

# Foreign workers in the Korean labour market: current status and policy issues

Seung-Cheol Jeon<sup>1</sup>

## Abstract

The number of foreign workers in Korea is growing rapidly, increasing from 1.1 million in 2012 to 1.4 million in 2016. As a result, the impact of foreign workers on the labour market and Korean society is expected to increase.

As industrialisation and income levels advanced from the late 1980s, a shortage of low-skilled workers developed. From the early 1990s, the industrial trainee system encouraged an influx of foreign workers. Currently, quotas for foreign workers are in place to ensure their orderly entry and management.

The inflow of foreign workers is seen to have had a generally positive effect on the Korean economy, contributing to domestic economic growth by increasing labour input in industries that are less favoured by domestic workers, and easing the trend towards workforce ageing in the Korean labour market. But, as most foreign workers are engaged in low-skilled, low-wage occupations, the inflow has tended to exacerbate labour market polarisation and to delay the restructuring of marginal companies.

Keywords: Foreign workers, Korean labour market, foreign workforce policy.

JEL classification: F16, J61, J68.

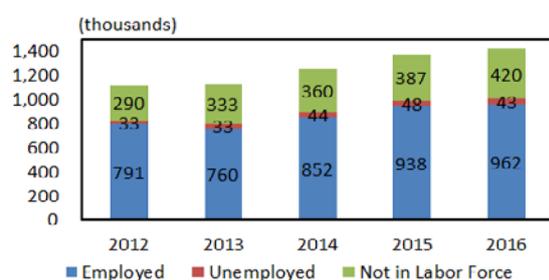
<sup>1</sup> Deputy Governor, Bank of Korea.

## I. Background

The foreign working-age population<sup>2</sup> in Korea is growing rapidly, increasing from 1.114 million in 2012 to 1.425 million in 2016. As of 2016, the foreign labour force numbered 1.005 million persons, of whom 962,000 persons were in employment and 43,000 persons unemployed. As the pace of influx of foreign employees continues to outstrip growth in the total number of the employed, the share of the foreign workers in the overall domestic labour market has been rapidly increasing.

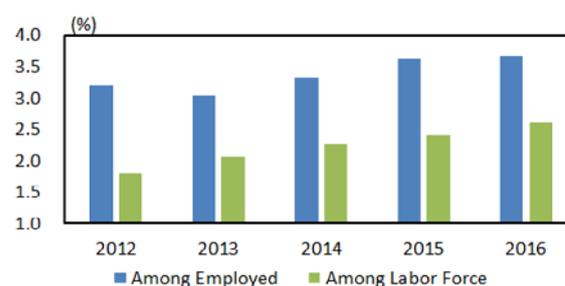
Graph 1

Foreign working-age population



Source: Statistics Korea.

Ratio of foreign workers<sup>1</sup>



<sup>1</sup> Foreign employed/total domestic employed and foreign labour force/total domestic labour force

Source: Statistics Korea.

As a result, the impact of foreign workers on the labour market and Korean society are expected to increase. Against this backdrop, this paper analyses Korea's foreign workforce and examines the related policy implications.

## II. Foreign workers in the Korean labour market

### 1. Foreign workforce policy in Korea

As industrialisation and income levels advanced from the late 1980s, a shortage of low-skilled workers developed. From the early 1990s, there was an influx of foreign workers, due mainly to the industrial trainee system.<sup>3</sup> However, poor management of the system led to problems such as corrupt brokers and workers fleeing their workplaces. Later, with improvements such as the introduction of a foreign employment permit system in 2003, regulations on the employment of foreign

<sup>2</sup> Foreign population aged 15 or over with long-term visa status.

<sup>3</sup> At the initial stage, companies with overseas local branches imported foreign workers by sending them to domestic sites for technical training (for six months). Later, the influx of foreign workers increased as companies without overseas local branches were allowed to hire trainees.

