

Foreign Labor Issues in South Korea with Special Reference to Joint Utilization of Labor in Northeast Asia

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South Korea, which was once a major labor-exporting country in the region, has come to be a labor-receiving or foreign-labor-using nation, beginning in the mid-1980s. In regional cooperation in Northeast Asia, South Korea (hereafter referred to as "Korea") is expected to use foreign labor, rather than providing its own nationals. In this paper, the current situation of the use of foreign labor by Korean firms is reviewed and the areas of cooperation in joint utilization of labor are suggested for the regional development.

FOREIGN LABOR AS GUEST WORKERS IN KOREA

In Korea, the opening of the labor market to foreign labor has been discussed recently as labor shortages in certain areas have occurred. The unemployment rate was 2.5 percent, 2.6 percent, 2.4 percent and 2.3 percent, for 1988, 1989, 1990 and 1991, respectively. The labor shortage problem is more serious with labor intensive industries such as clothing, small and medium industries and the construction industry. For example, a Ministry of Labor survey showed that only 8 out of 10 jobs were filled in establishments with 10 to 29 employees in the manufacturing sector in 1990.

Employment of foreign workers in Korea has been very limited. A legal status related to employment is offered only to those involved in reporting, technology transfer, business, capital investment, education and research, and entertainment, or for employment that is recommended by a government minister. Current immigration law does not allow unskilled foreign labor to enter Korea. Nevertheless, it is believed that a large number of unskilled foreign workers have entered Korea for the purpose of employment in the last few years. Most undocumented workers enter with a short term visa, mainly issued to travelers, and extend their visa once and then leave Korea.

In the last few years, the number of foreigners caught for illegal employment has increased significantly, from 255 in 1988 to 450 in 1989 and to 1,018 in 1990. These figures are believed to represent only a small portion of the actual number of undocumented foreign workers in Korea, which is estimated to be at least 100,000. When the Korean government offered amnesty to undocumented foreign workers in June 1992, 66,126 foreigners reported to the authorities. Out of the 66,126 self-reported foreign workers, Chinese, Filipinos, Bangles, Nepalese and others numbered 22,035, 18,983, 8,950, 5,036, and 6,112, respectively. At first, these self-reported workers were only allowed to stay in Korea until December 31, 1992. Then the government allowed them to stay for another six months because industries found it difficult to replace these foreign workers with Korean workers. Once again, in June 1993, these foreign workers were allowed to stay for another six months until the end of 1993.

There appears to be no consensus on the issue of foreign labor even among different government ministries, largely because the economic and social impact is expected to be quite substantial. The Ministry of Trade, Industry, and Energy agrees with businesses' claim that foreign workers should be imported in order to ease the current labor shortage problem. On the other hand, the Ministry of Labor as well as the Ministry of Justice oppose this practice. The Ministry of Labor argues that most of the current labor shortages can be solved by utilizing domestic human resources. Trade unions also oppose the import of foreign labor. They argue that foreign workers could bring down the working conditions of the domestic labor market and take jobs from marginal Korean workers.

However, without foreign workers some sectors of the Korean economy cannot be sustained and Korea needs to keep those sectors for quite some time ahead considering the stage of its economic development. First of all, in Korea, there are already quite a number of undocumented foreign workers. The Korean government had to continue to extend their period of stay, even though it declared that they only would be allowed to stay until December 31, 1992 when the undocumented foreign workers first reported to the authorities. Those Korean employers who hired foreign employees needed them very badly (Park, 1993). Most of them could hardly manage their business without foreign workers because they could neither find Korean workers who wanted to work for them, nor did they have enough capital to go abroad for cheap labor.

Second, there are more people leaving than becoming employed in production jobs or in the mining and manufacturing sectors where foreign workers are most likely to be needed. For example, for male production

jobs in manufacturing in 1991, on average, the accession rate was 3.84 percent, while the separation rate was 4.25 percent. This trend has intensified since the late 1980s. The separation rate of the manufacturing sector with establishments with more than 9 employees began to surpass its accession rate in 1989. Since the last quarter of 1991, the number of workers employed in manufacturing sectors has decreased. Considering that more labor shortages are observed in labor-intensive manufacturing sectors, reasons for many workers leaving the manufacturing industry must be found mostly on the supply side of the labor market. A survey by the Ministry of Labor showed that in 1991 the labor shortage rate in manufacturing was 7.02 percent, while that of all industries was 5.48 percent.¹ Also, since 1989, under a structural adjustment program, more than 20,000 coal miners left the workplace due to the closing of more than 200 mines. Less than 20 percent of the miners who left under the program opted to be reemployed in other coal mines.

