

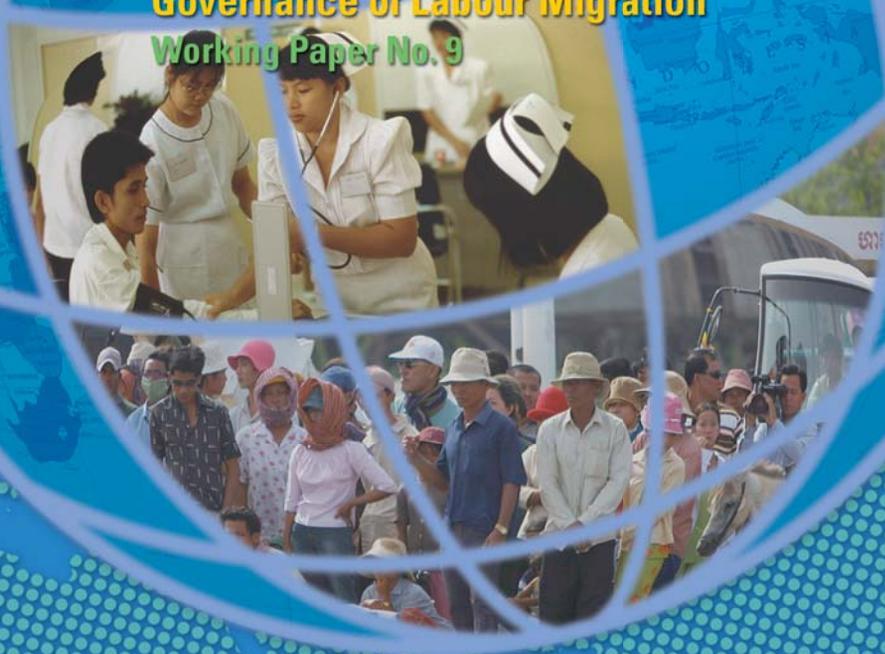
**ILO Asian Regional Programme on
Governance of Labour Migration**
Working Paper No. 9



International
Labour
Organization



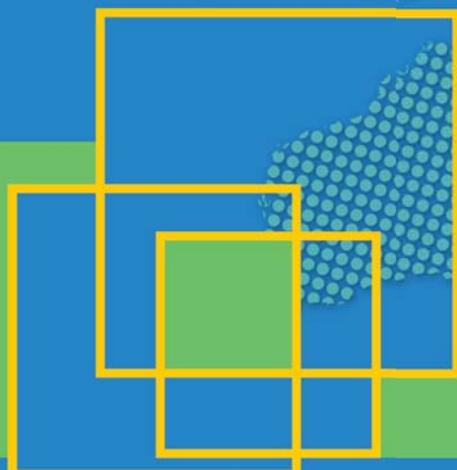
European Union



Admission of Foreign Workers as Trainees in Korea

Young-bum Park

Regional Office for Asia and the Pacific
January 2008



**ILO Asian Regional Programme on Governance of Labour Migration
Working Paper No.9**

Admission of Foreign Workers as Trainees in Korea

Young-bum Park

January 2008

Copyright © International Labour Organization 2008
First published 2008

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to ILO Publications (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland, or by email: pubdroit@ilo.org. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered with reproduction rights organizations may make copies in accordance with the licences issued to them for this purpose. Visit www.ifro.org to find the reproduction rights organization in your country.

Park, Young-bum

Admission of foreign workers as trainees in Korea / Young-bum Park ; International Labour Office ; ILO Regional Office for Asia and the Pacific, Asian Regional Programme on Governance of Labour Migration. - Bangkok: ILO, 2008
22 p. (Working paper ; no.9)

ISBN: 9789221208419; 9789221208426 (web pdf)

International Labour Office; ILO Regional Office for Asia and the Pacific; Asian Regional Programme on Governance of Labour Migration

migrant worker / vocational training / unskilled worker / labour shortage / Korea R

14.09.2

ILO Cataloguing in Publication Data

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications and electronic products can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: pubvente@ilo.org

Visit our website: www.ilo.org/publns

Printed in Thailand

Admission of Foreign Workers as Trainees in Korea

Table of Contents

	Page
1. Introduction	1
2. Recent migration flows and migrant workers	2
Table 1. Migrant workers in Korea (Unit: persons, %)	4
Table 2. Legal migrant workers with working visa in Korea (Unit: persons, %)	6
3. Trainee scheme and Korea's foreign worker policy	7
Table 3. Employment permit scheme and training/employment scheme	10
4. Labour market for unskilled foreign labour	11
Table 4. Adjustment to labour shortage (in percent), 2001	13
Table 5. Foreign workers' brokerage fee and airfare (won in thousands), 2001	16
Table 6. Wage differentials between foreign and national workers, 2001	17
5. Trainee scheme as an instrument to cope with labour shortage	19
References	22

Admission of Foreign Workers as Trainees in Korea

Young-bum Park*

1. Introduction

Over the last four decades, the Republic of Korea (hereafter South Korea) has transformed from a struggling, developing nation to a prosperous, industrialized country thanks to its export-oriented strategy. GNP per capita increased from US\$142 in 1967 to US\$12,646 in 2003. The unemployment rate dropped from 8.2 percent in 1963, to 4.4 percent in 1970, and to 2.5 percent in 1989. Since then, it had stabilized until South Korea was hit by a financial crisis in late 1997.