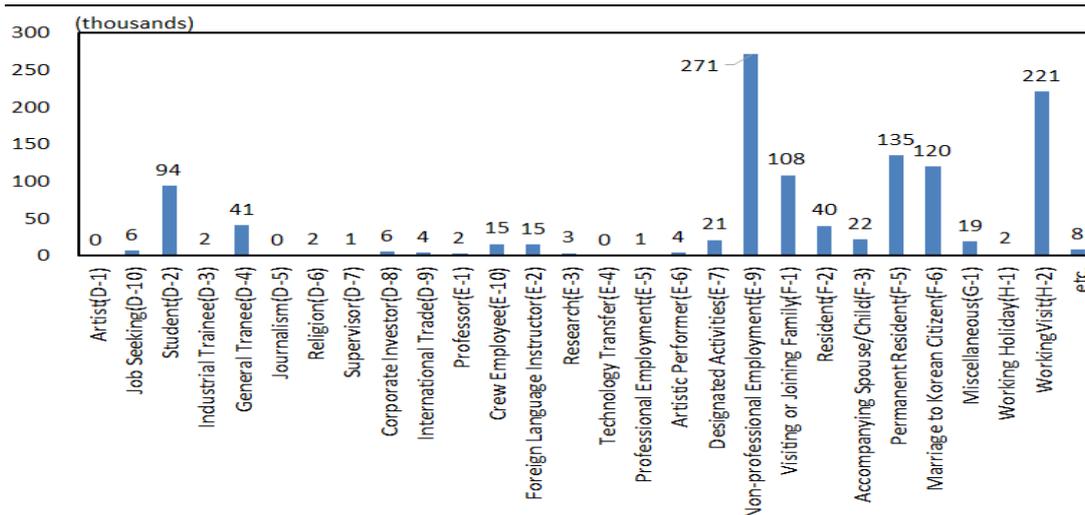
workers were eased and employment protections for foreign workers were strengthened. As a result, the number of such workers increased rapidly.

Under the current employment permit system, foreigners with long-term visas who are eligible to work in Korea can be classified into two main categories: non-professional and professional. Non-professional workers hold mostly non-professional employment (E-9), working visit<sup>4</sup> (H-2) or compatriot<sup>5</sup> (F-4) visas. Foreign workers with working visit and compatriot visas can search for jobs autonomously after arriving in Korea, and they can be employed in a wider range of industries than can those with non-professional employment visas. The number of professional workers<sup>6</sup> is not large, and of them language instructors account for the largest share.

Currently, quotas<sup>7</sup> for foreign workers are in place to ensure their orderly entry and management. In the case of the general employment permit system (E-9), a quota<sup>8</sup> of about 50,000 new general foreign workers is assigned by industry every year. In the case of foreign workers with working visit (H-2) visas, these stood at 303,000 persons, with the total number being limited. However, since requirements for receiving these visas are relatively strict, about 270,000 compatriots are reported to have such visas as of the end of 2016.

Foreign population with long-term visa status<sup>1</sup>

Graph 2



1 As of September 2017, compatriots with foreign nationality have been excluded.

Source: Ministry of Justice.

<sup>4</sup> Working visit visas are for compatriots aged 25 or older who reside in China or areas of the former Soviet Union. They may stay in Korea for up to three years.

<sup>5</sup> Those with compatriot visas have obtained foreign nationality, and either they or one of their parents (or one of their grandparents) have Korean nationality. They may stay in Korea for two years.

<sup>6</sup> Journalism (D-5), religion (D-6), supervisors (D-7), corporate investors (D-8), international trade (D-9), professors (E-1), foreign language instructors (E-2), research (E-3), technology transfer (E-4), professional employees, including lawyers (E-5), designated activities (E-7) etc.

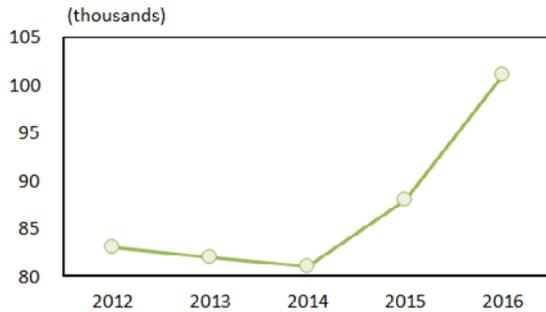
<sup>7</sup> The Foreign Workforce Policy Committee of the Prime Minister's Office decides the number of foreign workers who will be permitted entry and the industries in which foreign workers are allowed to work.