Third, foreign workers now employed in Korea are not substitutes for Korean workers. Rather they are complementing domestic workers in the sense that they are taking jobs which most Korean workers would not accept because of the terms of employment. A survey of Filipino workers, the second largest group of foreign workers in Korea, showed that they earned an average of 338,000 Korean won in September 1992. This is about 43.7 percent of the monthly total wages of Korean workers in the manufacturing sector in 1991.² Males (354,000 Korean won) earned more than females (312,000 Korean won). Filipino workers' wages also show little difference depending on workers' or employers' characteristics, compared to those of Korean workers. For example, Korean university graduates earn almost twice the amount of Korean high school graduates, while Filipino workers with a university degree earn almost the same as Filipino middle school graduates. This implies that most Filipino workers are employed in unskilled occupations where their education is not appreciated (Y. Park, 1993).

Fourth, the current labor shortage problem, to some extent, was considered to be attributed to the fast economic growth achieved since the mid 1980s, despite unstable industrial relations and the poor performance of the export sector. In 1992, the growth rate of Korea's real GNP is expected to be under 5 percent. However, there are still some jobs which Korean workers would not accept with the existing working conditions. This is why the Korean government extended the period of stay to undocumented foreign workers until June of 1993.

Fifth, labor shortages in some sectors cannot be solved by utilizing domestic human resources. One of the policy instruments proposed by the

Ministry of Labor to ease the labor shortages is the use of the female labor force. An Economic Planning Board's survey revealed that, in 1989, there were 1,690,000 potential unemployed workers and 77.9 percent of them were female. Based on this survey, the Ministry of Labor argues that the labor shortage problem can be solved by bringing some of these latent unemployed people, most of whom are expected to be women, into the labor market. However, necessary conditions for facilitating female employment are hard to meet. For instance, establishing a large number of day-care centers nationwide does not appear likely in the near future.

Finally, firms have several options as they face rising wages in the domestic market. One is to import labor. Or they could change their production technologies by economizing the use of domestic labor. The need for foreign labor is also reflected in the substantial number of small Korean firms that have relocated their production facilities for cheap labor.

FOREIGN LABOR IN KOREAN OVERSEAS CONSTRUCTION FIRMS

The abundant supply of relatively cheap and hard-working Korean labor was a crucial factor in the well-publicized success of Korean contractors in international contracting, and more than one million employment opportunities for Korean workers were provided by these overseas construction projects.

Korean construction firms' competitive edge, which relied on this cheap skilled Korean manpower, eroded very rapidly in the 1980s. Confronted with fierce competition, Korean construction firms began to hire LDC labor as early as the 1970s. The proportion of foreign labor in Korean construction firms rose from 7.1 percent in 1979 to 27.1 percent in 1983, and again to 49.7 percent in 1987, then to 79.7 percent in the first quarter of 1992. Thais (27.3 percent as of the first quarter of 1992), Bangles (16.2 percent), Filipinos (9.5 percent), Indonesians (12.7 percent) and Indians (6.2 percent) constitute most of the foreign workforce in Korean construction firms. Recently, some Korean firms began to use Chinese labor. However, most Korean firms see that Chinese workers do not have a price advantage over other Asian workers. In addition, because of the political system of China, some countries in the Middle East are reluctant to accept Chinese workers.

This sharp increase in the amount of foreign labor hired by Korean constructors has also been attributed to the rapid wage increases in the

domestic market during the late 1980s. Since 1987, Korean wages have more than doubled, and Korean workers seem to have lost the incentive to go abroad for employment. Monthly wages in the domestic construction industry in Korea increased 188 percent from 1987 to 1990, while they rose only 26.6 percent from 1981 to 1986 (Korea Research Institute for Human Settlements, 1990 b).³ The growing share of non-Korean workers is also, to some extent, a result of a "By Own Country Policy," which requires that a certain portion of employment be offered to the host country's nationals. For example, the Iranian government requires all foreign firms to employ Iranians in at least 80 percent of their workforce. Most foreign workers employed by Korean construction firms belonged to relatively unskilled occupations.