Due to its low unemployment rate, by the early 1990s Korea realized it needed temporary labour to fill unskilled jobs that natives were becoming less and less willing to do. In fact, without foreign labour, it would have been nearly impossible to keep the “tiger” economy growing.

As a country that places a high value on its homogeneity, this also marked the beginning of a tension that continues today: the need for foreign labour versus the desire to remain a purely Korean nation with strict immigration policies. One result of this tension has been a dramatic rise in the number of undocumented workers even as the number of temporary workers has increased.

Until 2003, Korea had no official provisions for allowing unskilled labour temporary access to the labour market. Instead, the industrial trainee scheme originally intended to upgrade the skills of foreign workers employed by overseas Korean firms was modified in 1993 to ease labour shortages for small firms, particularly in the manufacturing sector.

However, the industrial trainee scheme has been criticized for not offering proper treatment to foreign workers. The government has decided not to bring in unskilled foreign workers through the industrial trainee scheme beginning 2007. It will be phased out in two years. Instead, the Korean government will expand the

* Professor, Department of Economics and Information, Hansung University.

Employment Permit System to ensure basic labour rights for foreign workers.

The paper will discuss how the Korean government tried to respond to labour market demands of small business. It will provide a brief historical narrative of how the trainee system came into being; how the policy was put into effect; and its outcome.

2. Recent migration flows and migrant workers

In 2005, the total number of people entering and leaving Korea was 32,638,000, an increase from 2004 of 10.2 percent.

According to the Ministry of Justice, the outflows increased by 10.0 percent, while the inflow of foreigners rose by 10.4 percent. Major destination countries for Korean nationals include China (31.3 percent), Japan (20.0 percent), the US (7.7 percent) and Thailand (7.0 percent).

Long-term migrant flows – nationals (meaning Korean people who stay abroad for equal to or more than 90 days and foreign people who stay in Korea for equal to or more than 90 days) - totaled 872,000 in 2003, which increased by 8.5 percent compared to 2002. The most popular destination country for Korean long-term migrants is the US (28.4 percent), followed by China (16.8 percent), Japan (12.6 percent), Canada (10.0 percent), and Australia (5.1 percent).

Permanent emigration flows (meaning Korean people who stay abroad for equal to or more than 90 days for emigration purpose) are small and slowly decreasing. In 2003, some 8,300 Koreans went abroad to permanently settle in a foreign country; in 2001, the number of permanent emigrants was 9,500. The US is still the major destination country for permanent Korean migrants. Long-term outflows of those going to schools abroad (largely to the US and China) numbered around 500,000 in 2003.

To become a Korean citizen, a person can either have a Korean spouse or have at least one parent who is a Korean citizen. The number of naturalized Korean citizens has been rapidly increasing, from 232 in 2000, to 661 in 2001, to 2,785 in 2002, and to 5,985 in 2003

This sudden increase is largely related to a growing number of foreigners marrying Korean nationals. They are mostly women and from Asian countries including China and Vietnam. For example, in 2003, 8,434 foreigners, or 94 percent of the year's total, were granted citizenship because they had Korean spouses.

In addition, the number of people reacquiring Korean nationality is also increasing. These are Koreans who migrated to China, Russia, and Japan during the Japanese colonial period. If they show proper documents proving one of their parents is a Korean citizen, they are entitled to Korean citizenship. Their number has increased from 432 in 2000, to 800 in 2001, and to 1,555 in 2003.

For people with no family ties in Korea, it is still possible to become a citizen, but the path is difficult and few foreigners have chosen to pursue it. They have to show to the authorities that they really want to become Korean citizens. The authorities may require a certain period of residence and/or proficiency in the Korean language. Only 291 such foreigners received Korean citizenship in 2003.

Foreigners who stay in Korea for equal to or more than 90 days are required to register with the authorities. The number of registered foreigners at the end of 2003 was 438,000, up 73.4 percent from 2002. However, as a proportion of the total population, the number of foreigners is still very small at just under one percent.

Table 1 shows that migrant workers in Korea totaled 395,000 as of June 2006. The workers with working visa constituted 42.2 percent, while the proportion of the illegal migrants was 48.0 percent. The rest (9.8 percent) were industrial trainees.

When the employment permit system was introduced, undocumented workers were given a chance to leave the country without paying any fines. Some of them were also given an opportunity to come back to Korea as workers. Many of the undocumented workers left Korea. Some of them were given a legal status to stay in Korea for a limited time. As a result of these efforts, the number of over-stayers decreased to 137,000 in January 2004.

Not surprisingly, some undocumented workers who did not qualify for permit have decided to stay, though it will be difficult for them to continue working and to avoid deportation. The government announced it will strongly enforce the concerned law and use police force to catch undocumented workers. They seemed to believe they could bypass deportation this time too (the Korean government offered many amnesty programs to undocumented foreign workers since the 1990s). In fact, since February 2004, the number of over-stayers had increased to 199,183 by May 2005, and has stayed around that number. The proportion of over-stayers among the total foreign workforce was still 48.0 percent. The number of illegal workers increased mainly because migrant workers who were allowed to stay for a limited time decided to stay longer than permitted and foreigners with tourist visas are staying to look for jobs.

