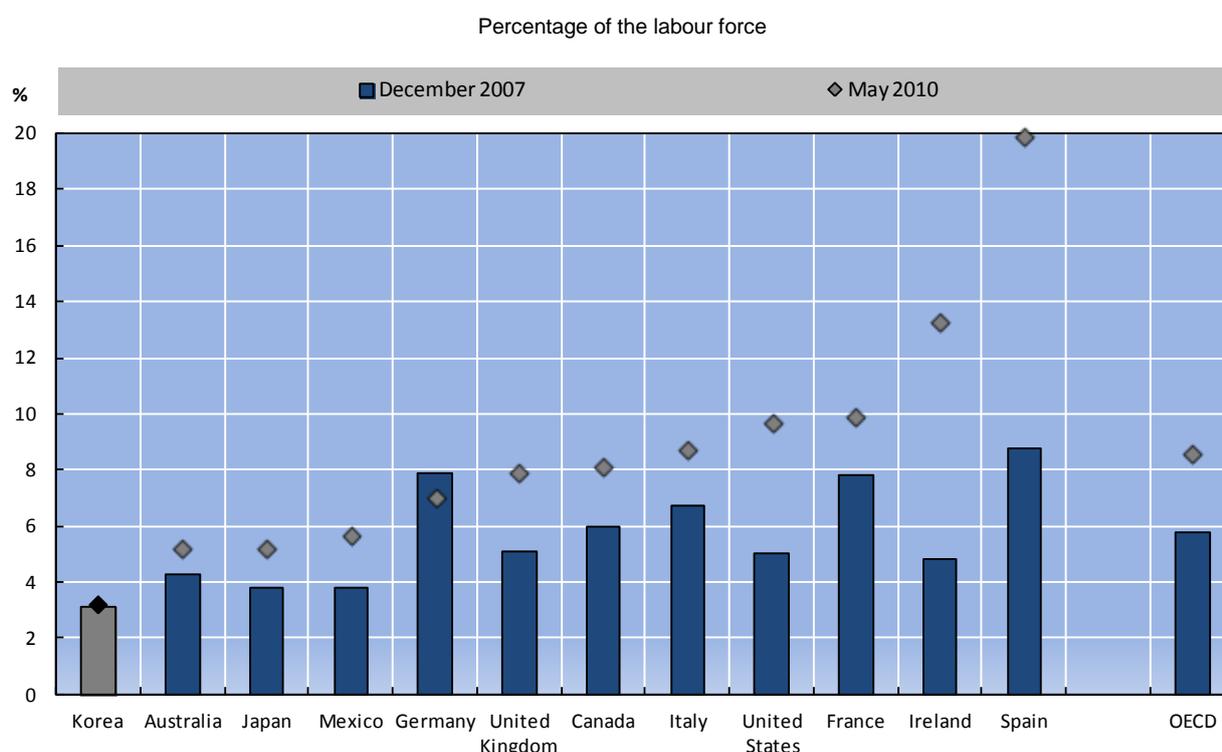




Employment Outlook 2010 – How does KOREA compare?

In a sharp contrast with other OECD countries, the unemployment rate in Korea has already returned to its pre-crisis level during the recovery. The Korean harmonised unemployment rate in May was 3.2%, as compared to 3.1% at the onset of the global financial crisis in December 2007 (see Figure 1). The 2010 OECD *Employment Outlook* shows that the Korean labour market has weathered the recent global recession much better than most other developed countries (Figure 2). The OECD average unemployment rate was 8.6% in May 2010, 2.8 percentage points above its value in December 2007 (5.8%). The pool of unemployment left behind by the crisis is even larger in Ireland, Spain and the United States.

Figure 1. Unemployment rates in December 2007 and May 2010^a in selected countries



Note: Final month available for the United Kingdom is February 2010.

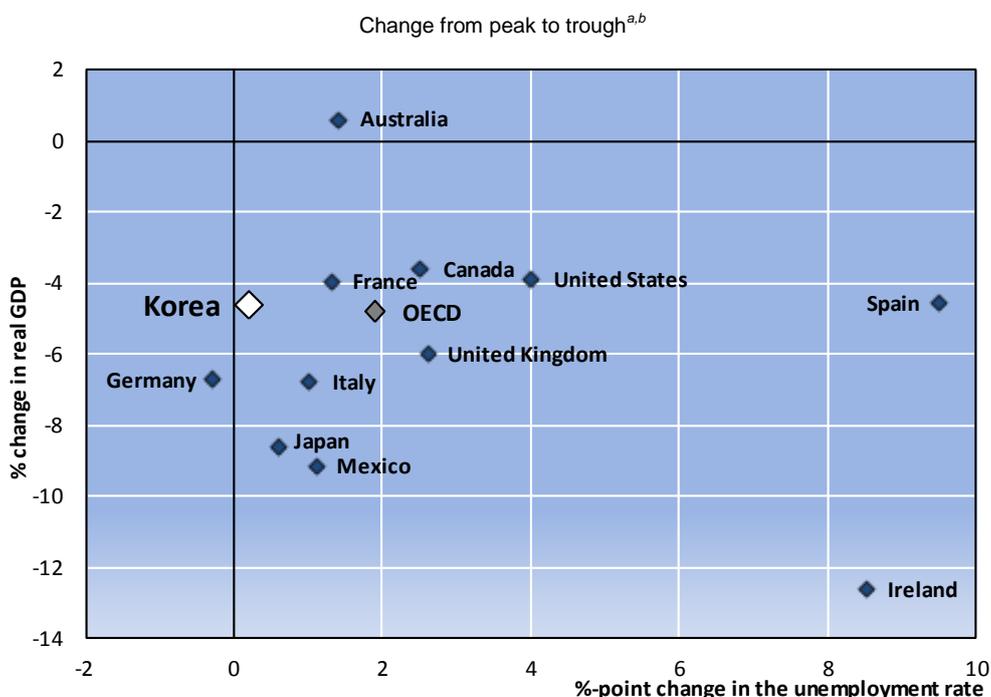
Source: OECD Main Economic Indicators.