<sup>8</sup> In 2017, the total quota for new general foreign workers was 56,000.

As for other foreigners with long-term visas, a large number are foreign students (D-2, D-4-1) and married immigrants and permanent residents (F-2-1, F-6, F-5), and their number has recently been on the rise.

Graph 3

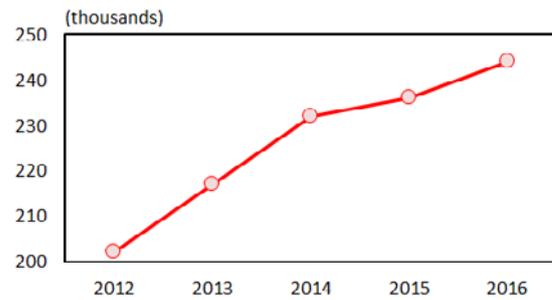
Foreign students<sup>1</sup>



1) D-2 and D-4-1

Source: Statistics Korea.

Married immigrants<sup>1</sup> and permanent residents<sup>2</sup>



1 F-2-1 and F-6 2 F-5

Source: Statistics Korea.

At the early stage of labour market opening, the Korean government allowed foreign workers to remain employed only temporarily to help solve the nation's labour shortage, while restricting them from settling in Korea permanently.<sup>9</sup> Since the 1980s, when the trainee system was introduced to respond to increased demand for low-wage foreign labour in line with rapid economic growth, the aim of Korea's foreign workforce policy has been to supplement the domestic labour market.

Taking into account domestic labour market conditions, the current employment permit system still restricts the employment of foreigners by means of regulations concerning the location and period of employment. To protect domestic workers, foreign workers are allowed to remain employed for a maximum of five years, and the number of foreign workers introduced is adjusted annually depending on domestic labour market conditions. Furthermore, there are many regulations regarding both employers and foreign workers — employers have to make efforts to hire domestic workers before hiring foreign workers,<sup>10</sup> and foreign workers face restrictions on changing their workplace during the period of employment.

<sup>9</sup> Article 1 of Chapter 1 of the Act on the Employment etc of Foreign Workers stipulates its purpose as contributing to the smooth supply of and demand for human resources and the balanced development of the national economy through the systematic introduction and management of foreign workers.

<sup>10</sup> Employers must post job openings for domestic workers at employment security agencies such as manpower banks, and only if they then fail to hire domestic workers are they allowed to apply for permits to employ foreign workers.

## 2. Status of foreign workforce

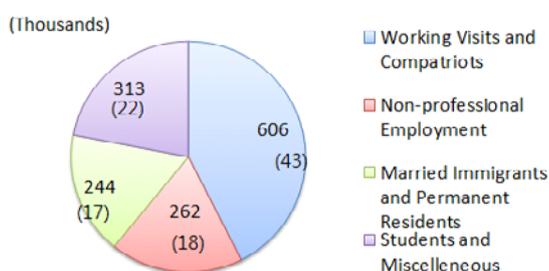
### By visa type and occupation

Looking at the foreign workforce by visa type, the non-professional workforce, including non-professionals employed based on domestic corporate demand, compatriots and those with working visit visas,<sup>11</sup> accounted for the largest share (868,000 persons, 71%). In addition, the shares of residents and married immigrants and that of foreign students were also high, but the share of the professional workforce was insignificant.

As the inflow has been led by the non-professional foreign workforce, foreign workers are employed mainly in low-paid manual jobs such as craft jobs, machine operation and assembly (375,000 persons, 39%), elementary occupations (305,000 persons, 32%), and service-sales (121,000 persons, 13%). Male foreign workers are employed mainly in craft jobs, machine operation and assembly (321,000 persons, 50%), while female foreign workers are employed mainly in elementary occupations (122,000 persons, 38%).