Table 1. Migrant workers in Korea (Unit: persons, %)

	Total	Workers with employment visa	Trainee		Over-stayers
			Companies with factories abroad	Employment/ training scheme	
1994.12	81,824 (100.0)	5,625 (6.4)	9,512 (11.6)	18,816 (23.0)	48,321 (58.9)
1995.12	128,906 (100.0)	8,228 (6.4)	15,238 (11.8)	23,574 (18.3)	81,866 (63.5)
1996.12	210,494 (100.0)	13,420 (6.4)	29,724 (14.1)	38,296 (18.2)	129,054 (61.3)
1997.12	245,399 (100.0)	15,900 (6.5)	32,656 (13.3)	48,795 (19.9)	148,048 (60.3)
1998.12	157,689 (100.0)	11,143 (7.1)	15,936 (10.1)	31,073 (19.7)	99,537 (63.1)
1999.12	217,384 (100.0)	12,592 (5.8)	20,017 (9.2)	49,437 (22.7)	135,338 (62.3)
2000.12	285,506 (100.0)	19,063 (6.7)	18,504 (6.5)	58,944 (20.6)	188,995 (66.2)

Table 1. Migrant workers in Korea (Unit: persons, %) cont'd

2001. 12.	329,555 (100.0)	27,614 (8.4)	13,505 (4.1)	33,230 (10.1)	255,206 (77.4)
2002. 12.	362,597 (100.0)	33,697 (9.2)	14,035 (3.9)	25,626 (7.1)	289,239 (79.8)
2003.11	381,634 (100.0)	185,204 (48.5)	11,990 (3.1)	40,329 (10.6)	144,111 (37.8)
2004.1	397,521 (100.0)	212,489 (53.3)	11,594 (2.9)	36,525 (9.2)	136,913 (34.5)
2004.9	423,597 (100.0)	209,390 (49.4)	9,022 (2.1)	23,686 (5.6)	181,499 (42.8)
2004. 12	421,641 (100.0)	196,603 (46.6)	8,430 (2.0)	28,125 (6.7)	188,483 (44.7)
2005.1	415,641 (100.0)	186,334 (46.2)	8,435 (2.0)	28,105 (6.8)	187,046 (45.0)
2005.5	358,167 (100.0)	125,116 (34.9)	7,352 (2.1)	26,516 (7.4)	199,183 (55.6)
2005.8	332,653 (100.0)	103,064 (31.0)	6,880 (2.0)	33,185 (9.9)	189,724 (57.0)
2005.12	345,579 (100.0)	126,497 (36.6)	6,142 (1.8)	32,148 (9.3)	180,792 (52.3)
2006.6	394,511 (100.0)	166,599 (42.2)	6,806 (1.7)	31,886 (8.1)	189,220 (48.0)

There were 167,000 foreigners legally working in Korea as of June 2006 (Table 2). About 57 percent (95,000) of them had employment permit while 27.6 percent were under the training/employment program.

Unskilled foreign workers began to enter Korea from the late 1980s. In the beginning their number was only a few thousands. But soon their number increased substantially since many employers could not find Korean workers who wanted to work for them. Now it comprises about two percent of Korea's labour force. The growing presence of foreign workers in Korea is closely related to the demand for low-skilled workers. In a prosperous society, it becomes difficult to fill undesirable, low-paid jobs. Korea reached this point by the mid-1990s.

Table 2. Legal migrant workers with working visa in Korea (Unit: persons, %)

	2006.6	2006.12	2004. 12	2003.12	2002. 12
Total	166,599 (100.)	126,497 (100.0)	195,664 (100,0)	200,039 (100.0)	33,697 (100.0)
Teaching	1,134 (0.7)	1,084 (0.9)	939 (0.5)	929 (0.5)	799 (2.4)
Language teaching	13,522 (8.1)	12,296 (9.7)	11,072 (5.8)	10,826 (5.4)	11,132 (33.0)
Research	1,776 (1.1)	1,738 (1.4)	1,569 (0.8)	1,359 (0.7)	1,177 (3.4)
Technology guide	172 (0.1)	193 (0.1)	185 (0.2)	195 (0.1)	196 (0.6)
Professional occupation	301 (0.2)	286 (0.2)	288 (0.2)	352 (0.2)	399 (1.2)
Entertainment	3,506 (2.1)	3,268 (2.6)	2,812 (1.4)	3,185 (1.6)	4,701 (14.0)
Specific activities	4,867 (2.9)	4,412 (3.5)	3,432 (1.7)	3,243 (1.6)	3,102 (9.2)
Training/employment	46,031 (27.6)	50,703 (40.1)	48,937 (25.0)	20,244 (10.1)	12,191 (36.2)
Non-professional employment (employment permit)	95,005 (57.0)	52,305 (41.3)	126,421 (64.6)	159,706 (79.8)	-
Seaman	285 (0.2)	212 (0.2)	-	-	-

But a big problem with Korea's foreign labour is the large size of undocumented workers. The share of the undocumented workers reached a high of 80 percent in 2002 and it is still close to 50 percent.

3. Trainee scheme and Korea's foreign worker policy

Korea's immigration law restricts the admission of foreign workers to a few categories. In skilled work, they can be entertainers, researchers, or language teachers, for example. Skilled workers are welcomed as is the case in most countries.

However, the law did not allow guest workers to legally enter the country until 2003. Instead, the industrial trainee scheme, which was originally intended to upgrade the skills of foreign workers employed by overseas Korean firms, was modified in 1993 to ease labour shortages for small firms, particularly in the manufacturing sector.

