ILO brief

Policy Brief

November 2020

Republic of Korea: A rapid assessment of the employment impacts of COVID-19

Key points

- Initially one of the worst affected countries by COVID-19, the Republic of Korea managed to contain the outbreak through an ICT-enabled 3T strategy of "Test, Trace, Treat", which was required to avoid an economy-wide lockdown.
- The pandemic has taken a deep toll on the export-dependent economy, which was faltering from rising trade tensions and slowing growth in its largest trading partner, China, entering the pandemic.
- No major lockdown; a large share of ICT exports in total exports − the demand for which has grown from the global shift to remote work; a faster than expected recovery in China; and a sizeable and timely stimulus program, including a one-time universal transfer to prop up consumption, have allowed the country to avoid a bigger contraction and the economy is projected to contract by -1.0 per cent in 2020.
- Ample fiscal space has allowed the Republic of Korea to design a stimulus program representing 15 per cent of GDP and the country has implemented its fiscal policies with the strategy of (i) protecting jobs, vulnerable groups and businesses; (ii) promoting economic recovery; and (iii) preparing for post COVID-19.
- While the impact of the pandemic on the headline unemployment rate has been muted, as a result of a large number of people dropping out of the labour force, temporary employees, daily workers and micro business owners – many of whom are older workers who have been pushed toward self-employment following honorary early retirement – have borne the brunt of the labour marked fallout.
- Labour underutilization has soared, highlighting the critical need of keeping people, in particular women, attached to the labour force.
- A swift response to the deterioration in the labour market has been enabled by leveraging and expanding pre-existing labour market institutions or re-introducing previous programmes, highlighting the importance of having employment policies and social protection systems in place that can be quickly scaled up or act as automatic stabilizers.
- The country has also used the pandemic crisis as an opportunity to foster longer-term investments and job growth while strengthening coverage gaps in the employment insurance system, including through the Korean New Deal.
- Further policy considerations include providing a supportive policy environment for full employment through an adjustment to the mandate of the Bank of Korea to include employment; strengthened measures to support women re-enter the labour force and strengthened assistance in supporting a more effective transition of older workers to new careers in self-employment.

▶ 1. Background

The Republic of Korea, Asia's fourth largest economy, was initially one of the countries worst affected by COVID-19 but the country managed to "flatten the curve" quickly through a 3T strategy of "Test, Trace, Treat". The Republic of Korea recorded its first positive case of COVID-19 on 20 January 2020 and by the end of February, had almost 3,000 cases.[1] Building on the lessons learned in addressing the infectious Middle East Respiratory Syndrome (MERS) outbreak in 2015, and leveraging the subsequent reforms to the Public Health Emergency Preparedness and Response system, the government responded swiftly to the novel coronavirus outbreak.

The 3T strategy has been widely credited for containing the pandemic in the country, while avoiding an economy-wide lockdown that has characterized many other countries. As part of the strategy, capacities for extensive testing were strengthened which allowed for the early detection of confirmed cases. This was followed up by a tracing system enabled by advanced information and communications technologies (ICT), whereby cellular GPS data, credit card transactions and surveillance cameras are analyzed in order to trace the movements and map the social connections of confirmed cases, informing those within these social connections of their vicinity to the confirmed individual. For people requiring treatment, expenses are covered through the National Health Insurance Fund as well as being provided living expenses for those under quarantine, while the employers are provided paid leave expenses. Such a programme has enabled the public to actively and voluntarily adhere to the prevention and control measures and has provided space to the authorities to avoid a full lockdown.[2] Such testing and tracing strategies have been strongly correlated with lower labour market distress (see Box 1) but such a strategy of risk stratification through testing and tracing also carries financial costs in addition to raising concerns around privacy and civil liberties.[3]

▶ Box 1. The positive effects of testing and tracing on labour market outcomes

ILO research finds that testing and tracing are strongly correlated with better labour market outcomes. Three channels explain this relationship: (i) the public health policy channel; (ii) the economic confidence channel; and (iii) the workplace operations channel. An effective programme of testing and tracing allows countries to avoid full lockdowns and other severely restrictive measures (*public health policy channel*), limiting the socioeconomic impacts of such measures. In the case of the Republic of Korea for example, as illustrated in figure 1a, the stringency index of the measures against COVID in the Republic of Korea peaked at 82.41 on 6 April 2020 but fell swiftly to 43.52 before the end of the same month. Furthermore, an effective testing and tracing regime allows the public to have greater confidence to undertake economic activities (*economic confidence channel*). In the Republic of Korea, visits to transit stations and retail and recreation locations fell sharply from mid-February to the beginning of March but began to recover subsequently, reflecting confidence to return to these places albeit in fewer numbers than before (figure 1b). Establishing greater confidence was particularly important for Korea's stimulus measure of boosting consumption through a one-time universal transfer to be effective (see section 4). An effective testing and tracing regime also allows businesses to maintain operational continuity while addressing workplace disruptions (*workplace operations channel*). As highlighted in figure 1b, visits to workplaces dropped at the onset of the pandemic compared to the pre COVID-19 baseline but returned to similar levels by mid-May (deep drops reflect workplace closures due to public holidays in the country).

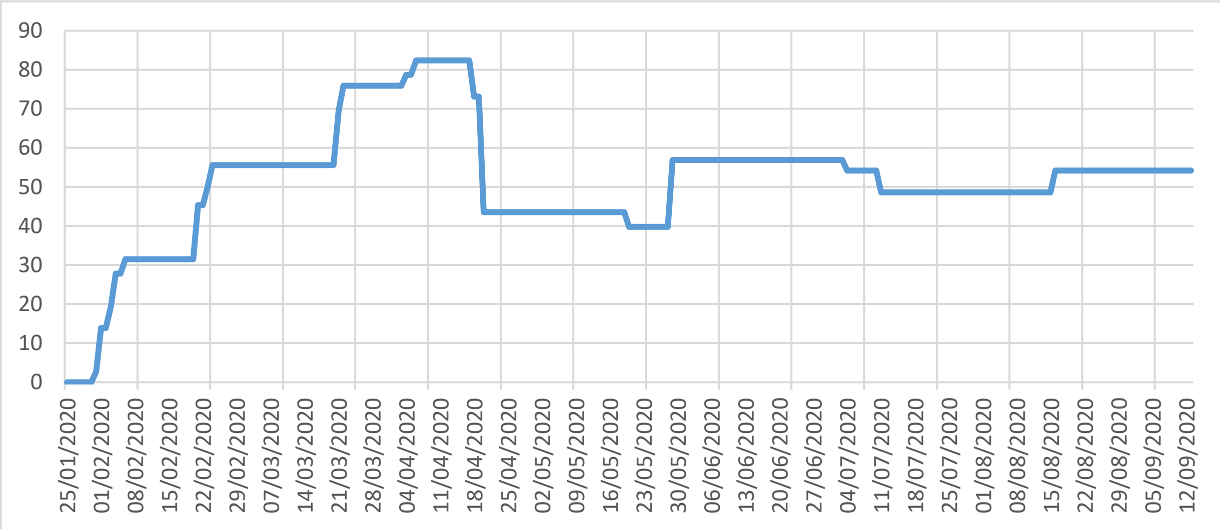
Source: ILO Monitor: COVID-19 and the world of work, 4th edition.

[1] As of September 30, 2020, cumulative number of cases reached 23,812.