The Korean government has not initiated any policies concerning the employment of foreign labor in Korean construction firms, except that it once put a ceiling on the proportion of foreign labor in the total workforce of a firm. But this regulation was removed in the mid 1980s. The terms of employment of a foreign worker employed by a Korean construction firm are determined by the worker and the Korean employer, subject to the host country's labor laws and regulations. The Korean government is not involved in any matters concerning foreign workers in Korean firms, unless the interests of Korean workers are directly involved.⁴

With the growing number of foreign workers, managing foreign labor has become a difficult task for Korean overseas construction firms even though many of them are quite confident in managing their foreign workforce by using foreigners at overseas construction sites for more than ten years.⁵ The biggest problem encountered by Korean employers is conflicts among different nationals, particularly between Korean and foreign workers. In order to minimize conflicts among different nationals, separate dining facilities and dormitories are usually provided. Coordinators with the same nationality are also hired along with workers from a foreign country. Another problem which Korean firms face is that some host countries sometimes do not allow the firms to hire the workers of a certain third country. For example, as of May 1993, the Saudi Arabian government does not issue new entry visas to Thais.

On the other hand, in coming years, managing foreign workers is not expected to be as important as in the last few years for Korean international contractors. Recently, many Korean firms have begun to contract substantial portions of their construction projects out to local contractors. To cite a few reasons for this trend, local contractors in many host countries have developed to manage low-technology construction projects by themselves. Korean contractors can save the cost

of managing foreign workers with this arrangement. In some host countries, such as Iran, Korean contractors need to spend a substantial portion of their earnings within the territory of the host countries.⁶

Some Korean firms plan to contract most of their projects out to local contractors in the long term. Even now, in some of the Southeast Asian countries, most of the construction projects awarded to Korean firms are contracted out to local contractors. Note that the total labor force in Korean firms has continued to decrease since 1984 while the total volume of new contracts awarded to Korean firms began to increase again in 1989. This trend has intensified since the early 1990s.

FOREIGN LABOR IN KOREAN OVERSEAS MANUFACTURING FIRMS

A survey of Korean firms' foreign direct investment by the Ministry of Finance revealed that in 1992, 73.6 percent of the outward investment cases of Korean firms were done by small businesses, which was an increase of 30.5 percent compared to 1991. The proportion of small investment, whose amount was not more than \$1 million also constituted 81.7 percent of all cases. 68.8 percent of the cases were for manufacturing and 72 percent were in China and the Southeast Asian region.

However, many of these small Korean manufacturing businesses, which have invested the capital in China and Southeast Asian countries, have been suffering in industrial relations matters, mainly because most of them have no experience in overseas production. Often, severe labor disputes have occurred in these Korean-capital-invested establishments in Southeast Asian countries. There exists no government policy measure concerning this matter.

AREAS FOR COOPERATION AND POLICY OPTIONS

As foreign workers employed in the Korean firms are expected to continue to increase in this decade, the problems encountered by the Korean firms, as well as labor-exporting nations, will also mount unless there are some joint efforts to improve the situation by the Korean government and the concerned countries.

The most serious problem to be considered is the presence of a substantial number of undocumented foreign workers, including the

Chinese workers in Korea, most of whom are unskilled. The foreign labor policy of the Korean government does not legally accept foreign labor imports. The Korean government is worried that heavy migration is likely to lead to the establishment of resident minority populations with different origins, languages and cultures from the majority. To some extent, the governments of labor-exporting countries have helped to add to the problem of undocumented foreign labor. Most exporting countries depend heavily on the foreign exchange earnings generated through the overseas employment of their nationals. Overseas employment also offers jobs for their over-abundant labor force. Therefore, many countries seemingly neglect the exploitation of their nationals who are employed through an illegal process.

