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REPUBLIC OF KOREA'S RESPONSE TO THE CRISIS

Unstable growth leads to employment volatility

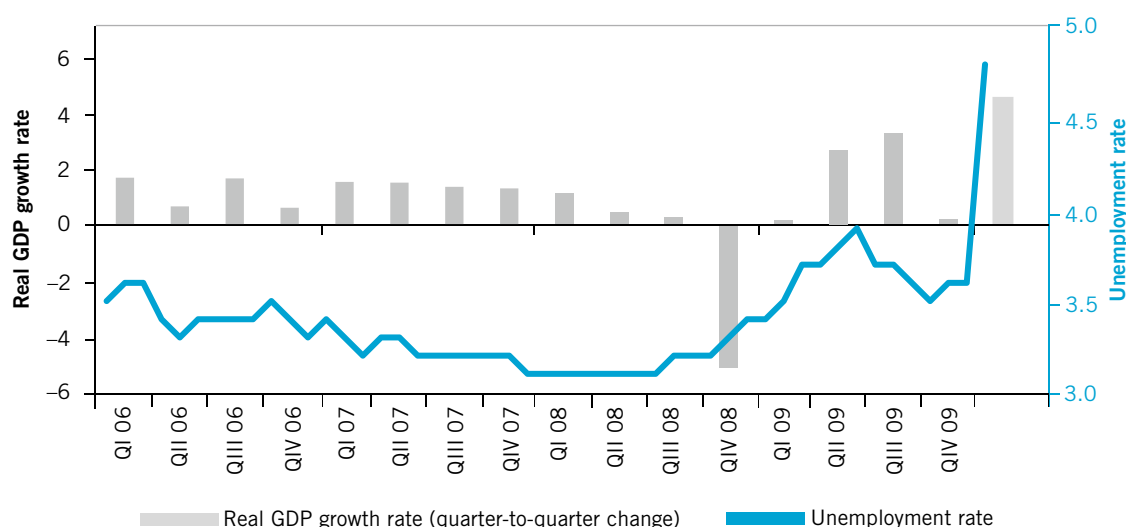
After expanding by 5.2 per cent in 2006 and 5.1 per cent in 2007, economic growth in the Republic of Korea slowed to 2.3 per cent in 2008, weighed down by a contraction of 5.1 per cent in the fourth quarter of 2008 compared with the previous quarter. Asia's fourth largest and export-dependent economy stagnated in the first quarter of 2009, but growth subsequently picked up in the second and third quarters averaging about 3 per cent. Weakness returned again in the fourth quarter, however, with GDP expanding by just 0.2 per cent, and annual growth was 0.2 per cent in 2009.¹

Compared to output, employment has improved relatively slowly. The unemployment rate, which

stood at 3.2 per cent in the third quarter of 2008, rose steadily in the first half of 2009 to 3.9 per cent in May 2009. The rate edged down only slightly in the second half of the year, but again jumped by 1.2 percentage points from December 2009 to January 2010, to 4.8 per cent.

The contraction in domestic demand, which has reduced the number of businesses, combined with a drop in exports has had an adverse impact on the labour market, and employment levels in industry have shown a gradual downward trend since the last quarter of 2008. The construction sector has also shed a large number of jobs. On the other hand, there has been a steady increase in the number of people employed in social and personal services since the beginning of 2009, due in part to large-scale public job creation projects detailed in this country brief.

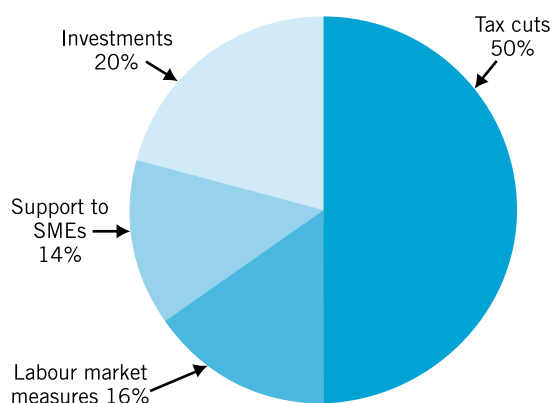
Figure 1. Monthly unemployment rate and quarterly real GDP growth rate by quarter, 2006–2009 and 2010 forecasts (percentage)



Source: Statistics Korea and Bank of Korea information. Seasonally adjusted data.

Stimulus package

Figure 2. Elements of the fiscal stimulus package



Source: ILO calculations based on Ministry of Strategy and Finance and Financial Services Commission documents.

