

Jobs for Youth/Des emplois pour les jeunes **Korea**

Summary in English



The strong Korean labour market performance of young people has weakened in recent years

Korea has traditionally had a dynamic youth labour market. This largely reflects the vigorous economic growth enjoyed by the country – except during the financial crisis in 1997-98 – and the associated strong labour demand. Youth labour markets are also characterised by rapidly rising educational attainment, which in turn has been one of the main drivers of the strong economic growth record.

Over the past few years, however, this virtuous circle has encountered some significant problems. First, the youth unemployment rate has been on an upward trend, although it is still below the OECD average. The rate has exceeded 10% since 2003, compared with 6-8% before the financial crisis, and has also risen relative to the adult unemployment rate. Meanwhile, the youth employment rate remains relatively low, at 27%, compared with the OECD average of 43%. Second, a growing number of young graduates do not find jobs corresponding to the skills they have acquired in education. For example, about 40% of university graduates from natural and social sciences do not find jobs in their field of study. Worryingly, around 17% of young graduates drop out of the labour market shortly after leaving school and become inactive or unemployed for a considerable length of time. Third, young workers are often trapped in so-called “non-regular” jobs, *i.e.* jobs of short duration that offer limited career prospects. Over 33% of young workers aged 15-29 had a non-regular contract in 2006.

This report shows that the worsening youth employment trends reflect a combination of several sets of factors. A first set involves the education system. The rapid quantitative expansion of tertiary education (the number of students enrolled in tertiary education has nearly quadrupled over the past two decades) has gone hand-in-hand with greater mismatches between the skills provided by the education system and labour market

requirements. This problem has been exacerbated by the limited possibilities for combining study and work. Second, there are demand-side obstacles to youth employment. Employment regulations may have aggravated labour market duality, thereby making it difficult for workers on non-regular employment, youth in particular, to move to regular employment. Other factors hamper the growth of middle-tier jobs, reducing the market's capacity to absorb the increasing supply of youth with tertiary education. Third, non-employed youth (particularly those with lower educational attainment) do not receive adequate support when seeking a job, despite recent efforts to change the situation.

In short, the education system and labour market regulatory framework, which served the country very well for several decades, need to be modernised in view of the rapidly changing requirements of the more complex, globalising Korean economy. Tackling the barriers to more and better jobs for youth would be an important step forward. This report provides reform options for meeting that challenge.

Recent reforms in response to the challenges

The integration of youth into the labour market has become a major issue in Korean society, and a top reform priority. The Korean authorities have therefore introduced a wide range of reforms since the early 2000s, including changes to the education system, reforms of employment protection legislation (EPL), and new measures to improve the employment prospects of young jobseekers.

There have been initiatives to encourage vocational education, such as establishing high-quality “specialised high schools” in lieu of existing vocational high schools (which do not carry much prestige among students or their families). Measures to enhance co-operation between vocational high schools and local firms and industries, and an increase in the number of student scholarships to vocational high schools, are also envisaged. In addition, the government intends to improve the performance of universities and colleges, notably by promoting mergers and helping them specialise in certain fields of study. Finally, the government is promoting co-operation between the public employment service (PES), schools and industry.

In early 2007, the government announced the “2+5 Human Resources Utilisation Strategy”, as part of its *Vision 2030*. The aim is to *i*) encourage access to employment among youth two years earlier, on average, than is presently the case; and *ii*) extend careers among older workers so that they leave the labour market five years later compared with today's situation. The strategy is awaiting implementation details but would incorporate reforming the overall structure of the education system and a reduction in the period for mandatory military service.

Reforms of EPL have also been adopted recently. They represent a first step in rebalancing the provisions governing regular versus non-regular employment (temporary and daily work, part-time work and other atypical forms of employment). Two important pieces of legislation related to EPL, one on non-regular employment and the other on industrial relations, were adopted in late 2006 and are effective as from July 2007. The first set of laws enhances protection against inappropriate use by employers of non-regular employment and prevents discriminatory treatment. The second set includes changes in dismissal provisions for workers with regular contracts. Accordingly, the required advance notice period in case of collective dismissal has been

shortened from 60 to 50 days and penal provisions (imprisonment up to five years) for employers found to have dismissed workers unfairly have been substituted by fines.

