

# The Korea Economic Slice on KBC (Vol. 1.17)

An Exclusive Report from [Korea Business Central](#) and [DS - Financial Market Analysis](#)

By: [Robert Eberenz](#)

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*There's one aspect to financial markets and individuals' livelihood, which has become commonplace to economies around the world. Yet, with no cure or anecdote to speak of, the issue has become accepted and less talked about as it persists. Like the proverbial 900 pound gorilla in the room, the risks tied to stagnant labor markets are obvious. However, relative stability in Asian economic growth and Western stock markets has pushed the implications surrounding unemployment from the center of the room towards the corner. This week we'll be focusing on the state of the labor market in Korea and how it compares to other developed markets abroad. We will identify differences in labor conditions and data collection, then look at ways that Korea can improve its employment situation for future success.*

## Employed or Not?

There's no question that the Korean labor market is a bit of a conundrum. First and foremost is the comparatively small economically active population as a percent of total population, quantified by the "participation rate". The definition of "economically active" assumes that individuals are searching for a job or are employed in some way. In August 2010, the participation rate in Korea stood at [61.1%](#) of the total population, corresponding to a 3.3% unemployment rate, as stated by Statistics Korea.

However, we aren't satisfied with this 61.1% mark, because there are certain aspects of Korea's labor market that suggest the actual number of "economically active" individuals are much higher.

Anecdotally, all expats living in Korea know of at least a few elderly "ajumas" selling fish or vegetables on street corners and men collecting cardboard in their rickshaws. These people are all generating some form of personal income within each of our communities and it's safe to assume that these people don't pay taxes, aren't included in Korea's Employment Insurance System (EIS), and therefore aren't included in

the labor force or participation data.

In Korea, the participation rates of certain age groups are quite unusual. First, we'll look at the participation of rates of the young and old populations in Korea, and then compare them to the U.S.

*The tables below correspond to the most comparable data available. While dates and samples differ slightly, we can still make valid comparisons between age intervals within each labor market.*

May 2010 Korea Labor Participation		
Age	Participation rate	Unemployment Rate
20-24	49.85%	7.30%
25-29	73.77%	5.80%
55-64	64.70%	2.70%
65-79	36.75%	1.10%

*(Data is direct from the [U.S. Bureau of Labor Statistics](#) and [Statistics Korea](#))*

December 2008 U.S. Labor Participation		
Age	Participation rate	Unemployment Rate
20-24	74.40%	12.10%
25-34	83.30%	7.50%
55-64	64.50%	4.90%
65-79	19.60%	
Total	65.70%	7.20%

At first glance, the most obvious differences in these markets are the levels of participation rates among the young age group. When we directly compare the 20-24 year interval data, we find that the participation rate (74.40%) and unemployment rate (12.10%) are far higher in the U.S. than Korea's 49.85% and 7.30%. This might be attributed to military service pushing the graduation date back two years for men in Korea, and causing more first time entrants in the labor force nearer to the 25 year mark.

However, the data in the next U.S. interval (while covering 25-34 years, compared to just 25-29 years in Korea) also outpaces Korea's participation and unemployment rates. Workers from 55-64 years old seem to participate the same amount in each population; however unemployment of older workers becomes almost negligible in the Korean data, at sub 3% while the percent of unemployed above 55 years old in the U.S. was at 4.9% in two years prior and has risen since then. Finally, we saw that Korea made up for its low participation rates elsewhere in the 65-79 year age interval, where data showed 36.75% participation and 1.1% unemployment, compared to only 19.6% economically active seniors at those ages in the United States.

As recently as 2005, more than 40% of "wage and salary" earners were not registered under the Employment Insurance System (EIS), according to OECD data. These individuals may be contract workers, temporary workers, self employed, or working for a family business for less than 18 hours a week, and therefore not be involved in the EIS system. As it stands, the EIS

system is the means by which regulators collect data on the number of unemployed workers. So if there are workers who aren't registered for EIS, they are excluded from the work force. As such, the OECD found that Korea has an unknown, but clearly high, rate of unregistered workers and therefore misleading participation and unemployment figures.

So Korea has more people working than they say they do, and the unemployment data is deceptively low, but if unemployment is compared to past levels which were calculated under similar realities, who cares? The question is valid, but actually the numbers are changing as EIS begins to cover *and count* more individuals every year (33% of total workers in 1995 to 81% in 2005). So as more workers are counted in the "active" pool, unemployment may likely rise, but there are measures that if adopted could actually improve labor conditions in Korea.

## The Fruits of Labor

When it comes to employment, Korea has very strong laws which protect the job security of employees. So, Korea has progressed from Sub-Saharan African GDP in 1952 to Western European GDP by 2010, why is a little job protection a bad thing? Why can't Korea make their own rules and do labor economics in a way that works for them?

According to the OECD economists, and most developed world analysts, strict job protection standards actually raise more barriers to job creation than job protection.

The [OECD cites the following realities](#) for this backfire in Korean micro-labor policy :

- Relatively strong procedural requirements and long consultation periods with employee representatives.
- The need for employers to make verifiable efforts to avoid dismissal and apply certain standards in selecting employees to be laid off.
- Generous severance pay regardless of the

circumstances of termination.

The result of these policies are fewer salary positions, more contract work and short-term positions, more part time positions, and fewer jobs overall. Firms found that due to government policies it is so costly to fire an employee, that they would rather rely heavily on the aforementioned job types due to cheaper costs and adaptability.

In 2005 Korea ranked second highest (behind only Spain) in its percentage of temporary workers, at 29% of the overall employed population, compared to all OECD countries. In the same year, the U.S. reported approximately 5% while labor friendly France claimed just over 12%.

Unfortunately, the problems linked to unemployment now may contribute to underemployment in the future. A lack of individuals to assume the less glamorous jobs at

low enough wages, will disallow the rest of the population a reasonable standard of living. Then, once the highly skilled youth of today grow older and have fewer children than their parents did, the older generation will begin working less and the weight of economic production will lie on far fewer shoulders. This problem already exists in Japan, coined the “aging workforce” dilemma, and many see it coming to Korea.

Yonhap news [referenced a report](#) in July of 2005, saying:

*South Korea's economically active population aged between 25 and 49 is expected to begin declining from 2007 and pose a challenge for its economic might and vitality, a state report warned Sunday. The report issued by the National Statistical Office (NSO) also cautioned that the nation's labor force ranging from ages 15 to 64 is projected to begin to fall in 2016 before dropping below half of the entire population in 2050.*

*The Korean labor market “participation rate” calculations need more accurate data collection and thorough definitions of labor divisions, which will ultimately lead to higher participation rates and higher unemployment in the short term. However, accurate data is necessary to produce the statistics that will arm regulators to face the present challenges in Korea’s workforce. The nearly 1/3 of employed individuals in “non-standard” or “part time” positions who would rather be working full time, massive unemployment among recent graduates and students, barriers to permanent job creation, and the aging work force dilemma will **all** test labor policy in the future, as Korea pushes closer to becoming a fully developed economy.*

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