Size: Korea's fiscal stimulus amounts to KRW67.1 trillion (US\$56 billion)² for the period between 2009 and 2012, corresponding to about 7.4 per cent of GDP.³ As a share of GDP, the amount is the highest among OECD countries and one of the highest among G20 countries, although the time frame is longer than in most other G20 countries.

Composition: Tax cuts, including reductions in corporate and income tax, represent about half of the total stimulus package. Investments in infrastructure aimed at creating jobs, including green transportation networks, account for the next largest share, at 20 per cent. Labour market measures, including job training, job sharing, expansion of unemployment benefits and social assistance schemes account for 16 per cent of the package. Furthermore, about one-seventh of the package was allocated to providing support to businesses, in particular small and medium-sized enterprises (SMEs), including financial assistance, credit guarantees and business development serv-

ices. A substantial portion of the total fiscal stimulus package was earmarked for green measures, which are described in the section on green growth.

Retaining and creating jobs

Amid a deteriorating employment situation, the Korean government in 2009 introduced a comprehensive package of measures designed to retain and create jobs. Such measures were facilitated through a Grand Social Consensus between the social partners and civic groups agreed in February 2009. Based on this accord, the government supported the social partners in job-sharing efforts, including expanding subsidies for employment retention and easing eligibility requirements. For example, subsidies for SMEs rose from two-thirds of wages to three-fourths of wages, while for large enterprises such subsidies increased from one-half to two-thirds of wages. Nearly 30 per cent of workplaces with 100 or more employees participated in the job-sharing scheme, which is estimated to have retained a minimum of 90,000 jobs.⁴

Job retention efforts were complemented by measures aimed at direct job creation, towards which the government earmarked KRW5.3 trillion (US\$4.4 billion), targeting about 810,000 beneficiaries (table 1). These measures included the "Hope Work" programme which is aimed at providing temporary jobs to low-income households and supporting the recovery of local economies. Under the programme, the government is targeting 250,000 households with incomes below 120 per cent of the minimum level considered necessary to cover basic costs of living, and assets below a certain threshold. By providing 30 per cent to 50 per cent of the monthly benefits in the form of coupons that can be used in local markets and stores, the government is also seeking to support the recovery of local economies. Jobs created include repairing and maintaining public facilities, and to maximize the employment content of the programme, 25 per cent of the budget has been allocated for material costs.

Table 1. Korean government labour market initiatives in 2009

Initiatives	Targeted number of beneficiaries (thousands)	Share of total budget (%)
Direct job creation	817	32.5
Internship programme	102	8.4
Social service	166	9.6
Temporary jobs including "Hope Work"	549	14.5
Support for employment retention	147	3.7
Skills development	2,663	9.0
Start-up and related support	213	19.1
Unemployment support	1,796	35.7
Unemployment benefits	1,586	30.0
Subsistence allowance	209	5.7
Total	5,636	100.0

Source: Ministry of Labour.

Table 2. Major initiatives of the Green New Deal

Projects	Expected number of jobs to be created (thousands)	Share of total funding (%)
Revitalization of four major rivers	200.0	28.7
Eco-friendly transportation networks	138.1	19.2
National green information infrastructure	3.1	0.7
Water resource facilities and management	16.1	1.9
Green cars and clean energy	14.3	4.1
Recycling resources	16.2	1.8
Forest restoration	133.6	4.8
Energy conservation	170.7	16.0
Environmentally-friendly living space	10.8	1.0
Other related projects	257.1	21.8

Source: Ministry of Strategy and Finance.

The introduction of an internship programme also has sought to address the challenges young Koreans faced in the crisis-affected labour market. A total of 90,000 young interns were placed in public institutions and SMEs, with about 80 per cent of those in SMEs moving to regular jobs at the end of their internships. Supporting these measures are efforts to foster social enterprises and entrepreneurs, strengthen employment services and job placement, vocational training and support for the unemployed.

Green growth

In January 2009, the Republic of Korea announced a “Green New Deal” aimed at responding to the economic downturn in the short term by creating jobs while also strengthening the foundations for green growth in the medium to long term. The Green New Deal is a major effort to create new growth engines and jobs through green technology and clean energy, affect current consumption and production patterns and tackle the country’s heavy dependence on imported oil and gas, which account for a third of total imports.