[2] For a more detailed discussion on the health measures undertaken in the Republic of Korea, see Central Disaster and Safety Countermeasure Headquarters. 2020. *Korea's Response to COVID-19 and Future Direction. May 7*. Available at: http://www.mofa.go.kr/eng/brd/m_22742/down.do?brd_id=20543&seq=11&data_tp=A&file_seq=1

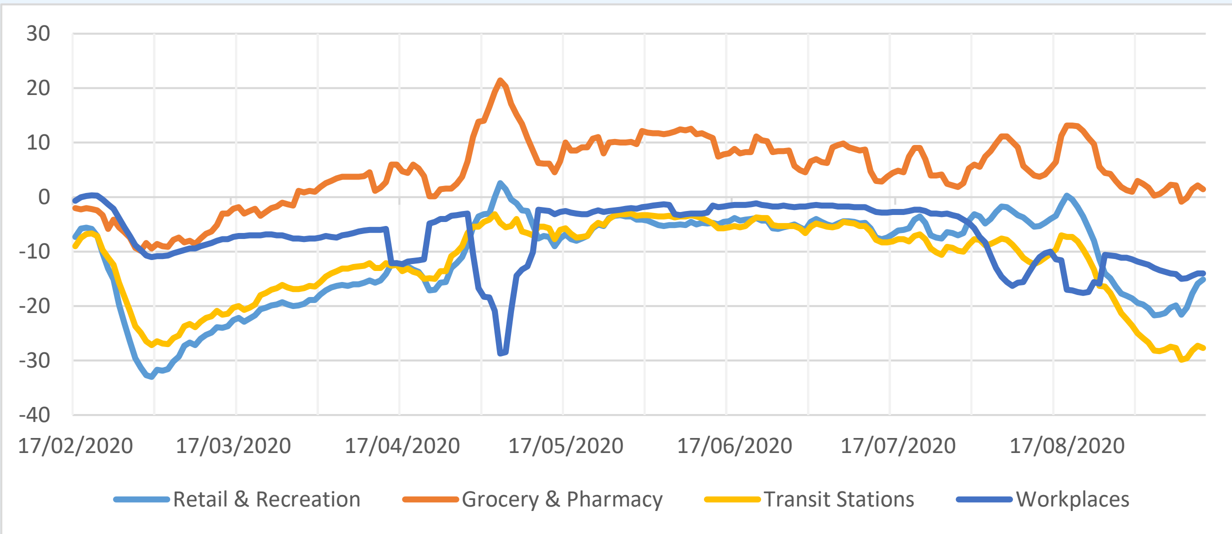
[3] ILO. 2020. *ILO Monitor: COVID-19 and the world of work*, 4th edition (Geneva).

▶ **Figure 1a. Government Response Stringency Index, Republic of Korea**



Note: The index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans. The index varies from 0 and 100, with higher values indicating higher stringency.
Source: Hale et al. (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

▶ **Figure 1b. Community mobility, Republic of Korea**



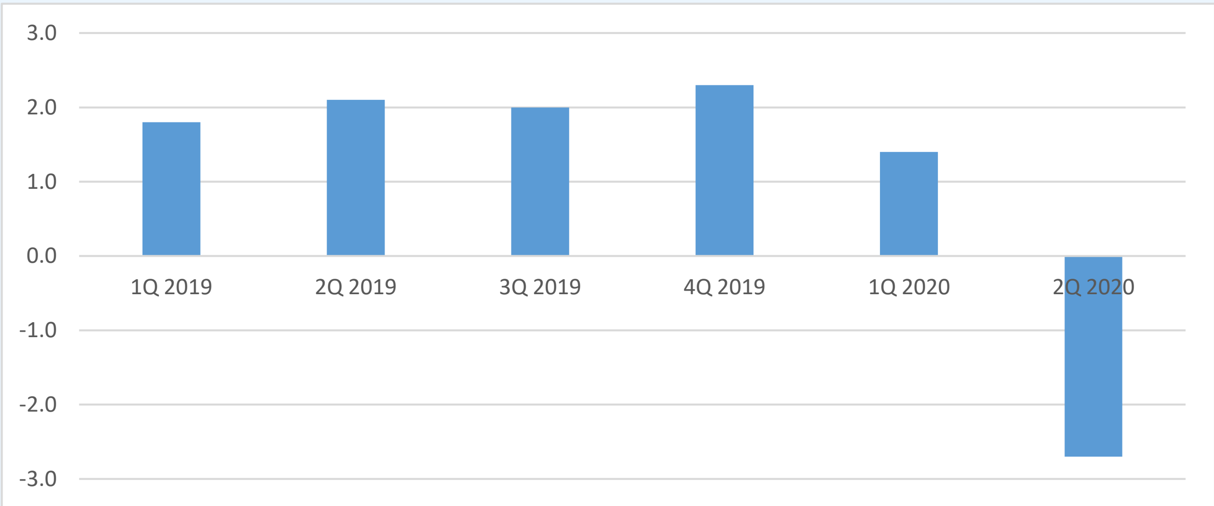
Source: Google COVID-19 Community Mobility Report

A new wave of the outbreak in August 2020 has led to more stringent measures being imposed, with likely attendant ramifications for the economy and labour market (visits to transit stations and retail and recreation locations have fallen steeply again since mid-August as depicted in figure 1b), underscoring the fragility of recovery paths in the absence of a vaccine development and its widespread distribution. In mid-August a new wave of the COVID-19 outbreak in the capital, Seoul, led the authorities to undertake more stringent measures, including a ban on gatherings of ten or more people, which also led to re-closures of schools. In light of the new outbreaks, the government in early September proposed a fourth round of additional spending to counter COVID-19 (see section 4).

2. Macroeconomic impact

The Korean economy entered the COVID-19 pandemic facing headwinds resulting from global trade tensions and slowing growth in China, its largest export destination for the export-dependent country. As a result, the Korean economy grew by 2.0 per cent in 2019, the lowest growth rate since the impact of the Great Recession in 2009. In the first quarter of 2020, GDP grew by 1.4 per cent year-on-year but decreased by -2.7 per cent in the second quarter of 2020 (figure 2), as private consumption in particular declined by -4.1 per cent year-on-year amid the COVID-19 pandemic. Retail sales fell by -2.9 per cent in the first quarter of 2020 year-on-year but rebounded by 1.9 per cent in the second quarter, supported in part by a universal one-off transfer aimed at boosting consumption that went into effect in May 2020 (see also Section 4).