Korea has achieved one of the earliest and strongest recoveries among OECD countries led by a rapid rebound in exports and expansionary fiscal policy. The fall in GDP in the second half of 2008 had already begun to reverse in the first quarter of 2009 and business confidence has now reached its highest level since 2002. The OECD projects that Korea's output growth will equal 5.8% in 2010, the second highest level among the 31 OECD countries. The quick and strong economic recovery was a major factor

containing job losses. However, the spike in unemployment early this year, when unemployment jumped to 4.8% in January, is a reminder that employment policy also played an important role. The sharp increase in January rate can be explained in part by the temporary termination of public works program which was re-started in March at which point unemployment fell back to 3.8%. Increased youth participation after graduation was another factor pushing up unemployment rates in January.

Youth have been the hardest hit group. The unemployment rate for 15-29 year olds not in full-time education increased to 8.5% in July 2009 and then soared to 10% in February 2010. Though the rate had decreased to 6.4% in May, youth employment remained stagnant, suggesting that increased inactivity rates for youth continue to be a serious concern. To address youth unemployment problem, the Korean government reinstated the Youth Internship Program in 2009. In 2010, the programme is providing 30,000 youth with work experience and career development opportunities. Although intended to meet long-term needs, this programme has also helped ease the youth unemployment pressure during the economic downturn. Indeed, the program has been successful at moving the participants into regular jobs (10,121 out of 12,646 participants). However, the programme has been criticised in the past for creating large dead-weight loss and should be scaled back as the labour market recovers.

Figure 2. **How sharply unemployment rose was only partly determined by how much GDP fell**



a) Australia did not have a recession in the 2008-09 period but is shown for comparison purposes over the period 2008 Q3 to 2009 Q2.

b) Peaks and troughs are determined using real GDP series in levels.

Source: OECD Main Economic Indicators Database.

Wage restraint appears to have played an important role in limiting job losses in Korea. The “grand social compact” which was agreed to on 23 February 2009 set a guideline according to which the social partners should negotiate employment retention as a quid-pro-quo for wage concessions. Although the compact has been restricted to public sector and larger enterprises, 2,118 mutual concessionary, co-operation agreements among 6,781 companies with 100 and more employees had been signed by the end of March 2010.

Even though the crisis has not hit the labour market in Korea as hard as in most other OECD countries, **the government has taken a number of measures to expand income support for job losers and other unemployed persons as well as provided assistance to find a job or improve their vocational skills.** The maximum duration of unemployment benefits was increased and coverage extended to better reach the high proportion of non-standard workers (33.1% among the total employed in March). For example, the “Packaged Jobs Service Program for the Poor” was introduced in 2009. This programme provides a maximum of one year of assistance and has been successful in providing jobs for people at the margin of the labour market (55% of the participants found jobs after the program). The program was expanded to assist 20,000 clients in 2010. The *Employment Outlook* welcomes the vigorous measures taken by Korea and other member countries to minimise the risk that the downturn will cause workers to become trapped in long-term unemployment or inactivity, but also cautions that many of these measures need to be phased out as the labour market recovers and fiscal consolidation becomes more urgent.

Faced with the most rapid population ageing and the lowest birth rate among OECD countries, raising the employment rate for both women and older workers should be one of the most important tasks of the Korean government. The *Employment Outlook* advocates government initiative to support flexible forms of works, especially part-time jobs, as currently being undertaken in Korea. The report argues that it is important to also assure that part-time jobs are good jobs that offer workers the possibility to move between full and part-time working without undermining their long-term career prospects.

OECD Employment Outlook 2010 is available to journalists on the **password-protected** website or on request from the **Media Relations Division**. For further comment on Korea, journalists are invited to contact Stefano Scarpetta (tel: +33 1 45 24 19 88 or e-mail: stefano.scarpetta@oecd.org) or Hyung-Woo Chung (tel: +33 1 45 24 92 79 e-mail: hyoung-woo.chung@oecd.org) from the OECD Employment Analysis and Policy Division. For further information: www.oecd.org/els/employment/outlook.