This trainee scheme was considered to be temporary since the trainees were to return to their home countries after one year. But the number of trainees in the mid 1990s increased for two reasons. First, the trainee working period was extended to two years. Second, the sectors eligible for using trainees expanded to include other areas, such as fishery and construction.

In the early debates concerning the use of unskilled foreign labour, one of the critical issues was whether the need for labour was a passing or structural phenomenon. Thanks to the Asian financial crisis, which hit Korea in December 1997, it became apparent that without guest workers, some sectors of the Korean economy would not be viable. The unemployment rate jumped from 2.1 percent in October 1997 to 8.6 percent in 1999, leaving two million people without jobs. However, not many local workers wanted to have so-called "three-D" jobs - difficult, dangerous, and demanding.

Although the expanded trainee scheme helped fill some unskilled jobs, it was possible in the mid-1990s for "tourists" from other Asian countries to overstay their visas and become undocumented workers. They find jobs in small manufacturing, construction and small restaurants (for Chinese with Korean ancestors). Most of them pay a high amount of brokerage fee to unrecognized job agencies at home and/or in Korea.

The undeniable presence of undocumented foreign workers caught the government's attention. Reflecting the government concern about the undocumented foreign workers, the trainee scheme developed into the training/employment scheme in April 2000. Under the new system, the trainees who met certain requirements were given worker status for one year.

However, the number of undocumented foreign workers still continued to rise. It increased from 189,000 in December 2000 to 255,000 in December 2001. By 2001, undocumented workers represented 77 percent of Korea's total foreign labour force.

In June 2002, the government put some measures to bring down the number of undocumented workers. First, the training/employment scheme was modified. Under the modified system the foreign trainees were given worker status for two years after one year of training, instead of two years of training and one year of employment. It recognized the need for giving worker status to unskilled foreign labour for the first time. Second, the "employment management scheme," giving worker status to foreign workers with Korean ancestry (mainly Chinese Koreans) was introduced. But their employment was limited in the service sector. As this policy was implemented, foreigners with Korean ancestors were given permission to apply for work permits, but only in the service sector. At the same time, the government increased the number of industrial trainees under the foreign training/employment scheme by 20,000. But these changes did not significantly decrease the number of undocumented workers.

Finally, in July 2003, the government introduced a new employment permit system for guest workers. . The government believed that the large presence of undocumented foreign labour was largely because Korea did not allow unskilled foreign workers as legal workers. The trainees turned out to be a major source of undocumented workers.

Under the new scheme, qualified Korean employers (those with less than 300 employees in the areas of manufacturing, construction, and services are given priority) can enter into employment contracts with foreign workers who meet the qualifications. The employers who want to employ unskilled foreign labour must show that they have attempted to find domestic workers for one month without

success by requesting public employment centers to find Korean workers for them. The foreign workers should be in good health and under a certain age.

These workers come to Korea through government-to-government agreements. The Korean government has signed Memoranda of Understanding with the governments of seven countries, including the Philippines, Sri Lanka, Vietnam, Thailand, and Indonesia. After the maximum three-year employment period, foreign workers will have to go out of Korea and stay outside Korea for a one-year period before being allowed to come back to Korea to work again for another 3-year period. Family members of foreign workers will not be allowed to enter. This is designed to dissuade foreign workers from permanently staying in Korea.

Major differences between the new employment permit scheme and the existing training/employment system are as follows (Table 3).

- Under the training/employment system, foreign labour works as a trainee for the first year and after passing a test he or she will be given worker status. On the other hand, foreign labour brought through the employment permit system will be given worker status from the beginning.
- The private sector is mainly responsible for managing the employment/training scheme, while public authorities will manage the employment permit system.
- Under the training/employment scheme, Korean employers cannot select their foreign workers and foreign workers cannot choose their employers. Under the employment permit system, employers are given the chance to choose their workers.
- Under the training/employment system, in selecting qualified Korean employers, industrial policy-related considerations are given priority without regard to labour shortage. Under the employment permit system, Korean employers must first attempt to find domestic workers for a certain period.

Table 3. Employment permit scheme and training/employment scheme

	Employment permit scheme	Training/employment scheme
Status of worker	Worker for three years	Trainee for the first year and workers for the next two years
Responsible agency	Public authorities	Small Business Federation
Labour allocation system	Employers chance to choose their workers.	Neither employers nor workers have chance to choose their workers or jobs
Protecting employment opportunities for domestic workers	Employers must attempt to find domestic workers for a certain period.	Industrial policy-related considerations are given priority without regard to the labour shortage

For the first few years after the employment permit scheme was introduced, a substantial number of foreign workers still continued to come as trainees. The Korean government decided not to bring new foreign workers through the training/employment scheme beginning 2007.

The government policy aimed at ensuring basic labour rights for foreign workers faced opposition from both employers and human rights activists before its full implementation on January 1, 2007. Owners of small and medium-sized enterprises contended that the new scheme would increase labour costs and undermine competitiveness. Even labour and human rights advocates say the new system would neither improve work conditions for foreign workers nor eradicate irregularities in getting foreign workers into Korea. But government went ahead with its original plan saying employers were legally bound to pay some of the welfare benefits even under the training/employment system but employers frequently ignored these rules.