Figure 2. Real GDP growth (year-on-year, per cent)



Source: Bank of Korea

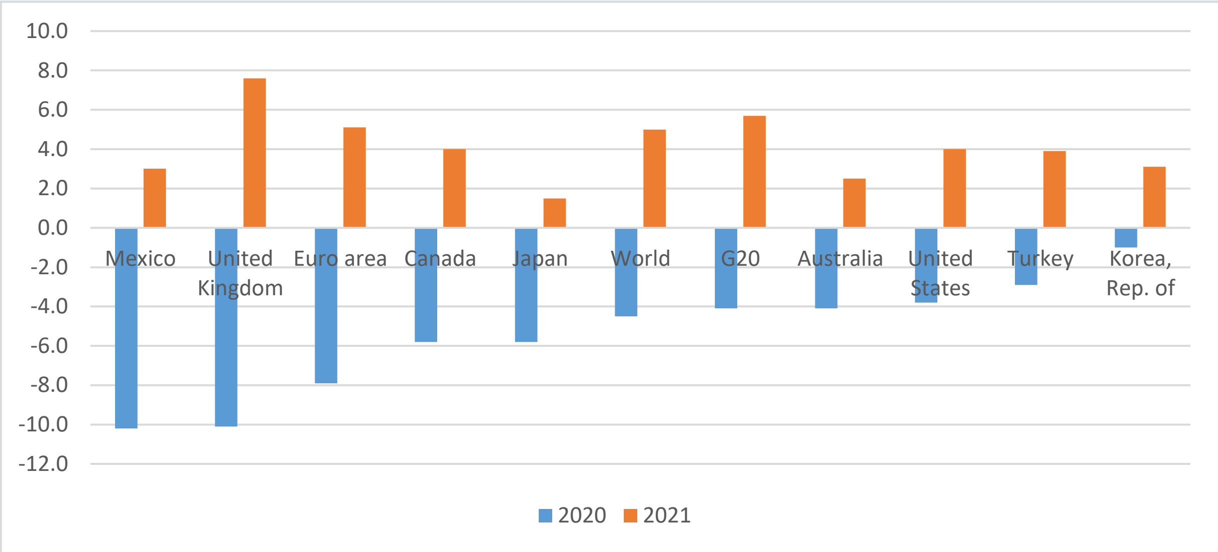
In the wake of the slump in global demand, Korea's exports and imports also plummeted, but the large share of ICT exports in total exports has cushioned a deeper decline in the third quarter of 2020. Exports fell by -20.3 per cent in the second quarter of 2020 (year-on-year), after falling by -1.8 per cent in the first quarter of 2020.[4] Imports also fell, although by a slightly smaller extent, falling by -1.6 per cent in the first quarter (year-on-year) and by -16.1 per cent in the second quarter of 2020. Total exports and imports continued to fall in the third quarter of 2020, but external demand for ICT products, which account for around 30 per cent of total exports, experienced year-on-year growth in the first two months of the third quarter. In particular, exports of computers and peripheral devices −such as auxiliary memory devices − doubled as working-from-home became commonplace and the shift towards the digital economy continued to accelerate around the world amidst the pandemic. Exports of medical products, including diagnostic equipment, were also higher in the first half of 2020 compared to the previous year.

While the economic downturn as a result of COVID-19 has been acute, the economy is expected to weather the economic fallout better than other high-income countries. Real GDP is projected to contract by -1.0 per cent in 2020, before rebounding by 3.1 per cent in 2021

[4] Ministry of Finance and Economy. Current Economic Situation, September 2020.

(figure 3). The projected rate of contraction is expected to be the smallest among OECD countries, and compares with a projected contraction of -4.5 per cent for the global economy. As noted earlier, a swift response to the pandemic based on the 3T strategy allowed the country to avoid an economy-wide lockdown and for economic activities to continue.

▶ **Figure 3. Projected real GDP growth (year-on-year, per cent)**



Source: OECD, 2020. *OECD Economic Outlook*, interim projections, 16 September 2020.

Furthermore, ample fiscal space has allowed the Republic of Korea to undertake large-scale countercyclical policies to address the economic fallout of COVID-19. As of the end of September 2020, the total economic stimulus package, which includes both above-the-line (revenue and expenditure) measures and below-the-line measures (loans and guarantees) amount to KRW 284.8 trillion (USD 239.3 billion), which corresponds to around 15 per cent of GDP.[5] Above-the-line measures, which have a direct impact on fiscal multipliers, are estimated to account for around 3.5 per cent of GDP. As of April 8, 2020, above-the-line measures in the Group of Twenty (G20) economies are estimated to have also accounted for 3.5 per cent of GDP.[6] Also similar to other high-income countries which have relied relatively more on below-the-line measures and guarantees, such measures are estimated to account for 11.4 per cent of GDP in the Republic of Korea.

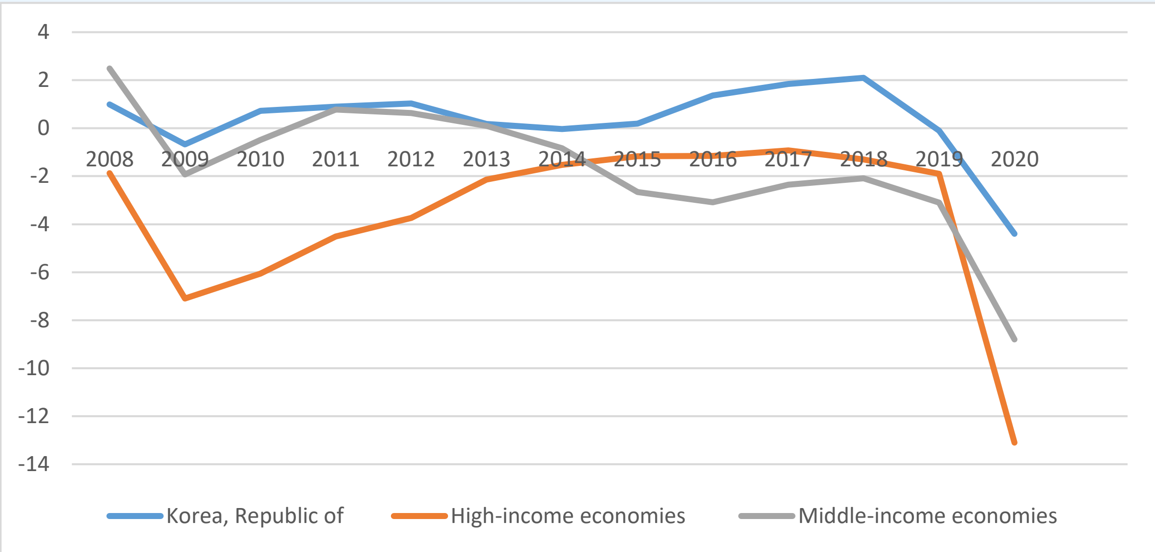
The extra government spending is expected to turn the country's fiscal situation, which was in surplus in the years previous to the COVID-19 outbreak, into a deficit of around -4.4 per cent in 2020 (figure 4). This compares to a projected deficit of -13.1 per cent of GDP in high-income economies and -8.8 per cent of GDP in middle-income economies. To fund the spending, the government is issuing additional bonds and the debt-to-GDP ratio is projected to rise to 43.9 per cent in 2020, compared to 37.1 per cent in 2019. In comparison, general government debt is projected to rise from 105.5 per cent of GDP in 2019 to 125.5 in 2020 in high-income economies.[7]

[5] Here and throughout this brief, USD:KRW conversion is based on a the average ratio in August 2020 of 1:1,187.

[6] IMF. 2020. *Fiscal Monitor: Policies to Support People during the COVID 19 Pandemic*, April. Note G20 figure of 3.5 per cent of GDP is weighted by GDP in PPP-adjusted current US dollars.

[7] IMF. 2020. *Fiscal Monitor: Policies for the Recovery*, Washington, October.

▶ **Figure 4. Fiscal balance, Republic of Korea (per cent of GDP)**



Note: Data for the 2020 year of the Republic of Korea reflects value taking into account the 4th supplementary budget (September 2020) while figures for high-income and middle-income economies reflects situation at the time of publication of IMF Fiscal Monitor (October 2020).

Source: IMF Fiscal Monitor (October 2020); own calculations based on Government of the Republic of Korea, Ministry of Economy and Finance (September 2020).