Finally, an effort has been made to improve the effectiveness of the PES and active labour market programmes (ALMPs). The government's "Plan for PES Advancement", adopted in May 2005, includes measures for upgrading staff as well as a restructuring of service programmes. Programmes targeting youth have been initiated since the early 2000s, including *i*) a subsidy for hiring young workers; *ii*) the introduction of a government-sponsored internship programme (the so-called Youth Job Experience Programme); and *iii*) a Youth Employment Service (YES) for disadvantaged youth, which bears some resemblance to the United Kingdom's New Deal for Young People. As a result, government spending on youth labour market programmes doubled between 2003 and 2005.

Recommendations for further reforms

These recent reforms represent an important step towards improving the position of youth in the labour market. Nevertheless, although it is too early to evaluate their impact, this report suggests that a more comprehensive approach is needed in order to tackle the main barriers to more and better jobs for young people.

That approach would ideally comprise four main components: *i*) ensuring that the education system responds better to labour market requirements; *ii*) a smoother transition from school to work; *iii*) addressing dualism in labour and product markets, while also providing workers with adequate security; and *iv*) enhancing the effectiveness of labour market policies, with special attention paid to the needs of disadvantaged youth.

Adapting the education system to labour market needs

Korea has a remarkable record in expanding enrolments at all levels of schooling. Nearly all Koreans aged 25-34 have upper secondary education, compared with less than 60% two decades ago. Moreover, 82% of those with upper secondary education go on to tertiary education. These remarkable achievements have, however, led to a new problem, that of so-called "over-education" – *i.e.* a situation where young graduates end up performing jobs below their skill level.

There is significant demand for higher education among Korean families and their children. This is of course a major asset for the economy and society. In order to realise its full potential, however, it is crucial to ensure that the education system meets the expectations of both students and their prospective employers in terms of labour market outcomes.

This requires, first, enhancing the incentives for schools to help students acquire skills needed in jobs and establishing closer links with enterprises. Consideration should also be given to the possibility of alternating study with work experience as part of the educational curriculum. For their part, students should be provided with adequate information and guidance on career development possibilities before they enter a particular field of study. On the other hand, setting student fees at much higher levels may not be very effective, unless other structural measures are adopted – indeed, such fees are already high and do not seem to discourage students from selecting fields of study with little job prospects.

Second, more attention should be devoted to vocational education, which lacks prestige at present. Partly this is because of limited resources, but there are also insufficient links between vocational education and firms.

With this in mind, the following measures could be envisaged:

- *Strengthen the links between university and the world of work.* Colleges and universities have launched various initiatives to improve their connections with labour markets. However, a more systematic channel and venue to enhance these linkages are needed. One option might be to encourage universities and colleges to expand internships and other types of work-experience spells and to include them in the curriculum. Another approach is to make part of government funding of universities and colleges conditional on the labour market outcomes of their graduates. This implies rewarding efficient matches between university curricula and labour market needs. Now is probably a good time to introduce such a policy, since the government plans to increase resources devoted to tertiary education (currently, the government provides only around 4% of the revenues of private institutions – which account for 85% of all universities and colleges). This should be complemented with some sort of institutional set-up for the monitoring of students' labour market outcomes. To oversee the move towards a stronger connection between tertiary education and the labour market, the government could enhance the role of the Special Committee to Address Youth Unemployment, currently chaired by the prime minister.
- *Provide career guidance services to all students to ensure that their decisions on courses of study are based on informed and guided choices.* Career-related information and guidance enables students to make decisions about which occupations they want to enter and which fields of study or training programmes prepare them for these occupations. Promisingly, the government announced in 2006 a five-year plan to promote lifelong career development, which includes measures to provide students at all levels with various work-experience opportunities and career-related information. It is essential to implement this plan. The German experience, with co-operation between employment and education authorities, is an interesting case in point.
- *Reduce the risk of mismatch between the skills acquired in tertiary education and labour market requirements.* Ensuring that accurate information on the labour market performance of graduates of each university/college, by field of study, is available to parents and students would help in this regard. Another approach would be to require higher education institutions to prove that there is unmet labour demand before starting new study programmes.
- *Promote vocational secondary education.* Access to tertiary education is the main goal for most secondary students and their parents. This is probably one reason why vocational secondary education is often seen as a choice of last resort. To improve the situation, specialised high schools, focusing on occupations for which there is relatively high demand, have been developed recently. But more needs to be done to make secondary vocational education attractive to students and their parents. This would include *i)* making in-work training available to all students attending vocational education, as done in

countries like Austria, Germany and Norway; *ii*) strengthening pathways between secondary vocational education and tertiary education; and *iii*) developing short-cycle fields of study within tertiary education, designed in close connection with business, as is the case with the French *Instituts Universitaires de Technologie*.

