



EE463 GLOBALIZATION AND INTERNATIONAL DEVELOPMENT

Semester XX (XXXX - XXXX)

Korean Skill Development Policies during 1960-2009

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XXXXX

Overview

“Countries like Kenya had a per capita economy larger than South Korea’s when I was born”, Barack Obama said this in Ghana’s Parliament during his first state visit to Africa. This quote shows Korea has transformed itself very well from a very poor country to one of the most developed countries in Asia. However, Rome wasn’t built in a day, Korea either. The person that played a very important role to change the entire country is Park Chung Hee, former president of Korea. Countries in Asia like Japan, China were commonly influenced by Germany in the form of social, political and economic development. What differentiated, for Chiang Kai-shek, Germany from other western countries like England and USA were the discipline and orderliness of the Germanic national spirit.

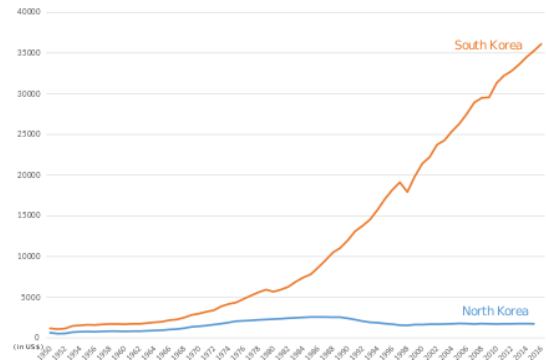
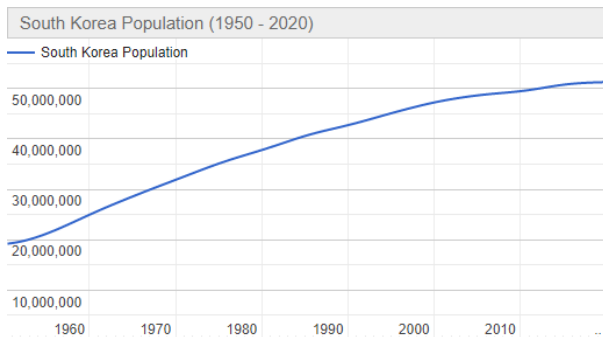
After World War II, South Korea became independent from Japan, and the new nation was born in 1948 under a democratic mandate. However, the country faced many problems such as poverty, internal violence based on ideology and military threats from North Korea. This situation led to a military coup d’etat by Park Chung Hee. Economic Policy and the Economic Planning Board was set ten days after the Coup d’etat as the military junta felt it was necessary to establish an agency to control economic development. They also created Five-Year Economic Development Plans for different fields of economic development in each period.

The first Five-Year Economic Development Plan (1962-1966) aimed to develop export promotion and increase food production. The Second Five-Year Economic Development Plan (1967-1971) tended to improve the performance of the previous plan. The third plan (1972-1976) focused on fostering a heavy and chemical industry because they wanted to become an advanced industrialized country. The fourth plan (1977-1981) was different as they aimed to focus mainly on social development. Korea tried to transform itself from being growth oriented to pursuing growth, equity and efficiency at the same time. The last economic development plan (1980-1986) further improved social development and pursuing economics. After the fifth plan, the title of the plan changed to social and economic plan as the sixth plan (1987-1991).

Before economic development South Korea was extremely poor during the past as the Cheonggyecheon stream in the 1950s was full of shabby houses, but now they were completely developed to be big buildings. There are three main points in the past that led to economic development.

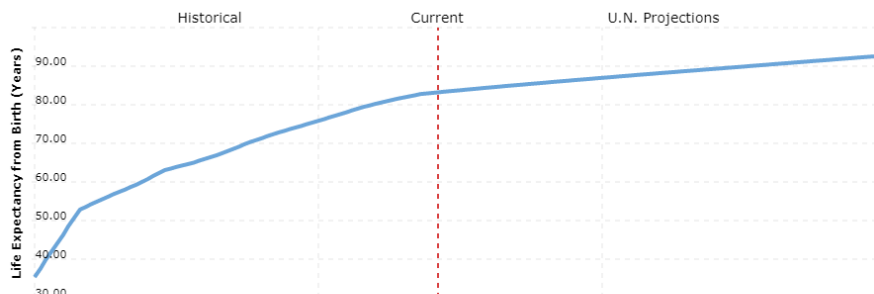
The government of Korea realized how important the education system of its country can affect the overall of the country. This helped the government to make the choices to establish

The Korea Institute of Science and Technology (KIST) and the Korea Development Institute (KDI) as think tanks of Korea to provide complementary education to Korean people. Both of the institutions played an extremely important role in the economic development for the early phase of the development process as they provided the technological development and theoretical backup.