3. Labour market impact

The Republic of Korea's labour market suffered large setbacks as a result of COVID-19 but a fragile recovery is underway. In April 2020, when stringency measures were at the highest, the number of people employed stood at 26.6 million, a decrease of almost half a million compared to the same period a year ago (figure 5). In consequence, the employment-to-population ratio in that month fell to 59.4 per cent, a decrease of 1.4 percentage points compared to a year ago. Levels of employment, as well as the employment-to-population ratios have partially recovered since April 2020, but nonetheless continue to remain lower than the corresponding periods the previous year. This is particularly the case for women's employment, whose rate of decline has been consistently twice as fast year-on-year as that of men since March 2020. In August 2020, the level of women's employment was -1.5 per cent lower year-on-year, compared to -0.6 per cent for men.

▶ **Figure 5. Employment and the employment-to-population ratio (thousands and per cent, respectively)**

Source: Statistics Korea.

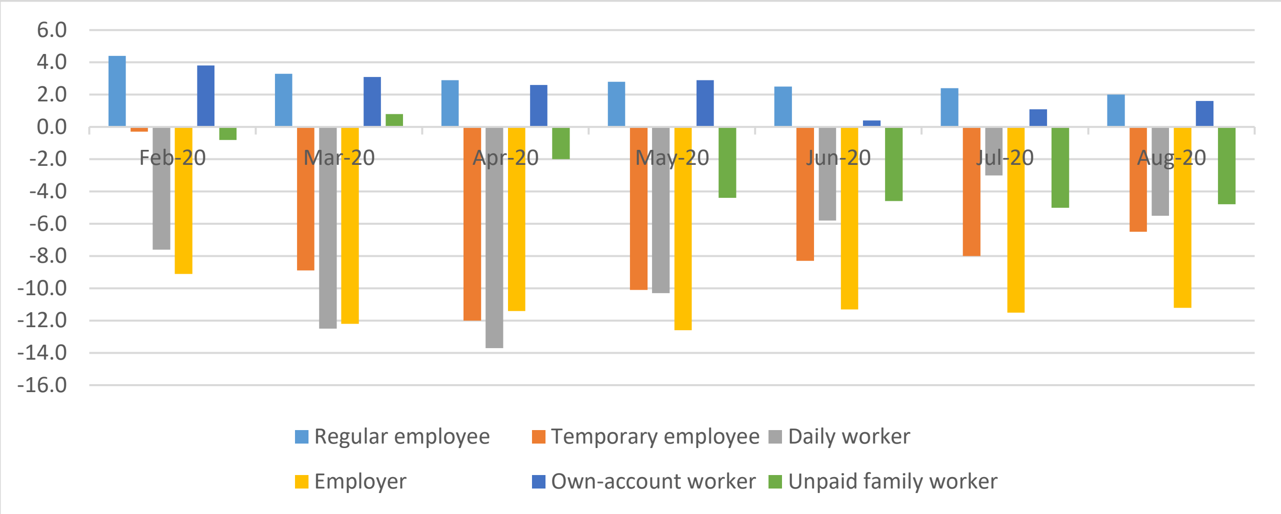
Temporary employees, daily workers and employers have been particularly vulnerable to the shock to the labour market.[8] The number of daily workers in April 2020 declined by -13.7 per cent year-on-year while that of temporary employees and employers fell by -12.0 per cent and -11.4 per cent respectively (figure 6). The rate of decline in the ensuing months has slowed for temporary employees and daily workers but the number of employers has continued to decline by over 10 per cent year-on-year since February 2020. On the other hand, the number of own-account workers has increased at the same time, suggesting that some small employers could no longer retain employees and were reclassified as own-account workers.[9] Furthermore, the number of regular employees also increased year-on-year throughout the pandemic. Prior to the pandemic, the Republic of Korea was facing the challenge of reducing dualities between regular and non-regular workers, the latter of which account for around 30 per cent of all employees, and the pandemic is aggravating that duality. Furthermore, with those aged 50 years or more accounting for 63 per cent of total self-employment (employers, own-account workers and unpaid family workers) in Korea in 2015, the pandemic is severely impacting older cohorts, many of whom have been pushed towards their self-employment careers following "honorary" early retirement around the age of 45-50.[10]

[8] In the Republic of Korea, a temporary employee refers to a person whose employment contract length is more than a month to less than a year or a person who doesn't make an employment contract but are employed for more than a month to less than a year to complete a project. A daily worker is a person who has concluded an employment contract with an individual, a household or an establishment for less than a month or those who are employed on a daily basis and receive daily wages for their labour and services rendered. An employer is defined as a person who operates his/her own enterprise or engages independently in a profession or trade with one or more paid employees.

[9] An own-account worker is defined as a person who operates his/her own enterprise or engages independently in a profession or trade on their own account or with one or more partners (including unpaid family workers). An unpaid family worker is defined as a person who works more than 1/3 of the regular working hours of an enterprise without pay in an own-account enterprise operated by a related person.

[10] OECD. 2018. *Towards better Social and Employment Security in Korea*, Connecting People with Jobs (Paris).

▶ Figure 6. Change in employment by employment status (year-on-year, per cent)



Source: Statistics Korea.

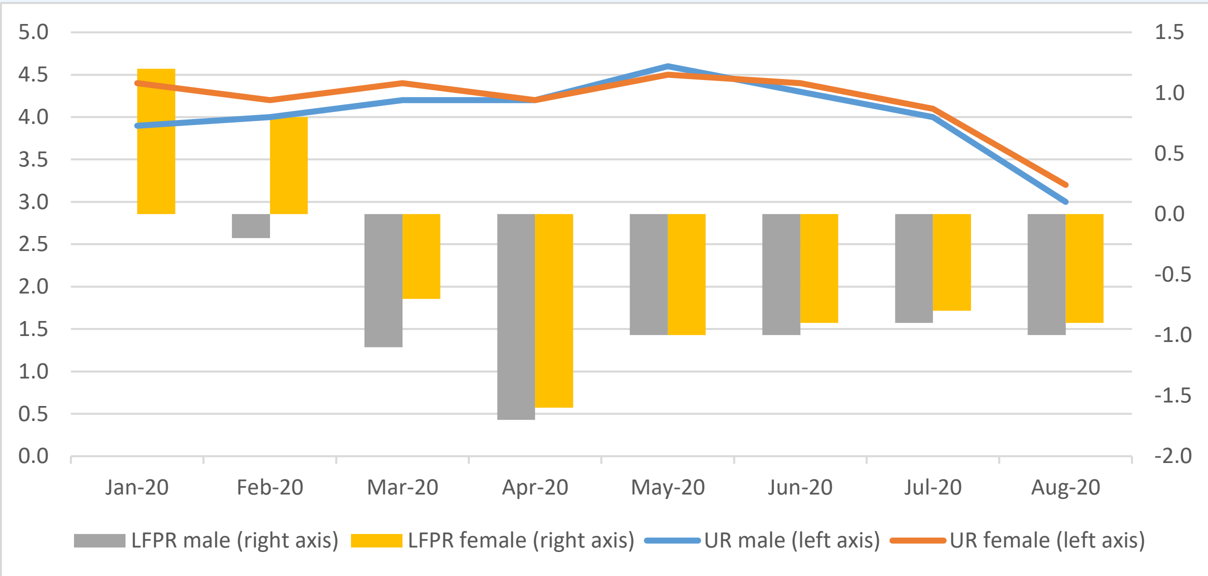
The wholesale and retail trade, accommodation and food sector has been hardest hit by the economic fallout. In August 2020, 345 thousand fewer people worked in that sector compared to the same period the previous year (figure 7). Levels of employment in manufacturing and construction sectors were also consistently lower year-on-year since the pandemic began. On a more disaggregated basis, eight subsectors whose employment is most at risk – travel; tourism and lodging; tourist transportation; performance; aircraft ground handling; duty free and travel retail; exhibition and international convention and the airport bus industries – were designated as "special employment support sectors," enabling enterprises and workers in these sectors to benefit from a wider range of public support measures (see Section 4).