Ensuring a smoother transition from school to work

School-to-work transition in Korea tends to be abrupt, reflecting a “study now, work later” culture among students and their parents. Experience from other OECD countries shows that combining study and work during a moderate number of hours, so as not to compromise educational performance, helps improve post-school labour market outcomes. To facilitate the transition from school to work, in 1999 the government launched the Youth Job Experience Programme under which participating young people currently work part-time and receive a monthly allowance of KRW 300 000 (which comes close to the minimum wage for an equivalent part-time job). This has helped provide opportunities for on-the-job experience to around 50 000 young people each year. Evaluations suggest there are encouraging effects from this programme, in terms of both reducing transition periods for participants and enhancing their later job prospects; indeed, participants tend to be satisfied with the programme. However, college/university students are disproportionately represented among the participants and few opportunities are provided to high-school graduates.

Another factor complicating the school-to-work transition is the lack of adequate opportunities for initial in-company training. Overall, firms’ spending on training fell from 2.1% of total labour costs in 1996 to 1.5% in 2003, reflecting their preference to “buy” rather than “make” skills. While in-company training is subsidised through the Employment Insurance System, the main beneficiaries of this subsidy have been workers in large companies – who usually have higher educational attainment – rather than those in SMEs (see next section). The selectivity of the existing in-company training affects young workers, who often start in small firms, and the less educated (who need training the most) more generally.

To help improve the school-to-work transition, the following measures are advocated:

- *Abolish barriers to students’ work.* The incidence of part-time work among students – which helps improve transitions to full-time jobs in countries like Australia and the United States – is low in Korea. This is because part-time work is often not a very attractive option for workers. The recently adopted legislation on non-regular employment includes provisions to protect part-time work more adequately, such as a ban on unjustifiable discriminatory practices relating to wages and working conditions and the requirement to specify working conditions in writing. In addition to implementing these measures in due course, it is necessary to provide more adequate labour inspections in those sectors where student work prevails and where numerous breaches of labour law – such as minimum wage requirements – take place.
- *Ensure that the Youth Job Experience Programme reaches the less educated.* Though the programme facilitates access to employment among students, the most disadvantaged youth, who would need the programme most, have limited opportunities to participate. It is therefore desirable to extend the programme to disadvantaged youth as well as high school graduates who are about to enter

the labour market. This may increase the cost of the programme, which makes it all the more important to evaluate it rigorously. In addition, there are grounds for improving on-the-job training (see next recommendation); doing that would at the same time enhance training opportunities for young workers, whatever their level of education.

- *Improve the on-the-job training system.* It is promising that Korea has launched a new initiative to promote lifelong learning, as recommended by the Presidential Committee on Job Strategy. However, a more ambitious approach is needed, one that would include *i)* promoting a system to recognise competencies; *ii)* improving quality control of training providers (the quality seal in Austria provides an interesting experience); and *iii)* enhancing the provision of training among small firms – which could be done by extending the experience of existing training consortia between large enterprises and SMEs (which has been tested successfully).
- *Improve the collection and analysis of data on the school-to-work transition.* Korea has only recently started to address this issue and few data are as yet available in this area. It would be beneficial to collect data on youth labour markets systematically, especially longitudinal data on the school-to-work transition.

Tackling demand-side obstacles to youth employment

The levels of wages and non-wage labour costs do not seem to create a major obstacle to youth employment in Korea. Although the sub-minimum wage for youth was abolished in September 2005, the minimum wage – at 33% of the median wage in 2005 – remains low by international comparison. In general, wages are set in a decentralised manner and therefore tend to reflect enterprise conditions, leading to a significant flexibility of wages in response to supply and demand shocks.

On the other hand, employment regulations, as currently designed, may in certain cases create an obstacle to youth employment. In this regard the recent labour law reform is a promising first step, in that it reduces the gap in employment protection between regular and non-regular workers. However, more needs to be done to address labour market duality. It is also necessary to enhance workers' security in the labour market, for example by improving the effective coverage of the Employment Insurance System (EIS) and strengthening the labour inspection system. Concerning the product market, greater efforts to enhance competition and to reduce dualism between large firms and SMEs would enhance job prospects for young people.