The GDP of South Korea started to slightly increase after the establishment of the Korea Institute of Science and Technology (KIST) and the Korea Development Institute (KDI). From the graph, we can conclude that the GDP of the country was in a steady state before the institutions, but after the Korean government established the institute, the economy of South Korea was better. The population of Korea also increased, and it conformed to the new institution, GDP of South Korea, and the population that increased in the same period.

Life expectancy of Koreans also extends from the graph. This means that the knowledge from people who entered or studied in KIST or KDI will play more effectively as the length of life of people in the country increases. Those people can do more work to increase the economy of the country. Further details of Korea's economic backdrops are as follows.



There was a rapid population growth in South Korea starting from the period of Korean war, 1950-1953. During the period following by the end of the Korean war, Korea was in the

early stage of industrialization which led to workers migration from rural to urban areas yet the proportion of agricultural sectors remained large—approximately 60 percent of the labor force. By 1962, the government implemented the First Five-Year Economic Development Plan (FYEDP) which has its main purposes to emphasize the import substitution policies and later the export-oriented industrialization strategy.

In 1967, which is the year that the government started to implement the Second Five-Year Plan, the demand of labor—especially skilled workforce—started to increase rapidly which led to some shortages of skilled workforce in some sectors and hence, the employment structure started to shift from primary sectors toward secondary and tertiary sectors. The size of employment had been, nonetheless, increasing gradually which yielded a decreasing unemployment rate: it reduced from 8.1 percent in 1963 to roughly 4.5 percent in 1972.

In the early 1980s, the period after the first and second oil crisis (1973 and 1979), the world economy recessed which affected the Korean economy as well. Furthermore, not only did an increase in oil price cause the Korean economy to suffer, but there were also another two crucial issues: inflation, and economic slowdown due to decreasing exports. Thus, the Korean economy was facing medium economic growth and medium unemployment during the 1980s. Nevertheless, the Korean economy had changed from a labor-intensive economy to capital-intensive economy—as the proportion of employment in primary sectors decreased significantly and there were increases in secondary and tertiary industries rapidly. Furthermore, the government started to shift its focus from quantity-oriented development to quality-oriented growth—emphasizing not merely economic growth but also social development—as the Five-Year Economic and Social Development Plan, the fifth plan, began in 1982.

There was almost full employment in Korea during the period between 1987 and 1997 which led to the period of medium growth and low unemployment. During this period, Korea had experienced a double digit economic growth rate due to low exchange rate, low oil prices, and low interest rate. There was an increase in well-educated workforce and an increase in women participation in economic activities. Moreover, the labor demand started to shift to the service industry. By 1997, the GDP per capita of South Korea was roughly \$12,400, thus, it became an advanced industrial country, and joined the Organisation for Economic Co-operation and Development (OECD). However, within the same year, 1997, South Korea had faced a significant negative growth due to the Asian financial crisis that had deteriorated the economy harshly. By the following year, 1998, GDP per capita of South Korea reduced to less than \$10,000—approximately \$8,300. Nonetheless, the Korean economy did not take a long period of time to recover, by 1999, its GDP per capita was around \$10,000. Moreover, almost a decade

after, in 2007, its GDP per capita was almost twofold of its GDP per capita in 1997—almost \$24,100—and its growth has remained high since then.

Throughout the discussed period, the focus group has varied across the time: from unskilled labor, unemployed, to vulnerable groups. These dynamics will be discussed further in the next sections which are organized as follows: identification of key issues and challenges, government/state strategies, lessons learned, and conclusion.

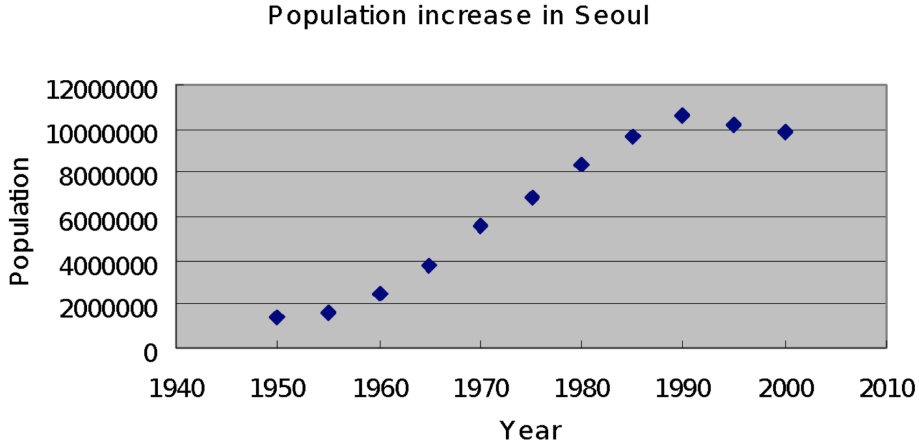
Identification of Key Issues and Challenges