▶ Figure 7. Change in employment by economic activity (year-on-year)

Source: Statistics Korea.

The unemployment rate fell to 3.1 per cent in August 2020 but the decline is a result of a large drop in the number of people participating in the labour force. The unemployment rate dropped to 3.1 per cent in August 2020, after hitting a year-high of 4.5 per cent in May 2020 (year-on-year, the unemployment rate was up by 0.1 percentage points in August 2020). In August 2020, the rate for females at 3.2 per cent was higher than that for men at 3.0 per cent (figure 8). Women and men dropping out of the labour force in large numbers since the pandemic began has played an important role in holding down unemployment rates, with the female labour force participation in August 2020 lower by 0.9 percentage points year-on-year, and the corresponding rate for males lower by 1.0 percentage point. Labour force participation rates for women had been increasing every year since 2009, rising from 49.3 per cent to 53.9 per cent in 2019 and helping bridge the gender gap from 23.9 percentage points in 2009 to 19.7 percentage points in 2019. The impact of COVID-19, however, has likely broken this trend.

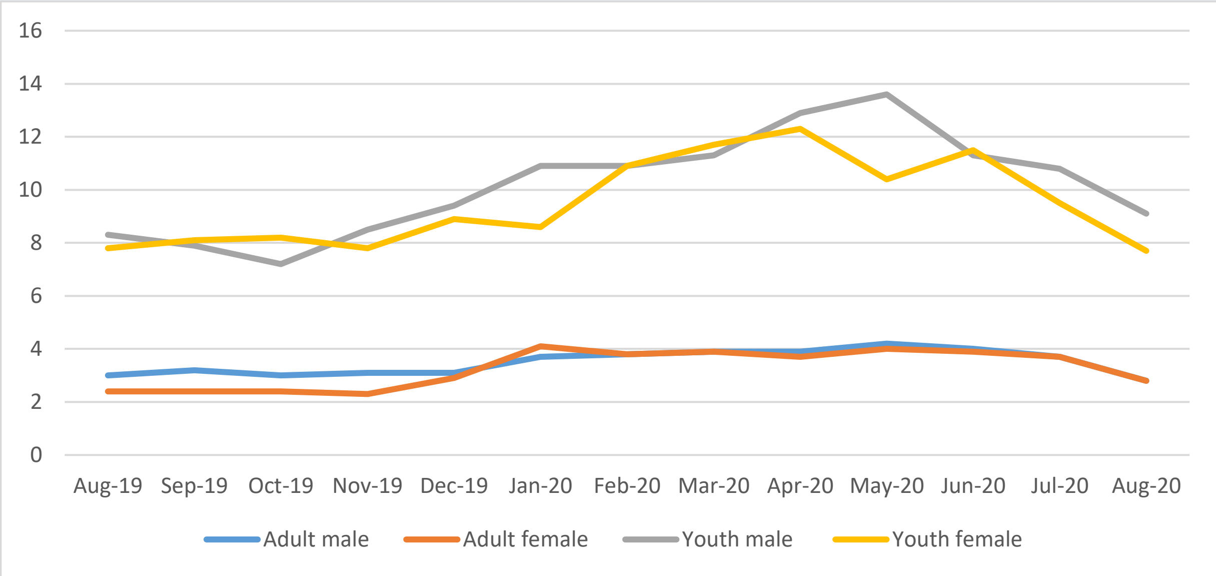
▶ Figure 8. Unemployment rate (per cent) and change in labour force participation rate, by sex (year-on-year, percentage points)



Source: Statistics Korea.

The pandemic also had a differential impact on the unemployment patterns of younger and older generations. In August 2020, the unemployment rate for young women (aged 15-24) at 7.7 per cent in August 2020 was down by 0.1 percentage points year-on-year but the rate for adult women in the same month (2.8 per cent) was up by 0.4 percentage points year-on-year (figure 9). As such, the ratio of youth-to-adult unemployment rates for women narrowed from 3.3 in August 2019 to 2.8 in August 2020. Conversely, the ratio of youth-to-adult unemployment rates for men widened from 2.8 in August 2019 to 3.3 in August 2020 as the unemployment rate for young men increased by 0.8 percentage points year-on-year in August 2020, compared to a decrease of -0.2 percentage points for adult men.

▶ **Figure 9. Unemployment rate, by age and sex (per cent)**



Note: Youth defined as those aged 15-24.
Source: ILOSTAT.

COVID-19 has kept people from working more hours, searching for a job or being available to take up a job, and as such, labour underutilization has soared. Perhaps not surprisingly given the reductions in work activity as a result of the containment measures, levels of time-related underemployment, were up by 48 per cent in August 2020 year-on-year (table 1).[11] The number of discouraged workers, also rose sharply in August 2020 and constituted the largest share of labour underutilization in August 2020 (34.7 per cent – those in time related underemployment, unemployment and the other potential labour force accounted for 31.4 per cent, 23.4 per cent and 10.5 per cent of total underutilization respectively).[12] The other potential labour force, those that sought employment but were not available, also rose by 25.0 per cent year-on-year. Levels of unemployment and those in the potential labour force rose at the fastest pace for adult women (15.0 per cent and 59.5 per cent respectively) in August 2020 (year-on-year), whereas levels of time-related underemployment more than doubled for young women. On the other hand, discouragement rose the fastest among adult males (28.7 per cent). In the Republic of Korea, the impact of COVID-19 on unemployment has been muted compared to other forms of labour underutilization. The re-closure of schools and day care centres in August 2020 in metropolitan Seoul following a new outbreak in that month and the ensuing need for childcare is likely to have contributed to adult women dropping out of the labour force and in becoming part of those that sought work but were not available.

[11] Time-related underemployment measures the number of people who desired to work additional hours, whose working time in all jobs was less than a specified hours threshold, and who were available to work additional hours given an opportunity for more work.

[12] Discouraged workers include those who were available for work but did not look for work (for example as a result of believing there were no jobs available or having given up hope of finding employment).