Thus, to help boost the demand for young workers, the following steps could be considered:

- *Pursue more comprehensive EPL reform.* The challenge is to encourage employers to hire under regular contracts, while at the same time protecting workers adequately. Three areas of reform should be envisaged: *i)* reviewing the time-consuming dual system of dismissal settlement that involves both the Labor Relations Commission and civil court procedures (against the background that employers prefer quick procedures with predictable outcomes); *ii)* further shortening, and possibly differentiating, advance notice periods in the case of collective dismissals; and *iii)* promoting and accelerating the transition from the severance pay system to the recently introduced

corporate pension scheme, by introducing additional incentives for workers and employers to make this switch. In the longer term, it will be worth considering more radical approaches on “flexicurity”, *i.e.* models that combine flexible contractual arrangements with an adequate level of income security and effective active labour market policies to cope with rapid structural change and job transitions.

- *Continue to remove barriers to the creation and expansion of SMEs.* Most young workers start their career in SMEs. However, productivity in SMEs tends to be hampered by certain barriers, thereby wasting part of the human capital of youth employed in these enterprises. One factor is the unfair subcontracting practices between large firms and SMEs. Continued efforts to fight these practices, *e.g.* through reforms on product and capital markets, would help in this regard. It seems equally important to lower barriers to market entry, notably in the service sectors, and to address administrative hurdles and costs to business creation.
- *Align public sector employment conditions to those in the private sector.* Many highly educated Korean youth remain out of the labour market while awaiting or preparing for entry exams to the public sector, which offers more secure jobs and more generous benefits than many private sector firms do. For example, the government employees’ pension system is much more favourable than the general national pension system. In order to shorten overly long queues for entry into public service, it would be helpful if the gaps in benefit levels and employment protection between the two sectors could be reduced (at least for new recruits).

Enhancing the effectiveness of ALMPs for youth

The Korean government has taken important steps to develop a variety of youth labour market programmes and to reorganise its PES. Although most ALMPs are too recent to have been evaluated rigorously, it seems that the main target of most existing programmes is youth with tertiary education, while the most disadvantaged or less-educated youth have, until recently, been largely neglected. Furthermore, few non-employed youth are entitled to unemployment benefits, social assistance or other forms of welfare support. Benefit dependency of youth is therefore not a problem in Korea at present. Rather, the issue is to provide effective employment services to young people, particularly the less educated.

In this connection, the following actions are recommended:

- *Broaden the target group in overall youth employment policies.* The design of youth employment policies will need to change in order to cover all youth who are neither in education nor in employment, rather than the unemployed alone. Also, stronger emphasis should be placed on less-educated youth. In addition, more rigorous evaluation of all existing ALMPs is needed to find out what works and what does not. Based on those evaluations, more public spending needs to be allocated to those programmes that prove effective, especially given Korea’s relatively low public spending on ALMPs for youth.
- *Expand the pilot Youth Employment Service (YES) to more disadvantaged youth.* In view of the large number of youth with lower educational attainment who are neither in education nor in employment, the YES programme should

be expanded significantly to meet their needs – on the assumption that rigorous evaluations will show it works for this group. Special attention should be paid to young people from poor families or living in regions with less employment opportunities. In order to attract participants to this programme despite the absence of any benefit, it may be necessary to provide financial incentives – *i.e.* in the form of allowances – to them, as is the case in the existing training programmes, during the whole period of programme participation.

- *Continue efforts to strengthen the PES.* Notwithstanding the government's recent investments in the PES, so far only a limited number of youth have benefited from PES services. The PES ought to boost its market share, facilitate young people's access to its services and extend its career guidance and job assistance services to all youth in need.
- *Streamline existing ALMPs for youth and ensure good targeting.* There are many small programmes for youth run by various government authorities. This may make it more difficult for young people to orient themselves among the various offers, and increases the difficulties of programme monitoring and evaluation. Streamlining these programmes following rigorous evaluation, particularly as regards employment subsidies and direct job creation measures, would be a cost-effective approach. The Special Committee to Address Youth Unemployment could play a more active role in this evaluation effort. In addition, it seems necessary to promote precise targeting of each programme.
- *Enhance the labour market responsiveness of training programmes for non-employed youth.* The content of the programmes needs to be more responsive to changes in skill demands, and training institutes need to provide better job services for trainees so as to raise the employment prospects of participants.

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