4. Labour market for unskilled foreign labour

To explore the different dimensions of unskilled foreign labour in the Korean labour market, this paper uses the results of various surveys on unskilled foreign workers, including Abella and Park (1994), Abella and Park (1996), Abella and Park (2000), Yoo and Lee (2001), and Yoo and others (2004). In particular, Yoo and Lee (2001) are extensively used and compared with the other surveys. Yoo and Lee (2001) contain rich information on firms using foreign labour as well as the foreign workers themselves. The survey is the first kind which tried to get a picture of the firms using undocumented workers.

Yoo and Lee (2001) had two components. One component included information on the firms using unskilled foreign labour. Between July and August 2001, a survey team interviewed the managers of 684 small and medium sized firms in the manufacturing sector. The survey was purposely confined to the manufacturing industry where the use of unskilled foreign labour (as trainees) was legally allowed. Of the total surveyed firms, 39.5 percent employed legal foreign labour, 20.9 percent used undocumented foreign workers, and 39.6 percent did not use any foreign workers. The second component of the survey was about the characteristics of foreign labour. A total of 1,003 foreign workers were surveyed. Among them, 47.9 percent were Chinese, 37.6 percent worked in manufacturing, and 37.2 percent worked in non-manufacturing, and the others did not give their working sectors.

i. Why Korean employers use foreign labour?

Yoo and Lee (2001) showed that small companies had difficulty in hiring workers. Some 44.3 percent experienced labour shortage. The establishments with less than 100 workers suffered the most serious labour shortage. Labour shortage problem was less serious for companies without foreign.

The survey sought the views of employers on what they considered to be the chief causes of their difficulties in finding labour. The predominant view (39.0 percent) was still that local workers today disdained manual work. According to Abella and Park (2000), as many as 36.5 percent claimed that Korean workers were avoiding physically-demanding jobs. Other reasons cited were that wages

were too low or there were no workers with required skills. But the proportion of low wages (16.0 percent) decreased compared to the previous surveys (Abella, Park and Bohning 1994; Abella and Park 1996; Abella and Park 2000). The share of low wages (13.4 percent) shrank further in Yoo and others (2004) which was taken in 2003. A prominent view of bigger employers was that the workplace was too far away from workers' residence (this choice was not included in the previous surveys).

The choices open to the firms in coping with the labour shortage include short-term and long-term adjustments, choices which are not mutually exclusive. Abella and Park (1996) showed that for over a third of the firms, attracting more Korean workers by offering higher wages was the best means available to deal with labour shortage. However, the 1999 survey (Abella and Park 2000) revealed that fewer firms used higher wages for attracting workers even though it was the second most frequently cited mode of adjustment (19.8 percent). Yoo and Lee (2001) also found that the importance of raising wages also decreased. Instead, for the largest proportion (20.9 percent) of the firms the best solution was to ask the workers to work longer hours.

In the 1999 survey, some 14 percent cited use of foreign labour as their best solution to labour shortage. Its proportion increased compared to the last two surveys which were taken in 1993 and 1996. In Yoo and Lee (2001) some 13 percent and 15 percent cited using foreign labour as their first choice of short-term and long-term solution, respectively. Yoo and Lee (2001) also found that some 20 percent of firms using foreign labour cited foreign labour as their first short-term option. For their long-term option, some 33 percent of firms with undocumented foreign workers cited the use of foreign labour as their first choice.

In the 2003 survey (Yoo *et al.* 2004), using foreign labour took the largest share for the best solution in both short and long-term adjustments indicating the increased importance of foreign labour over the time (Table 4).

Table 4. Adjustment to labour shortage (in percent), 2001

	Short-term adjustment				Long-term adjustment			
	Total	Using foreign labour			Total	Using foreign labour		
		Legal labour	Illegal labour	No		Legal labour	Illegal Labour	No
More overtime	41.2	38.1	47.6	41.0	9.6	7.4	15.4	8.9
Use foreign labour	12.9	20.4	20.3	1.5	14.9	17.8	32.9	2.6
Reform work organization	11.5	11.5	7.7	13.7	13.9	17.4	4.9	15.1
Contract out	8.5	8.1	9.1	8.5	8.8	5.9	9.1	11.4
Raise wages or better working conditions.	7.9	8.1	3.5	10.0	11.7	14.4	2.1	14.0
Automation	6.3	5.2	5.6	7.7	21.6	23.3	21.7	19.9
Train own workers	6.3	5.2	2.8	9.2	12.7	10.0	8.4	17.7
Move overseas	0.1	0.0	0.7	0.0	9.6	7.4	15.4	8.9
Others	5.2	3.4	2.8	8.6	4.8	2.6	2.1	8.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Yoo and Lee (2001) Table 3-3.

In the 2001 survey some 14 percent of firms currently not using foreign labour planned to hire foreign workers in the near future. Some 58 percent of firms using foreign labour said they would employ foreign labour again if their current foreign workers leave. This proportion was higher for firms with legal workers. Of the firms with foreign labour, 11.5 percent said they would use less foreign workers, 59.4 percent said they would maintain their current level, and 29.1 percent said they would employ more, which indicated that more foreign workers would be used in the surveyed firms.

Yoo and Lee (2001) also showed that Korean employers used foreign workers because they could not find Korean labour. The prominent view for using foreign labour was that they could not hire native workers even though they tried to do so (the average value of 3.38 out of 1-4 scale). The low cost of employing foreign workers (the average value of 2.72) and their lower tendency to leave (the

average value of 2.73) were also factors in the decision to employ them. This is different from the results of the previous surveys.