▶ Table 1. Composition of labour underutilization (thousands)

	Unemployment			Time-related underemployment			Discouraged workers			Other potential labour force			Total		
	Aug-19	Aug-20	Change (%)	Aug-19	Aug-20	Change (%)	Aug-19	Aug-20	Change (%)	Aug-19	Aug-20	Change (%)	Aug-19	Aug-20	Change (%)
Total	852.1	863.3	**1.3**	779.9	1154.4	**48.0**	1013	1277.9	**26.2**	309.1	386.3	**25.0**	2954.1	3681.9	**24.6**
Youth	117.2	114	**-2.7**	49.4	79.6	**61.1**	133.8	119.8	**-10.5**	39.1	47.5	**21.5**	339.5	360.9	**6.3**
Adults	734.9	749.4	**2.0**	730.5	1074.8	**47.1**	879.2	1108.1	**26.0**	270	388.9	**44.0**	2614.6	3321.2	**27.0**
Total males	509.5	483.5	**-5.1**	446.5	658.9	**47.6**	564.5	703.3	**24.6**	155.4	197	**26.8**	1675.9	2042.7	**21.9**
Youth males	51.2	52.2	**2.0**	23.6	25.7	**8.9**	60.3	54.2	**-10.1**	13.8	13.1	**-5.1**	148.9	145.2	**-2.5**
Adult males	458.3	431.3	**-5.9**	422.8	633.2	**49.8**	504.2	649.1	**28.7**	141.5	183.9	**30.0**	1526.8	1897.5	**24.3**
Total females	342.6	379.9	**10.9**	333.5	495.5	**48.6**	448.5	524.7	**17.0**	153.7	239.3	**55.7**	1278.3	1639.4	**28.2**
Youth females	66	61.8	**-6.4**	25.8	53.9	**108.9**	73.5	65.7	**-10.6**	25.2	34.3	**36.1**	190.5	215.7	**13.2**
Adult females	276.6	318.1	**15.0**	307.7	441.6	**43.5**	375	459	**22.4**	128.5	204.9	**59.5**	1087.8	1423.6	**30.9**

Note: Youth defined as those aged 15-24.
Source: ILOSTAT.

▶ 4. Policy responses

A wide range of policy measures were undertaken in the Republic of Korea to mitigate the socio-economic impact of COVID-19, in line with the ILO's four-pillar policy framework of (i) stimulating the economy and employment; (ii) supporting enterprises, jobs and incomes; (iii) protecting workers in the workplace; and (iv) relying on social dialogue for solutions.

Monetary policy has become more accommodative and support to the financial sector was extended to ensure ample financial system liquidity. In addition to lowering its benchmark policy rate from 1.25 per cent in January 2020 to a record low of 0.5 per cent in May 2020, the Bank of Korea, whose mandate includes financial stability in addition to price stability, has purchased government bonds. Initially, the purchases were with a view to lowering bond yields but later the purchases were more with a view to stabilizing the bond market as the supply of bonds increased on the heels of the extra fiscal spending. Other monetary policy measures include, inter alia, the easing of regulations on foreign currencies and the creation of a special purpose vehicle (SPV) to purchase corporate bonds with low credit ratings.

Fiscal policy measures have been undertaken with a 3P strategy of Protecting jobs, vulnerable groups and businesses; Promoting economic recovery; and Preparing for post COVID-19. In undertaking the strategy, the government has tapped into emergency reserve funds and proposed four supplementary budgets, which have totalled KRW 66.8 trillion (table 2). Korea's initial use of the emergency funds reserve and the first two supplementary budgets have focussed on addressing the immediate health impact of the pandemic and in protecting jobs, vulnerable groups and businesses. The third and fourth increases to the 2020 budget then transitioned to measures to promote an economic recovery through supporting hard-hit industries and boosting consumption and to prepare for a post COVID-19 economy through the Korean New Deal (see Box 2), in addition to addressing policy gaps as the socioeconomic situation deteriorated.

▶ Table 2. Korea's supplementary budgets

Timeline	Total budget	Allocation of budget
1st supplementary budget [Parliamentary approval on March 17, 2020]	Total budget of KRW 11.7 trillion, of which 10.9 trillion in extra spending and 0.8 trillion in revenue adjustments	• 37.6 per cent of extra spending on loans and guarantees for SMES and small merchants; • 32.1 per cent of extra spending on consumption support to low-income households; • 19.3 per cent of extra spending on disease prevention and treatment; • 11.0 per cent on local economies affected.
2nd supplementary budget [Parliamentary approval on April 30, 2020]	Total budget of KRW 12.2 trillion, all of which in extra spending	• 100 per cent of extra spending on consumption support to households.
3rd supplementary budget [Parliamentary approval on July 3, 2020]	Total budget of KRW 35.1 trillion, of which 23.7 trillion in new spending and 11.4 trillion in revenue adjustments	• 42.3 per cent of new spending on expanding wage subsidies and social safety nets; • 36.7 per cent of new spending to boost consumption, exports and local economies and finance the Green New Deal and the Digital New Deal (see box 2); • 21.0 per cent of new spending on loans for enterprises.
4th supplementary budget [Parliamentary approval on 22 September, 2020]	Total budget of KRW 7.8 trillion, all of which in extra spending	• 48.7 per cent of new spending on SME support; • 28.2 per cent of new spending on daycare support and mobile bill payment support; • 17.9 per cent on emergency employment support; • 5.1 per cent on livelihood support for low-income households.

Source: Government of Korea, Ministry of Economy and Finance, various reports.

Korea's measures to protect jobs, vulnerable groups and businesses have centred around expanding pre-existing programmes or re-introducing previous programmes, highlighting the importance of having in place employment policies and social protection systems that can be swiftly scaled up or act as automatic stabilizers. The Employment Retention Subsidy is a central element of Korea's labour market response. In operation since 1995 to help employers maintain employment relationships during severe downturns as evidenced by substantial increases in inventories or plummeting sales, subsidies are provided to firms that place their employees on paid leave or reduce total working hours by over 20 per cent. Whereas firms had to prove their eligibility for the subsidy through changes in inventories/sales before the pandemic, eligibly requirements have been eased as a result of COVID-19 and any company that wishes to receive the subsidy can submit an application detailing plans for reduced working hours or temporary suspension to the local employment and labour offices. Screening committees composed of workers, employers, experts and others review these applications.[13] The amount of the subsidy has also been increased as a result of COVID-19, rising from two-thirds to three-quarters of the wages/allowances paid for SMEs (and from half to two-thirds for larger enterprises). Firms in industries that have taken a disproportionate toll from the pandemic, such as tourism and the cultural/creative sector, have been designated as "Special Employment Support Sectors" and are eligible for up to 90 per cent of the wages/leave allowances provided. As of September 29, 2020, 81,351 enterprises had applied for the subsidies,

[13] Ministry of Employment and Labor. Available at: http://www.moel.go.kr/english/poli/poliLaw_view.jsp?idx=981

77.6 per cent of which had less than 10 employees and 16.1 per cent of whom had between 10 and 29 employees.[14] By sector, manufacturing accounted for 29.0 per cent, wholesale and retail trade for 19.0 per cent and accommodation and restaurants for 9.5 per cent. The number of applications to date in 2020 represents a more than 50-fold increase from 2019. At the same time, the government is also running the Family Care Leave scheme for workers who have to take time off to care for family members, providing KRW 50,000 per day to workers who have to take such leave on grounds related to COVID-19. Taking into account the increasing needs for family care, the government in September 2020 extended the maximum number of leave days that a worker can use per year from 10 to 20 days in September 2020.

The government has also expanded the Job Stabilization Fund, which was established in 2018 to support small enterprises with the minimum wage hike in that year. Under the Fund, subsidies are provided to establishments with less than 30 workers to subsidize the wages of employees earning KRW 2.15 million or less (USD 1,811). As a result of COVID-19, the subsidy amount provided to enterprises with less than 10 employees has risen by up to 64 per cent while the amounts for enterprises with ten or more employees have been increased by 44 per cent.