Korea experienced rapid economic growth and human capital development but rather clustering in the urban area. Moreover, there are IT revolution, globalization waves, and some structural changes emerge in the economic world. As a result, the skilled-laborers needed in the labor market began rising so to keep up with the challenging skill demand, workers needed to be trained. Although Korea offered a skills development system, it seemed to be inefficient for the changing global demand. To illustrate, the number of workers enrolled in the training program is disproportionate with the unemployment rate, and Korea's skill development system still faces several other issues and challenges such as workforce mobility, migration of unskilled workers, and the demand of skilled employees.

Firstly, workforce mobility was frequent at the time of rapid industrialization in Korea. Enterprises, rather than training their own workers, practiced "freeriding and poaching" of the workers trained by others. Firms are likely to under-provide general training because they worry that once their training has been completed, trainees will be enticed away by other employers. Small and medium-sized firms suffered from a labor shortage because big companies offer higher incentives for skilled workers. Furthermore, following the Asian economic crisis of 1997-8, a mismatch between the number of job seekers and available jobs became serious, as the generation and extinction of new jobs took place faster, and as labor mobility increased along with changes in the industrial structure so it is the Korea government challenges to make sure that workforce reallocation in the nation will help with maximizing the productivity of human capital and it is fair for all enterprises big or small that they all have the minimum training.

During the rapid growth of urbanization in that time, many Korean people, especially farmers in rural areas, suffered from poverty and found it difficult to stay in the agricultural sector. As a consequence, many unskilled workers migrated to the city, particularly Seoul, to seek better job opportunities and higher income rates. (see figure) During 1960-1980, a large influx of Rural-to-urban migration increased the population of urban residents in Seoul, and declined afterward. Due to the differences in educational background, worker's skills and experience, it is undeniably that rural migrants tended to experience inequality in job opportunity and wage in the city now that they had to compete with well-trained workers from the city. With different productivity, workers who migrated from rural areas tended to gain lower wages which caused wage disparity and income distribution problems in the Korean labour market. With these issues, government intervention was required to solve these problems by ensuring job opportunity among citizens. To illustrate, the government should provide training programs for

all workers to improve worker's productivity and their fundamental knowledge to reduce the gap between skilled and low-skilled workers in the labour market. Moreover, the skill development system also had positive effects on rural areas when the worker went back to their hometown and adapted these skills with their household work.



Skill development system is even more important when it comes to the free market where there is less government control and individuals make their economic decisions under political and legal rules. From the rapid economic development and change in world trend, there will be more specific jobs that require laborers with skill so the degree of competition in the market economy is ever increasing. As a result, quality skilled-labour is important and in high demand in the market. Without the government intervention, there would be shortage in future skilled workers and a bunch of workers who are not in the skill training will be left out unskilled in the free market. At the early stage of economic development, the government skill development system can address rising the number of skill workers to meet the demand. However, in the long-term with the complex changes, people start to point out that the government seems unable to identify the changes in skilled labour demand and skill development market, and what extended the intervention should take. So there are still issues remaining that challenge the government to find the way to properly address skill development in the current and future stage, which they are depending on the stage of development and country circumstances.

Government / State strategies, Policies, and Legislation

After the labour issues and challenges in the economy became widespread and severe over time, the government started to launch some policies to solve the issues and improve essential elements for the workforce in the country for long term benefits.

In the 1950s and 1960s, vocational education was intended to supplement social policies rather than to support industrialization. The primary goal of vocational training was to help disabled people and welfare recipients get back on their feet, as well as to provide career guidance to low-income women and teenagers. A competent workforce was provided in line with the Craftsman Training Ordinance under the Labor Standard Act and the Industrial Education Promotion Act, although the number was quite small. Furthermore, in line with the Industrial Degree Promotion Act, the technical training institution was formed at technical high schools and colleges, and trainees with a high school or higher education who were under 30 years old were recruited. It offered technical education in the eight major industrial disciplines. The yearly output, however, was just 480 people.