Graph 4

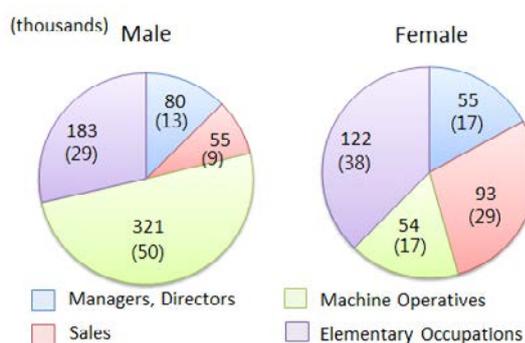
Foreign workforce by visa type<sup>1, 2</sup>



1 As of 2016 2 ( ) are ratios

Source: Statistics Korea.

Employed foreign workers by occupation<sup>1, 2</sup>



1 As of 2016 2 ( ) are ratios

Source: Statistics Korea.

### By region and nationality

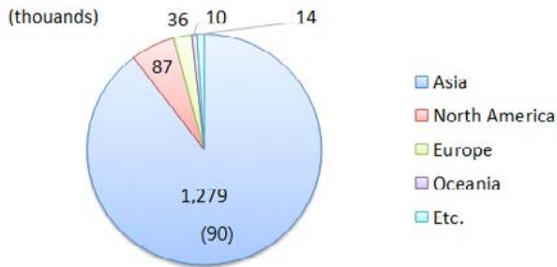
Foreign workers are mainly from nearby countries of the Asian region (1.279 million persons, 90%). Apart from Asia, North America also accounts for a large share of foreign workers (87,000 persons, 6%), led by compatriots.

Looking at the Asian region alone, the Korean-Chinese population (35%) and the Chinese population (22%) account for the greatest shares, followed by Southeast Asian countries such as Vietnam (8%) and Thailand (6%). Low-skilled workers in the manufacturing sector arrive mostly from China and Southeast Asia, while compatriots residing in foreign countries originate mainly from countries such as China and Uzbekistan. Looking at the nationality of employed foreign workers, the Korean-Chinese population (40% of male foreign workers, 57% of female foreign workers)

<sup>11</sup> Compatriots from China, the United States and areas of the former Soviet Union.

accounts for the majority, while the shares of Vietnam (7%) and Indonesia (6%) are high for male workers, and those of the non-Korean-Chinese population (10%) and Vietnam (7%) are high for female workers.

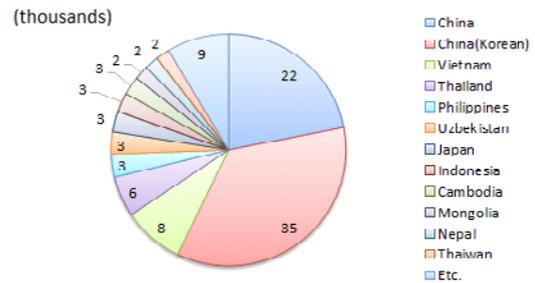
Foreign workforce by region<sup>1, 2</sup>



1 As of 2016 2 ( ) are ratios

Source: Statistics Korea.

Asian foreign population<sup>1</sup> by country of origin<sup>2</sup>



1 Total Foreign Population 2 As of 2016

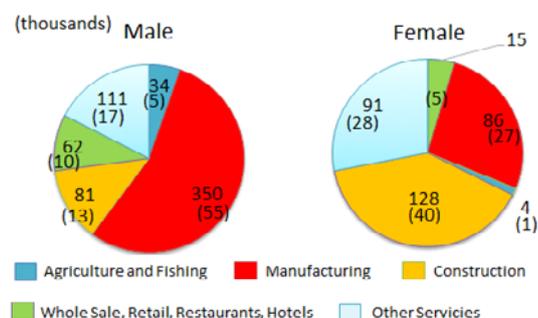
Source: Ministry of Justice.

### By industry

By industry, the manufacturing industry (45%) accounts for the largest share of the total foreign workforce, followed by wholesale and retail and restaurants and hotels (20%), business, personal, public services and others (19%),<sup>12</sup> and construction (9%). The largest proportion of male foreign workers is employed in the manufacturing industry (55%), while the biggest share of female foreign workers is employed in the wholesale and retail, and restaurants and hotels industries (40%).