The previous surveys found that the low wages of foreign labour was the first reason for the Korean employers to hire them. For example, Abella and Park (2000) showed that some 46.8 percent of companies using foreign workers cited low cost as the first reason for hiring them; 41.6 percent had more difficulty in finding native workers.

It is highly unlikely that the presence of foreign workers have an impact on wages. The number of foreign workers is still marginal; the proportion of the foreign workers is less than two percent of the Korean labour force. Low wages of the foreign workers is a major factor for Korean employers to use them, but its importance has decreased. Over time, more firms have used foreign labour because they could not find native workers, as native workers have come to disdain demanding jobs.

Foreign labour also has little impact on the employment of native workers. The small employers using foreign workers made little use of older workers or the handicapped. Abella, Park and Bohning (1994) showed that only 1.5 percent of the surveyed small firms used so-called 'unused' labour categories and about three-quarters of the firm claimed that these less-able workers were not suitable for employment in their firms either because of the intense physical work involved or because of the poor working environment in their factories.

The poor achievement of the government measures of replacing foreign labour with local workers during the late 1990s' financial crisis also indicated that foreign workers did not take jobs from the Korean unemployed persons. During the financial crisis period the Korean government offered wage subsidies to establishments that replaced their foreign workers with Korean nationals. However, only some companies applied for the subsidy. For example, until September 8, 1999, only 16.6 percent of the government budget of the fiscal year 1999 allocated for this purpose was spent. The government doubled the level of the wage subsidy, but it had little impact.

ii. How foreign workers get a job in Korea?

Foreign workers can get a job in Korea in three ways. They come to Korea as trainees and remain as trainees. Or they come as trainees, but become illegal workers afterwards. Or they come as illegal workers from the beginning. Yoo and Lee (2001) asked how they got jobs if they came to Korea illegally from the beginning. Excluding workers giving no answers, 27.9 percent got jobs through friends in Korea and 15 percent did through Korean job agencies. Some 48 percent of trainees who became illegal after they came to Korea got new jobs through friends in Korea.

Some foreign workers spent more than 10,000 US dollars (1,200 Korean won is equivalent to one US dollar) in order to come to Korea. Some 9 percent spent between 10 million and 15 million Korean won. Another 2 percent even spent more than 15 million won. It turned out that Chinese workers spent the most. How much they spent also depended on how they got the job (Table 5). Workers who came and remained as trainees spent the least (453,000 won). On the other hand, workers who became illegal after they came spent the most (659,000 won).

Some 40 percent changed their jobs more than three times. Ten percent reported having had more than seven jobs. The most prominent reason for leaving the training place for the workers who became illegal afterwards was that they wanted to earn more. Some 70 percent of the legal workers planned to become illegal sometime in the new future.

Table 5. Foreign workers' brokerage fee and airfare (won in thousands), 2001

		Brokerage fee	Airfare	Total
Nationality	Chinese	781	36.4	817
	(Chinese with Korean ancestry)	(808)	(36.4)	(844)
	(Pure Chinese)	(704)	(36.4)	(740)
	Indonesian	98.3	125.7	224
	Pakistanis	479	48.0	527
	Filipino	378	48.9	427
	Bangle	450	104.0	554
	Sri Lankan	526	65.4	591
	Mongolian	410	35.1	445
	Russia	456	38.6	495
Worker status	Remain legal	453		
	From legal to illegal	653		
	Illegal from the beginning	629		

Source; Yoo and Lee (2001) Table 3-26.

iii. How much foreign workers earn in Korea?

The basic allowance of a foreign trainee is the minimum wage (2,100 won per hour in 2001 which is 421,490 per month with 226 monthly working hours) adjusted every year by the government. Foreign trainees are also paid overtime premium if they work longer hours. Yoo and Lee (2001) showed that foreign workers earned much more than minimum wages (Table 6). The monthly wages of male legal workers (who changed his or her status from a trainee), undocumented workers, trainees with small business federation affiliation, and trainees affiliated with overseas business were 923,000 won, 858,000 won, 822,000 won and 679,000 won, respectively. The female workers earned less than the male ones. When working hours were considered, illegal workers' wages (3,576 won) were the highest, legal workers' wages were the second highest.

Foreign male workers were paid hourly wages averaging about 66 percent of what the entry-level Korean workers received. Abella and Park (2000) found that, compared with previous studies (Abella, Park and Bohning 1994; Abella and Park 1996), wage differentials between national workers and foreign labour decreased. But, Yoo and Lee (2001) showed sign of a little widening in wage differences. According to Abella and Park (2000), the monthly wages of foreign male workers were about 74 percent of the national workers. In the KLI survey, that ratio was 65.9 percent.

Table 6. Wage differentials between foreign and national workers, 2001

		Monthly wage (won in thousands)	Monthly working hours (in hours)	Hourly wage (won in thousands)	Hourly wages + room and meal
Trainee with small business	Male	824.6	272	3.0	
	Female	817.7	292	2.8	
	Total	822.9	276	3.0	
Workers who changed status from trainee	Male	944.0	290	3.3	
	Female	842.9	310	2.7	
	Total	923.2	294	3.2	
Trainee with oversea affiliation	Male	727.8	228	3.2	
	Female	556.7	245	2.3	
	Total	679.3	233	2.9	
Illegal workers	Male	873.9	240	3.6	
	Female	778.7	243	3.2	
	Total	858.3	240	3.6	
Whole foreign worker	Male			3.183(A)	3.894(A1)
	Female			2.834(B)	3.414(B1)
Korean worker	Male	1,068.0	221	4.833(C)	
	Female	843.0	217	3.886(D)	
Foreign/Korean	Male			0.659(A/C)	0.787(A1/C)
	Female			0.729(B/C)	0.879(B1/D)

Source: Yoo and Lee (2001) Table 3-33, Table 3-37, Table 3-38.