The need for cultivating technical personnel was evidently not fully realized in the early stages of economic growth, when GDP per capita was about \$80. However, when the government began formulating the First Five-Year Plan (1962-1966), it began to address the necessity for instituting a systematic skills development system. It recognized the necessity to execute technical manpower training concurrently with industrial growth since human resource development takes a lengthy gestation period. The Sixth Five-Year Economic and Social Progress Plan marked the conclusion of Korean economic development (1987-1991). The government created the Industrial Manpower Supply and Skills Development Restructuring Plan in 1994. The implementation of the Employment Insurance (EI) system in 1995 was a watershed moment in the reorganization of the skills development system. New rules were implemented to encourage and assist businesses in providing life-long training services to their employees on a voluntary basis.

The government passed the Basic Vocational Training Act (BVTA) in 1976 to encourage businesses to help fulfill the growing need for skilled and technical workers. First, this new law required all businesses with over 300 employees to give in-plant training for new hires within 10% of total employees. In 1979, the in-plant enterprise training program taught approximately 90,000 employees. The criteria were changed in 1986 to assess training levies based on total payroll. To encourage the SMEs, the government expanded the in-plant training duty to all businesses with 200 or more employees in 1990 and 150 in 1992. There is also a section on the

National Qualifications System, which plays a critical role of signaling in the labor market, is an indispensable mechanism in effectively managing the training programs and the trained workforce, and improving employment service and stability. Korea adopted a national qualifications system together with the vocational training policy, which mandated and standardized vocational training evaluations.

Historically, the introduction of this strategy aided in the increased acknowledgment of the necessity for vocational training. It is difficult to identify successful instances of adopting such a strategy in developing nations with GDP per capita under \$1,000. From a historical viewpoint, this strategy helped to raise awareness of the need of vocational training and a trained workforce.

Lesson Learned

The government must determine the training policy minimum requirements for private sectors in the early development stage, especially pre-service training for new recruits to ensure every company has qualified skilled labor and to avoid “freeriding and poaching” of the workers trained by others. The Korean case shows that the public and private sector can work together in planning and regulation to create the most effective skill development for the industrial environment.

Furthermore, the vocational training Act of 1967 did not only support industrialization, but it also helped respond to social problems in that period since income inequality has risen because of rural-to-urban migration. It aimed to nurture migrated workers, unemployed to reach adequate skills. This training policy provides vocational guidance ranging from social skills to academic skills for rural immigrants to catch up with the urban society. Thus, many private sectors implemented this policy to offer the training to their employees which can significantly improve employees’ skills and productivity.

As Korea emerged in the global economy, the demand for skilled-labors increased so they have to improve the labour market by adjusting the training sectors to meet the industrial and free market needs by not only providing training for high demands but also specific jobs even though the cost of training and facilities are more expensive. In order to step up the Korean economy’s worldwide competitiveness, the Korean government needs to follow the plan which was to turn the unemployed people into industrial workforce, reform the skills development system, and stabilize the skills supply.

To sum up, government intervention is highly required for improving the workers’ quality of life and labour market system in the countries, so training policies played a vital role to support the nation’s economy in order to make a contribution to the high economic growth.

Conclusion

Before the skill development policies, there were about 400,000 unskilled rural youth. The need for a skilled workforce rose during Korea's high growth rate and made the Korea's government reform the skill training. The previous skill training system could not encourage private sectors to provide training as they had to bear all cost of training. After the training, those trainees may not work at the company that provides the training, and this system has caused free riders. However, after the government provided subsidies and policies for training, the number of skilled workers trained increased in every period, and the total number during 1967-1996 was 2,501,588. These workers were trained in different skills to be served in different sectors depending on Korea's S-Curve in each period.

South Korea used the skills development policy to help to improve the productivity and the quality of the work for the citizens of South Korea by providing a free training program for everyone. They also provide surveys to get feedback from the citizens who entered the training program course as they desire to improve their program to be more effective as investing in education can benefit a lot of things in the country, and they also provide the evaluation to evaluate the free training program to the participants. Everything needs to be under control in order to make it the most effective.

The Skill training program is the long term policy for the South Korea government to monitor the program as the education is complicated. The government needs to find the industry that has the most potential to grow in the future or check the backward and forward multiplier of that specific industry to provide the training program for that industry.

Albeit the question of the role of the government—whether a government should intervene in the market—has been a long debate, labor market intervention in the case of South Korea seems to be appropriate. Nonetheless, the reason that the intervention was appropriate is not because of the intervention per se, but it is because of the proper ways and means of intervention.

To conclude, skill development programs that have been implemented in South Korea are the essential factor that contributed to high growth rate, i.e., increases in economic output (GDP), and increases in labor productivity. Furthermore, the programs did not only contribute to the economic growth but also to shifting in economic structure: shifting from agriculture to industrial and manufacturing economy, and changing from labor- to capital-intensive structure.