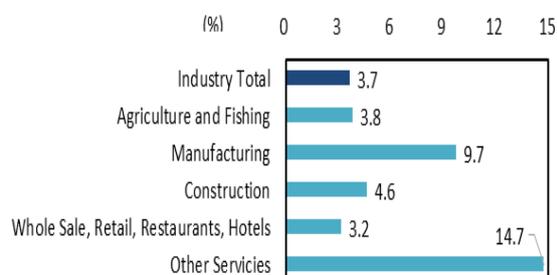
Looking at the share of foreign workers in the total number of persons employed, foreign workers occupy much larger shares of the manufacturing sector and the business, personal, public services and others sectors that include workers dispatched by temporary work agencies.

<sup>12</sup> A majority of foreign workers in the business, personal and public services and other services industries are engaged in construction as workers dispatched by temporary work agencies.

Employed foreign workers by industry<sup>1, 2</sup>

1 As of 2016 2 ( ) are ratios

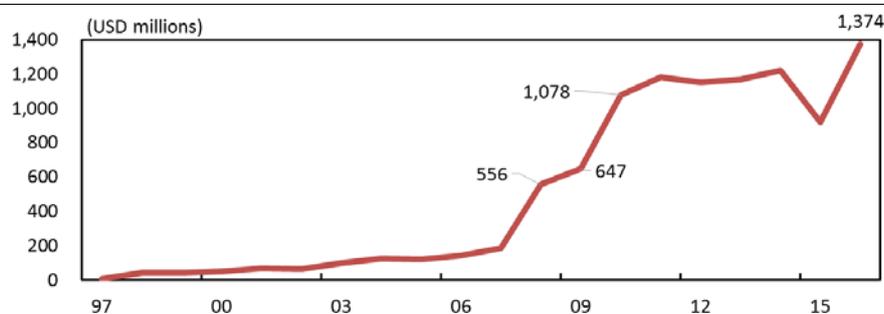
Source: Statistics Korea.

Ratio of foreign workers to total workers by industry<sup>1</sup>

1 As of 2016

Source: Statistics Korea.

Meanwhile, as the number of foreign workers rises, their international remittances are also increasing rapidly. Looking at the annual value of international remittances<sup>13</sup> by foreign workers who have been employed for less than a year and on whom statistics are available,<sup>14</sup> the value has grown significantly, from around USD 600 million during the financial crisis (in 2008 and 2009) to USD 1.374 billion as of 2016.

Wages and salaries paid to non-resident workers<sup>1</sup>

1 Non-resident workers are foreign workers who have been working for less than a year.

Source: Bank of Korea.

## By wage level

As a majority of foreign workers are engaged in low-income elementary occupations, nearly half of them (49%) occupy the USD 860–1,700 bracket in terms of monthly average earnings. Due to the gender differences in major occupations, male workers are concentrated in the bracket of USD 1,700–2,600 (46%), while a majority of female

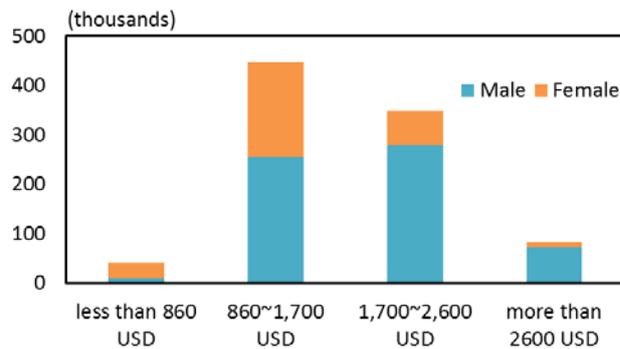
<sup>13</sup> Wages and salaries paid to non-resident workers recorded on the balance of payments.

<sup>14</sup> 38% of total foreign workers as of 2016.

workers belong to the bracket of USD 860–1,700 (64%). Compared with 2015, however, the overall wage level has increased.