Even if the additional costs of employing foreigners were taken into account, there was the hourly cost advantage of 21 percent. But, the employers also found that foreign workers were less productive. Productivity of foreign labour was about 76 percent of the Korean workers who did the same jobs.

iv. How foreign workers are treated?

About 96.5 percent of firms using foreign labour offered free meals to their foreign workers and 82 percent provided all meals free of charge. The worker survey of Yoo and Lee (2001) also confirmed this result. Seventy-five percent of workers received free meals.

Many foreign workers lived in company dormitories. According to the firm survey of Yoo and Lee (2001), 82.7 percent, 12.7 percent and 4.2 percent lived in the company dormitories, ordinary housing, non-residential facilities at company site, respectively. But the worker survey showed that foreign workers lived in less comfortable residences than as was reported in the firm survey results. Fewer illegal workers than legal workers lived in company dormitories. Fewer workers in non-manufacturing than manufacturing lived in company dormitories. The results of the firm and worker surveys concerning who paid the housing costs were also different. The firm survey showed that 84 percent of the firms paid the full cost of housing, while the worker survey reveals that only 43 percent of the workers received full subsidy for their housing cost from their employers. The differing results are in part due to the fact that the workers survey included workers not only in manufacturing but also in non-manufacturing.

The foreign trainees are supposed to be covered by the national medical insurance and occupational accident insurance schemes. Illegal workers also can be covered by the occupational accident insurance scheme. But the firm survey showed many of foreign workers were not covered by the national social security schemes. Only 55.7 percent of the firms joined the national medical insurance scheme. This ratio was much higher for firms using legal workers (79.3 percent). Of the total firms, 65.4 percent joined the national occupational accident insurance scheme for their foreign workers. This ratio was also much higher for firms using legal workers (90.7percent). But the worker survey showed that foreign workers themselves were not aware of Korea's social security

arrangements. A majority of them did not even know the existence of the social security schemes.

The worker survey revealed that some Korean employers did not abide by the labour laws. About 28.4 percent of workers did not receive the overtime premiums as required by the Korean laws. This ratio was about the same for both legal and illegal workers in manufacturing. But this ratio was higher for workers in non-manufacturing (32.4 percent) where all foreign workers were illegal. Some 30 percent worked seven days a week.

It turned out that wages were often not paid on time. Some 37 percent of workers answered that their wages had not been paid yet. On average, 2.6 months of wages had not been paid. This ratio was about the same for both legal and illegal workers, which is a little surprising.

5. Trainee scheme as an instrument to cope with labour shortage and future migration issues

In the concluding section of Abella, Park and Bohning (36, 1994), it notes:

“.... It would seem to be incontestable that their combined effect goes in the direction of enlarging the pool of unfilled undesirable jobs rather than of diminishing it. The only variable that, singlehandedly, would arrest the widening of the “scissors” is a much reduced growth rate by the economy-and that is apparently not a scenario that would be welcomed by the Government, the country’s employers or the people as whole.”

It further noted that;

“The problem with the trainee system is its false pretensions. It is employment in undesirable jobs, not training, that is the real purpose. foreign trainees’ wages are lower than the wages of irregular foreign workers.

By the same token, foreigners who are irregularly employed in undesirable jobs are exploited.....

Policies of this kind are incompatible with the idea of equal moral worth of all human beings that is at the heart of democracy..... They are not even appropriate for the purpose of getting the reputedly homogeneous and unprepared Korean population to accept the presence of foreign workers.....”

Abella, Park and Bohning (1994) recommended that the trainee system be discontinued in its present form and a legal system for the admission of foreign workers into unfilled jobs be set up.

It took thirteen years for the Korean government to fully accept these recommendations as we discussed in the previous sections. The trainee scheme will be totally phased out by 2010.

The Korean foreign trainee scheme as a measure to cope with labour shortages had both merits and demerits. Its merits include that Korea has been able to control the inflow of migrant workers, hence mitigating possible side-effects of bring unskilled foreign labour into the country's economic system. One of the demerits is that it produced a significant number of irregular foreign workers and delayed a legal system for admission of unskilled foreign labour.