Measures to promote an economic recovery has centred on supporting hard-hit industries and boosting consumption. The Key Industry Stabilization Fund was introduced to support seven industries severely impacted by the pandemic: airlines; shipping; shipbuilding; autos; general machinery; electric power; and communications. The Fund provides loans, payment guarantees and investments and conditions for accessing the Fund include a requirement to maintain employment and limits on executive compensation and dividends among other conditions.[15]

A one-time universal transfer, which accounts for almost 20 per cent of total supplementary spending, has propped up consumption in the second and third quarters of 2020. Leveraging the experience of undertaking a similar pilot scheme targeting only all 24-year-old residents in one municipality (Seongnam) of Korea, the Korean government in May 2020 began implementing a one-time universal transfer programme with the goal of bolstering domestic consumption and supporting SMEs and their employees.[16] Originally designed to target the bottom 70 per cent income bracket households, the programme was subsequently redesigned as universal transfer and by the end of August 2020, some 22 million households had received a total of KRW 14.2 trillion (USD 12.0 billion). The amount of the transfer differed by household size, up to a maximum of KRW 1 million (USD 842) for a household of four and above, and had to be consumed by the end of August 2020. Low-income households, totalling 2.7 million households, automatically received the transfer into their bank accounts being used to receive other public support. The remaining 19 million households had to apply for the transfer and had the option of receiving the transfer in the form of credit card points, prepaid cards or gift certificates that had to be used at small businesses operating within the local areas of the household. Applicant households also had the choice of donating the transfer to the State and households that did not submit an application before the deadline also had their transfers automatically donated to the State. These donations to the State, totalling KRW 280.3 billion (around 2 per cent of the total amount of transfers) were transferred to the Employment Insurance Fund to support job retention and job creation measures. An analysis of the usage of credit card points, which accounts for 66.1 per cent of the total transfers, indicate that the largest share (26.3 per cent) was spent in marts/groceries, followed by restaurants (24.3 per cent). Furthermore, with the government having made the transfers to 96 per cent of the all the households within one month, 59.7 per cent of the credit card points were spent in May 2020, while another 31.4 per cent was spent in June 2020, providing a timely stimulus.

A preliminary assessment indicates that the transfer provided a boost to consumption. A survey of 2,000 Korean households indicates that 36 per cent of households across all income groups increased

[14] https://www.newspim.com/news/view/20201005000214.

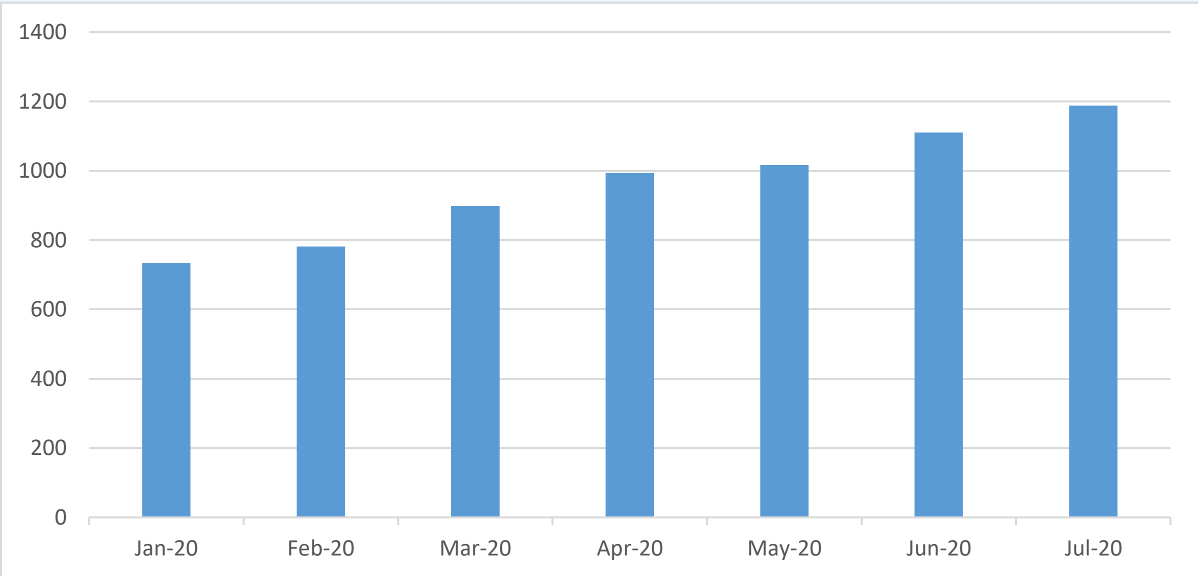
[15] For a more comprehensive discussion on labour market measures, see also Ministry of Employment and Labor. 2020. Responding to COVID-19 – Emergency Employment Measures. Available at: https://www.moel.go.kr/english/download_eng.jsp?type=&file=Responding%20to%20COVID-19%20-%20Emergency%20Employment%20Measures.pdf

[16] The pilot scheme in the municipality of Seongnam provided a "youth dividend" to 24 year olds to support them finance opportunities for self-development.

consumption spending and that 29 per cent of households increased total spending but that the spending increase took place without decreasing savings for 89 per cent of households.[17] Similar consumption voucher schemes have also been undertaken in other Asian counties during the COVID-19 pandemic and are aimed at supporting the local economy and discouraging the saving of the transfers or debt repayments, which occur to some degree in any stimulus package.

The government has also began to put in place measures to strengthen the post COVID-19 economy. While Korea's Employment Insurance system has undergone continuous calibration to improve its coverage since it was first introduced in 1995, the COVID-19 pandemic highlighted gaps in the system, with an estimated 4.6 million workers de jure or de facto excluded from the Employment Insurance system, namely dependant self-employed contractors, employees of micro enterprises (1 to 4 employees) and daily workers and short-time workers.[18] Those excluded are not able to access unemployment benefits, the payments of which have increased substantially as a result of the pandemic (figure 10). Given the exclusion of those who have borne the brunt of the job losses (see section 2) the government established a stop-gap measure in the form of the Emergency Employment Stability Subsidy, aimed at providing those excluded from the Employment Insurance system up to KRW 1.5 million (KRW 500,000 for three months). Going forward, as part of the Korean New Deal (box 2), the government will incrementally expand the employment insurance coverage to all those currently excluded by 2025. In addition to strengthening the social protection system, the Korean New Deal is composed of the Green New Deal and the Digital New Deal and aims to create 1.9 million jobs by 2025.

▶ **Figure 10. Unemployment benefit payments (KRW Billion won)**



Source: Government of Korea, Ministry of Employment and Labor.

[17] Kim, M: J.; Lee, S. 2020. Can Stimulus Checks Boost an Economy under COVID-19? Evidence from South Korea. IZA DP No. 13567. Available at: http://ftp.iza.org/dp13567.pdf

[18] Jung, H. 2020. COVID-19: Scale of Those Excluded from Social Protection and Alternative Policy Directions. Korea Labor Institute (KLI) Working Paper No. 2020-08. Available at: https://www.kli.re.kr/kli_eng/selectBbsNttList.do?bbsNo=31&key=220

▶ Box 2. The Korean New Deal

In response to structural changes expected as a result of COVID-19, including an accelerated transition to a digital and green economy, and the associated widening labour market polarization, the Korean New Deal is a national development strategy that seeks to transform Korea into a first-mover, low-carbon and inclusive country. The Korean New Deal is based on 3 pillars: the Digital New Deal, the Green New Deal and a stronger social protection system.