Graph 8

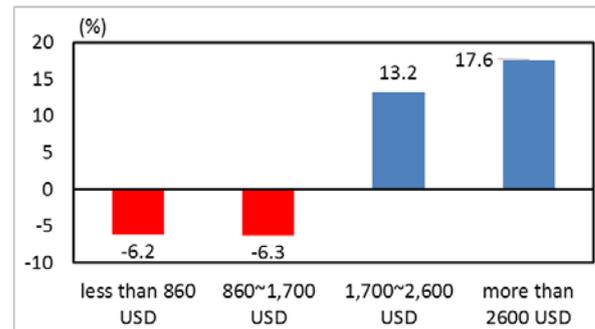
Employed foreign workers by monthly average earnings<sup>1</sup>



1 As of 2016

Source: Statistics Korea.

Change of the distribution of monthly average earnings of employed foreign workers<sup>1</sup>



1 2016 Distribution - 2015 Distribution

Source: Statistics Korea.

### III. Effects of the inflow of foreign workers

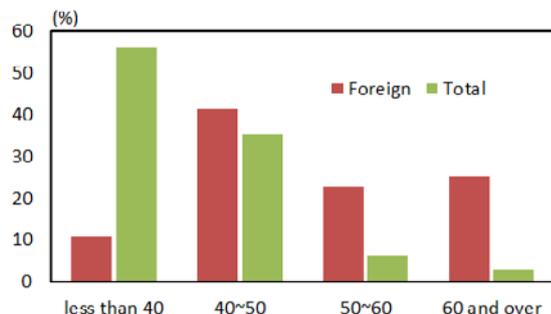
The inflow of foreign workers is seen to have had a generally positive impact on the Korean economy, contributing to domestic economic growth by increasing labour input in industries that are less favoured by domestic workers,<sup>15</sup> and easing the trend towards the ageing of the workforce in the Korean labour market. As most foreign workers are engaged in low-wage occupations requiring a lower level of skills, however, the inflow has tended to exacerbate labour market polarisation and to delay the restructuring of marginal companies.

#### 1. Positive effects

The inflow of foreign workers has helped ease the labour shortage in sectors less favoured by domestic workers due to poor working conditions, such as long working hours and low wages. This is because foreign workers are employed in manufacturing and low-wage sectors that require long working hours and shift-work.

<sup>15</sup> According to the IOM Migration Research & Training Centre (2011), the GDP enhancement effect of immigrant workers was estimated at 1.08% as of 2008.

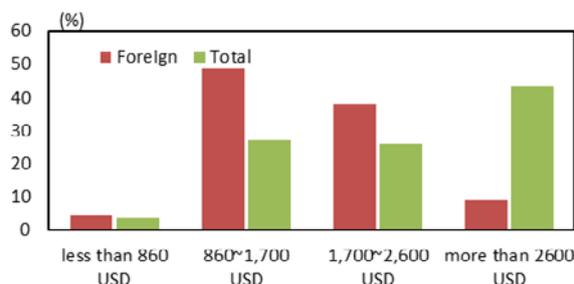
Employed workers by monthly average working hours<sup>1</sup>



1 As of 2016

Source: Statistics Korea, Ministry of Employment and Labour

Employed workers by monthly average earnings<sup>1</sup>



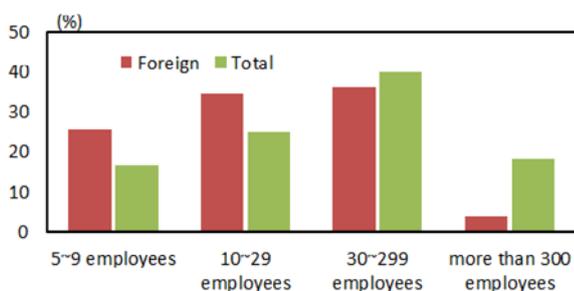
1 As of 2016

Source: Statistics Korea, Ministry of Employment and Labour

Specifically, foreign workers are helping to solve the labour shortage in SMEs. Owing to the employment permit system that restricts the size of eligible workplaces, most foreign workers are engaged by small-sized employers. As SMEs have more difficulty than large corporations in hiring people, and this gap is widening, their demand for foreign workers is growing steadily.