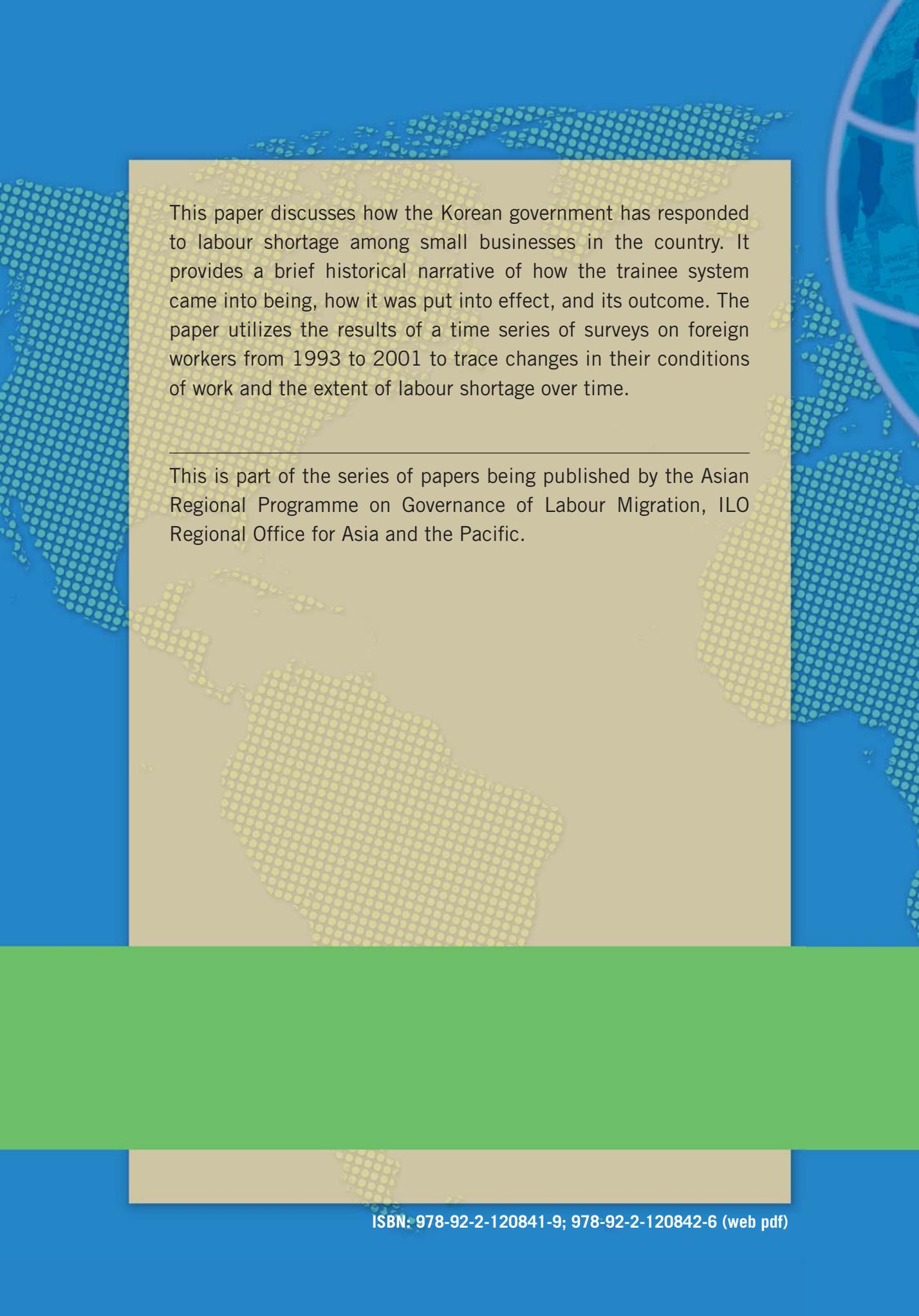
Future policy on unskilled foreign workers will very much depend on the success of the present employment permit system, which already brought down the number of undocumented workers. However, the high proportion of undocumented workers in the total foreign labour force is still significant, likely jeopardizing the employment permit scheme's effectiveness if the proportion does not decrease to a reasonable amount. One of the arguments supporting the new scheme was to rationalize the foreign labour management scheme by using only legal foreign labour.

So far, Korea has not seriously considered integration issues, mainly because the foreign-born population is very small. But integration is likely to receive national attention because of the growing number of foreign spouses and the continued presence of guest workers, whose numbers are also expected to increase thanks to the new employment permit scheme.

Another factor in future migration flows is the relationship between South and North Korea. If the two Koreas are united in the near future without much preparation, the united Korea will have a serious problem integrating two types of Korean people accustomed to different political and social systems. The problems and challenges facing a united Korea will be greater than those Germany encountered because the cultural and political exchanges between the two Koreas are still at a premature stage.

References

- Abella, M. and Y.-b. Park (1993) "Labour Shortages and Foreign Workers in Small Firms of the Republic of Korea," in *Adjustments to Labour Shortages and Foreign Workers in the Republic of Korea*. Geneva: International Migration Papers, International Labour Office.
- Abella, M. and Y.-b. Park (1996) "Adjustment Options in Korean Small Scale Industries: Labour-replacing Technology or Foreign Labour" (mimeo).
- Abella, M and Y-b Park (2000) "Foreign Workers and Korea's Economic Crisis" (mimeo)
- Battistella, G. and M. Asis (1997) "The Crisis and Migration in Asia", *Asia and the Pacific Migration Journal*.
- Office of Statistics, Korea (various issues), *Survey Report on Economically Active Population*
- Korea Labour Institute (various issues) *Quarterly Labour Analysis*
- Yoo, K-s and K-y. Lee (2001) *Managing Foreign Workers and Policy Tasks*, Korea Labour Institute
- Yoo, K-s *et al.* (2004) *Analysis on Labour Markets for Unskilled Workers*, Korea Labour Institute



This paper discusses how the Korean government has responded to labour shortage among small businesses in the country. It provides a brief historical narrative of how the trainee system came into being, how it was put into effect, and its outcome. The paper utilizes the results of a time series of surveys on foreign workers from 1993 to 2001 to trace changes in their conditions of work and the extent of labour shortage over time.

This is part of the series of papers being published by the Asian Regional Programme on Governance of Labour Migration, ILO Regional Office for Asia and the Pacific.