be given up. The recruiting agency also has to give up the security deposit of 100 US dollars per trainee which is held by the KFSB while the trainee stays in Korea. However, quite a few foreign trainees leave their companies searching for higher wages.
IV. Concluding remarks

In November of 1997, an exchange and financial crisis hit the Korean economy. The Korean government announced a strong industrial restructuring plan, including financial market reforms, to promote foreigners' investments. Therefore, the economic growth has slowed down even up to minus 5 percent in 1998. The rate of unemployment was increased up to around 7 percent, which is much more than the double figure of the previous ones. At that time, the Korean government announced strengthening of monitoring illegal migrant workers. The government has frozen the total quota of the worker-trainees. In 1998, the quota has not filled for the first time due to lack of demand. The Korean government even subsidized small and medium companies when they replace migrant workers by jobless domestics. In reality, it became more difficult for migrant workers to find jobs. Many trainees to become illegal migrants to stay over and look for other works than initially contracted. And the rapid devaluation of the Korea Won made the wages of migrant workers reduced in terms of the U.S. dollar. So, some of unskilled migrant workers have moved to other countries or go back to their home countries.

However, recovery of the Korean economy did not take much time than expected, and therefore the issue of the immigration would become hot again very recently. So, the issue of how to institutionalize the employment of unskilled migrant workers is now revolving. Bottom-line common sense is that Korea would expand the legal immigration of the unskilled workers in near future to meet the demand for low-wage jobs. But there would be increased a social and
political pressure to reduce illegal migrant workers.

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