Graph 10

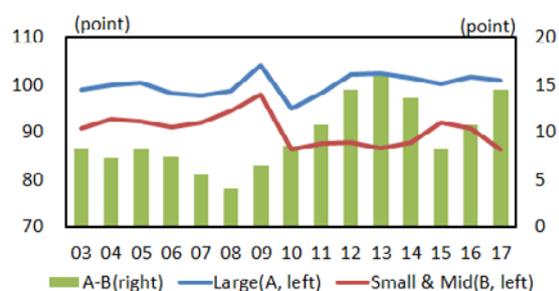
Employed workers by company size<sup>1</sup>



1 As of 2016

Sources: Statistics Korea, Ministry of Employment and Labour.

Labour force situation (business survey index) by company size<sup>1</sup>

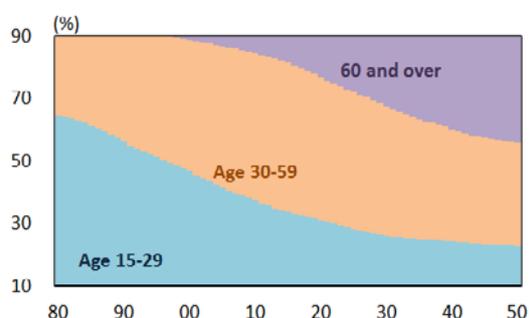


1 Smaller value implies shortage of labour supply 2 Monthly Average, Year 2017 is monthly average from Jan. to Oct.

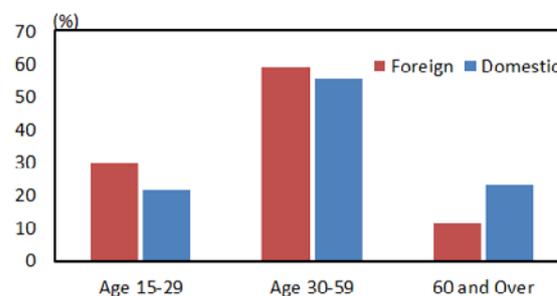
Source: Bank of Korea.

Foreign workers are also helping to slow the ageing of the workforce in line with that of the population. As the Korean population gets older, workforce ageing is advancing rapidly. But a substantial number of foreign workers are young and prime-age workers, who thus help to slow the ageing trend in the Korean labour market. This will not be a fundamental solution to workforce ageing, however, given that foreign workers will also age in the long run (Choi (2010)).

## Population and population projection



Source: Statistics Korea.

Employed workers by age<sup>1</sup>

1. As of 2016.

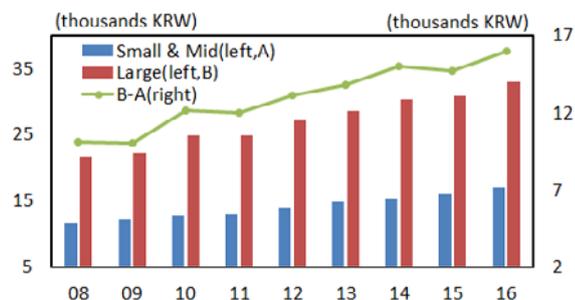
Source: Statistics Korea.

## 2. Negative effects

Foreign workforce inflows have exacerbated the polarisation of the labour market. Since industries that need highly educated talent hire primarily Korean workers, while foreign workers are engaged in SMEs or in industries with low wages and low productivity, their inflows have been one of the factors expanding the wage gap in some industries. In manufacturing, for example, the wage gap between SMEs and large companies has widened as a consequence of the increasing number of foreign workers employed in businesses with less than 300 regular workers.<sup>16</sup> In the food and accommodation sector, which has a high share of foreign workers, the low wage structure has intensified.

<sup>16</sup> Under the Employment Permit System (including the general and special systems), only manufacturing businesses with fewer than 300 regular workers or KRW 8 billion or less in capital are allowed to employ foreign workers.