The Green New Deal represents a consolidation of previous plans with increased expenditures woven in to counter the crisis. It calls for investment of KRW50 trillion (US\$42 billion) between 2009 and 2012 on nine core projects and 27 subsidiary projects, with 81 per cent of investments linked to environmental themes.⁵ Through a mix of means, including government spending on infrastructure, credit guarantees and assistance on research and development in green technologies and tax incentives, the Green New Deal sought to create about 140,000 jobs in 2009 and a further 820,000 in 2010–2012 (table 2), with about 10 per cent of these jobs aimed at young adults, aged 15 to 29. Based on previous analysis of investment in construction, the government expects about 30 per cent of the jobs created to be for higher-skilled labour, such as professionals, technicians, administrators, and office workers, and the remaining jobs for lower-skilled manual labourers.

The Korean government subsequently released a Five-Year Green Growth Plan in July 2009 covering the period between 2009 and 2013. This expands and streamlines the different projects under the Green New Deal and has total funding of KRW107.4 trillion (US\$89.5 billion), which includes the funding for the Green New Deal. The plan has three key objectives, underpinned by ten key policy directions (table 3).

Under the plan, the government is seeking to create between 1.56 million and 1.81 million jobs for both skilled and unskilled workers. Skilled jobs include bio-energy researchers, green project financing specialists, greenhouse gas emission certifiers, emissions permit traders and green building evaluators and certifiers. To support these efforts, the government in November 2009 formulated a “Plan to Create Green Jobs and Workers” with a view to fostering green jobs, enhancing labour mobility and the reallocation of workers. This includes strengthening labour market forecasts and information systems on the labour market to promote job creation in the green sector, establishing and improving national skills certification standards to meet the demands of the green industry and monitoring and improving working conditions at green workplaces with a view to promoting decent green jobs.

Outlook and challenges

The Korean economy is forecast to grow by 5.2 per cent and the unemployment rate to average 3.4 per cent in 2010.⁶ Unemployment remains a key concern; in particular, the unemployment rate for youth (aged 15 to 29) remains high, reaching 13 per cent in January 2010, compared with 11.1 per cent in January 2009. Creating decent employment opportunities for young Korean women and men remains a key challenge.

In addition, there is the issue of continued growth in the number of non-regular workers. Such workers increased as a result of the 1997–1998 Asian financial crisis, reaching 34.9 per cent of the total number of

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employees in August 2009 (a 1.1 percentage point rise from 2008).⁷ The government in July 2007 consequently introduced a law allowing companies to employ non-regular workers for a maximum period of two years, after which they would have to be shifted to regular status. The law remains controversial in Korea, and further steps involving social dialogue aimed at finding negotiated solutions to balance flexibility and security will be essential for the country's sustainable development.

To address the various challenges in the labour market, particularly the lag between output and employment recovery, the Korean government will formulate a National Employment Strategy in the first half of 2010.

As an export-dependent economy, prospects for Korea will remain contingent upon developments in global demand. Furthermore, the sizeable and timely stimulus package is widely credited as having played an important role in the recent economic and employment recovery, and sustaining the momentum as the stimulus packages are phased out will be a key concern.

¹ Bank of Korea (2009).

² An exchange rate of US\$1 = Korean won (KRW) 1,200 is used throughout this brief.

³ The Government of Korea in December 2008 announced a set of expansionary fiscal policies totaling KRW14 trillion (US\$11.7 billion). In January 2009, the government announced a "Green New Deal" totaling KRW50 trillion (US\$42 billion). In March 2009, the government unveiled a supplementary budget for job creation of KRW28.4 trillion (US\$24.1), of which KRW17.2 trillion (US\$14.3 billion) was earmarked as fiscal expenditures and the remainder to make up for expected shortfalls in tax revenues. The total fiscal stimulus amount of KRW67.1 trillion (US\$56 billion) is the figure used by the government (Ministry of Strategy and Finance and Financial Services Commission) and includes additional fiscal expenditures while eliminating double counting.

⁴ Ministry of Labour (2009).

⁵ UNEP (2009).

⁶ Bank of Korea (2010).

⁷ National Statistical Office (2009).

Table 3. Objectives and policy directions of the Five-Year Green Growth Plan

Mitigation of climate change and energy independence	Creating new engines of economic growth	Improvement in quality of life and enhanced international standing
1. Effective mitigation of greenhouse gas emissions	4. Development of green technologies as future growth engines	8. Greening the territory and building green transportation infrastructure
2. Reduction of the use of fossil fuels and the enhancement of energy independence	5. Greening of existing industries and promotion of green industries	9. Bringing green revolution into daily lives
3. Strengthening the capacity to adapt to climate change	6. Developing and promoting cutting-edge industries	10. Becoming a role-model for the international community as a green growth leader
	7. Establishing a policy and institutional infrastructure for the green economy	

Source: Presidential Commission on Green Growth, "Road to Our Future: Green Growth National Strategy and the Five-Year Plan (2009-2013)".