Under the Digital New Deal, the government will invest in ICT infrastructure, including a "Data Dam" which will collect large amounts of data to support big data development, and support the better integration of data, network and artificial intelligence (DNA) throughout the economy. The Green New Deal seeks to achieve net-zero emissions through investments in eco-friendly energy infrastructure while supporting climate-friendly industries. In anticipation of the expected churns in the labour market as a result of the transition towards a more digital and environmentally-friendly economy, an overarching policy is that of strengthening the social protection system, including through advanced job training, expansion of the employment insurance system to cover workers in non-standard forms of employment and better matching of skills and jobs.

Job creation is at the centre of the Korean New Deal. Through public investments that are aimed at catalysing private investment, the Deal is expected to invest a total of KRW 160 trillion (US$ 135 billion) between 2020 and 2025 and create 1.9 million jobs, including 0.9 million from the Digital New Deal, 0.7 million from the Green New Deal and 0.3 million from the strengthening of the social protection system. The government has identified 10 major projects under each of the pillars, including the identification of specific employment targets.

Source: Government of the Republic of Korea, Korean New Deal: National Strategy for a Great Transformation, July 2020.

Social dialogue has played an important role in responding swiftly to the pandemic and its socioeconomic fallout. In addition to tripartite oversight on measures, including the Employment Retention Subsidy, a Tripartite Declaration to Overcome the Crisis Caused by Spread of COVID-19 was agreed upon in March 2020, identifying actions in the areas of (i) addressing challenges faced by workers and supporting their work safety; (ii) preventing further spread of COVID-19 and enhancing protection of public life and health; (iii) increasing support for job security and vulnerable groups; and (iv) overcoming economic crisis by supporting SMEs and small merchants and revitalizing local economies.[19] The Economic, Social and Labor Council in July 28, 2020 also adopted the tripartite agreement on overcoming the COVID-19 pandemic.[20] Furthermore, a Special Sub-committee for Overcoming COVID-19 was established to follow-up on the implementation of the two agreements of March and July, 2020.[21]

[19] Economic, Social and Labor Council, available at: http://english.eslc.go.kr/bbs/data/view.do?menu_idx=2102&bbs_mst_idx=BM0000000122&data_idx=BD0000000054

[20] Economic, Social and Labor Council, available at [in Korean]: http://www.eslc.go.kr/bbs/data/view.do?pageIndex=1&SC_KEY=&SC_KEYWORD=&bbs_mst_idx=BM0000000217&menu_idx=2286&tabCnt=0&per_menu_idx=&submenu_idx=&data_idx=BD0000000693&memberAuth=Y&stype=&root_yn=Y

[21] Economic, Social and Labor Council, available at [in Korean]: http://www.eslc.go.kr/bbs/data/view.do?pageIndex=1&SC_KEY=&SC_KEYWORD=&bbs_mst_idx=BM0000000217&menu_idx=2286&tabCnt=0&per_menu_idx=&submenu_idx=&data_idx=BD0000000694&memberAuth=Y&stype=&root_yn=Y

5. Further considerations

Going forward, further policy consideration could be given on three areas: giving an explicit full employment mandate to the Bank of Korea; strengthened measures to support women re-enter the labour force; and strengthened assistance in supporting a more effective transition of older workers to new careers in self-employment. While the Bank of Korea *de facto* takes employment considerations into account in monetary policymaking, an explicit full employment target could better foster public expectations of growth. With an explicit or *de jure* mandate on full employment, enterprises can expect a supportive policy environment and be more likely to invest and hire additional workers while consumers can feel more confident to spend, propping up aggregate demand. The United States Federal Reserve System has had such a mandate since 1978, and in August 2020 shifted its monetary policy approach to better achieve its maximum employment mandate.[22] In 2018, the mandate of the Reserve Bank of New Zealand was modified to include "maximum sustainable employment" in addition to price stability.[23]

With labour force participation rates of women set to fall for the first time since 2008, the pandemic is threatening years of progress and strengthened measures for labour market attachment are required. Evidence from Korea between 2000-09, which includes the impact of the Great Recession, indicates that 37 per cent of the unemployed moved into inactivity within one year of displacement (defined as losing the job for economic reasons including closure, bankruptcy and downsizing) and that only 11 per cent of inactive people moved back into work each year.[24] In particular, women were more likely than men to withdraw completely from the labour force after displacement whereas they were less likely to be re-employed following displacement.[25] In the context of a low fertility rate, the Republic of Korea has implemented a wide range of policies to support women's re-entry into the labour force, including Women's Re-employment Centres, which provide comprehensive career services and various subsidies for retention or re-employment of women. To address the fallout from COVID-19, the government also introduced a childcare coupon programme, providing KRW 400,000 (US$ 337) per child to households with children aged less than 7 years. With childcare being identified by women (aged 15-54) as the main reason behind career interruptions (38.2 per cent, followed by marriage at 30.7 per cent),[26] there is a need to carefully review the programmes with a view to drawing important lessons learnt and making appropriate calibrations to ensure quality childcare is provided, a more balanced sharing of unpaid care work is fostered and women's retention or re-entry into the labour market is supported.

Further policy support is required to assist older workers in making a more successful transition to self-employment. The practice of early retirement is widespread in Korea, and upon such retirement, many older workers in their late 40s and in their 50s start a micro-business such as a restaurant or a convenience store to support themselves. Many of these older workers however are not well prepared for their second careers in self-employment and the pandemic has further taken a deep toll on these micro-businesses. Furthermore, such a push to self-employment may accelerate with evidence pointing to the employment losses in routine occupations occurring during recessions.[27] Thus, in addition to supporting the school-to-work transition of young people, whose job prospects have diminished due to COVID-19, policies need to be strengthened to better prepare older

[22] See Board of Governors of the Federal Reserve System. Statement on Longer-Run Goals and Monetary Policy Strategy. August 2020. Available at: https://www.federalreserve.gov/monetarypolicy/review-of-monetary-policy-strategy-tools-and-communications-statement-on-longer-run-goals-monetary-policy-strategy.htm

[23] See Reserve Bank of New Zealand: New PTA requires Reserve Bank to consider employment alongside price stability mandate. Available at: https://www.rbnz.govt.nz/news/2018/03/new-pta-requires-reserve-bank-to-consider-employment-alongside-price-stability-mandate [March 27, 2018].

[24] OECD. 2013. *Back to Work: Korea: Improving the Re-employment Prospects of Displaced Workers* (Paris). Available at: http://dx.doi.org/10.1787/9789264189225-en

[25] Ibid.

[26] Statistics Korea. 2019. Supplementary Results of the Local Area Labour Force Survey in the First Half of 2019 (Career Interrupted Women).

[27] Ding, L.; Saenz Molina, J. 2020. Forced Automation by COVID-19? Early Trends form Current Population Survey Data. Federal Reserve Bank of Philadelphia Discussion Paper.

workers who are looking to begin their second careers in self-employment. In particular, with evidence indicating a large gap in literacy and numeracy skills between younger and older generations,[28] improving access to lifelong learning opportunities for older generations identified through social dialogue among the tripartite partners can make an important contribution in supporting their transition to self-employment or re-employment.

[28] OECD. 2016. *Skills Matter: Further Results from the Survey of Adult Skills* (Paris). Available at: https://dx.doi.org/10.1787/9789264258051-en

Contact details

International Labour Organization
Route des Morillons 4
CH-1211 Geneva 22
Switzerland

Employment, Labour Markets and Youth Branch
E: emplab@ilo.org