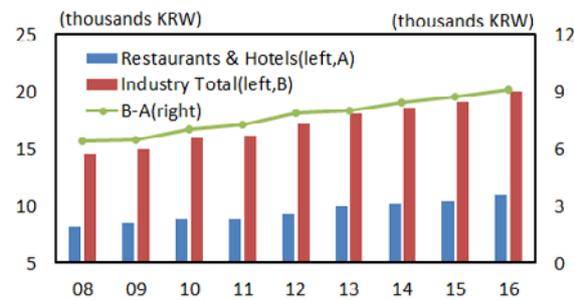
Hourly earnings (manufacturing sector)<sup>1, 2</sup>



1 Total earnings/total hours 2 Small & mid: 5-299 employees, Large: 300+ employees

Source: Ministry of Employment and Labour.

Hourly earnings<sup>1</sup>

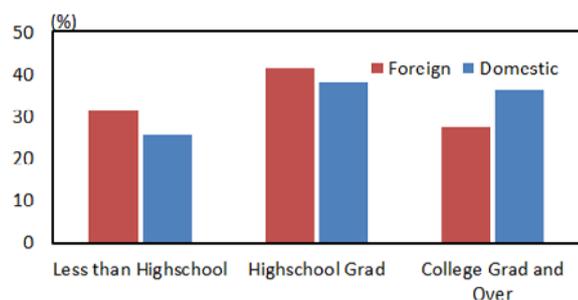


1 Total earnings/total hours

Source: Ministry of Employment and Labour.

On the other hand, the number of foreign professionals has remained little changed<sup>17</sup> at around 50,000 persons; most foreign professionals are invited as foreign language instructors or cooks, and the share of highly talented foreign professionals, such as professors and researchers, is only 12%.

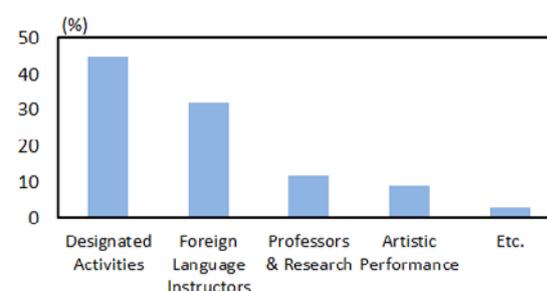
Employed workers<sup>1</sup> by education<sup>2</sup>



1 Foreign Workforce for foreigners 2 As of 2016

Source: Statistics Korea.

Professional foreign employment by visa type<sup>1, 2</sup>



1 C-4 (Temporary Employment) and E1~7 2 Designated Activities are mostly Cook and Chef

Source: Ministry of Justice.

The flow of foreign workers mainly into low-income and low-skilled sectors also tends to delay the restructuring of marginal enterprises, since these companies are able to survive based on their cheap foreign labour.

<sup>17</sup> 48,000 persons in 2012 and 46,000 persons in 2016, based on workers with E-1 to E-7 visas.

## IV. Conclusions and policy implications

The relationship between foreign and Korean workers in the Korean labour market is considered a supplementary one. Given the decline in the working-age population, foreign workers, many of whom are members of the core age group, are employed in sectors with an insufficient supply of domestic workers. In this way, foreign workers help to prevent offshoring in the manufacturing sector, hence expanding employment<sup>18</sup> and raising Korea's GDP. On the other hand, given that foreign workers are engaged mainly in low-wage and low-skilled sectors, there are negative results as well, such as more acute polarisation of the labour market and the delayed restructuring of marginal enterprises. Going forward, structural reforms to ease the labour market dualism, and policies to promote social consolidation between foreign and domestic workers are necessary.

Meanwhile, according to the five-year basic plan for immigration policy,<sup>19</sup> which serves as the basis for all policies related to foreigners, the Korean government will continue to focus on low-wage, non-professional migrant workers to ease labour shortages in non-preferred industries.

<sup>18</sup> An empirical study (Kang (2017)) found that an increase in the number of foreign workers leads to a rise in the employment of domestic workers, thanks to expanded production.

<sup>19</sup> Starting from 2008, the Ministry of Justice has developed a basic plan for immigration policy every five years, in consultation with related ministries. Currently, research on the development of the third basic plan for immigration policy has been completed (November 2016, IOM MRTC, worker paper requested by the Ministry of Justice).

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