The governments of both Korea and the exporting countries should put some effort into having foreign workers employed through a legalized process. The initiative should first come from the Korean government in order to stop the exploitation of foreign laborers who come from countries whose economies still have to be further developed. A large number of these foreign workers are educated and constitute a valuable human resource for their own economies. In this context, Korea should be criticized for exploiting these foreign workers, who have already invested substantial amounts of their own scarce resources in order to work overseas.

Also, some efforts to coordinate the recruitment of foreign workers by overseas Korean construction firms should be made. This is important mainly for the interest of foreign workers from a third country employed overseas in Korean construction firms. It is well known that foreign workers from a third country pay a placement fee to private local brokers. The Korean government could play a crucial role in this regard as it did in promoting the export of Korean labor in the 1970s and 80s.

The establishment of an inter-government information network concerning migration in Asia, including the Northeast Asian region, can be an option to improve the situation. Reliable information on the amount and flow of migration in the region is not presently available, but would only benefit Korea (and other labor-importing countries) as well as labor-exporting countries. Exporting countries could inform the available labor force of potential Korean employers through this system, and importing countries would also benefit by being able to efficiently choose laborers for little cost. For Japan, this kind of network will also ease their problem of a large number of undocumented Korean workers. A talk between the experts of Japan and Brazil, which was held in 1991, would be a good reference point for this kind of information network.

With this kind of information network, the exploitation of workers by recruiting agents and employers and the high cost of placement could be reduced. In some countries, extremely high placement costs are charged even by registered recruiting agents. For example, in Pakistan, recruiting agents were reported to be charging about seven times the government rate.

There should also be some effort to organize the international migration process so that the benefits can be distributed more fairly. The work and learn program, which has been implemented recently in Japan, is one way to organize the migration process. However, this system should be carried out with the intention of accepting criticism for the exploitation of undocumented foreign workers. Efforts to eliminate and/or legalize undocumented foreign workers now present in Korea should also be made.

Another idea for cooperation amongst the countries in Asia, particularly the Northeast Asia Region which has great potential but has not been developed yet, is to combine the capital and/or technology of more industrialized countries in the region such as Japan and Korea with the labor of less developed countries including China and North Korea for regional development projects.

For example, China is currently facing a serious unemployment problem. The urban unemployment rate in China in 1990 was estimated to be about 5 percent – approximately seven million people. In addition, there are six million young people, who are not working or going to school, waiting to enter the job market. Furthermore, these figures do not even include the four million workers temporarily laid off in early 1990. On the other hand, the Korean government and its business community have worked hard to compensate for the loss of the Middle East construction market. Thus, a joint construction project with Korea offering capital and/or technology and China providing labor will be beneficial to both countries.

Lastly, as the labor migration experiences of Europe and North America indicate, the human rights of foreign workers must be observed. Foreign workers must be treated as human beings and should be entitled to legal security, as well as to socio-economic and even some political rights (Hammar, 1990). Much cooperation is needed in Asian countries, including the Northeast Asian nations, in order to ensure that the lessons learned in Europe and North America are not wasted.

NOTES

1. A labor shortage rate is defined as the number of workers needed which cannot be found divided by the number of currently employed workers based on a survey of establishments with more than 9 workers.
2. This is based on the 1991 Occupational Wage Survey conducted by the Ministry of Labor.
3. The government construction project to build two million new housing units from 1989 to 1993 mainly contributed to this sharp wage increase in the domestic construction market.
4. This is the same for unskilled foreign workers employed in Korea. It is estimated that more than 100,000 undocumented foreign workers exist in Korea. However, they are not given any legal protection due to their legal status, nor legalized even though they are needed very badly in Korea. See Y. Park (1993).
5. Most of the Korean overseas construction firms which the author interviewed seemed to have known how to manage their foreign workers with long experience. They answered that, on the contrary, the Korean workers often caused some difficult problems in managing their foreign workforce (for example, by initiating a conflict between the Korean and foreign workers), while the foreign workers themselves did not cause big problems.
6. In April 1993, the Iranian government rationalized its foreign exchange rate. With the new exchange rate, Korean contractors should spend a large portion of their income locally in order to minimize the additional costs due to the new exchange rate system.

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