

# THE KOREAN CASE STUDY: PAST EXPERIENCE AND NEW TRENDS IN TRAINING POLICIES

---

EE 482: Public Policy and Industrialization

Semester 2 / 2020

Faculty of Economics, Thammasat University



## The Korean Case Study: Past Experience and New Trends in Training Policies

Young-Sun Ra and Kyung Woo Shim

December 2009

# 1. Introduction

## 1.1 Skills Development and the Role of Government

- The organizing themes of this paper are whether a government should intervene in the human resources development market, especially in the **training market**; if yes, what should be the **rationale for the intervention**; and **how it should intervene**.
- Controversy over these issues has been mainly discussed under **two theories**: **the human capital theory** and the **public goods theory**.
  - The human capital theory focuses on the responsibility of **both** the **individual worker** and **the enterprise**.
  - The public goods theory focuses on **the nature of training** as a public good and therefore on the **failure of the skills development market**.

# 1. Introduction

## 1.1 Skills Development and the Role of Government

- Human capital theory was the **dominant theoretical approach** to skills formation.
- This theory assumes that **market failure does not occur** in the economy and considers that all training can be classified into general training or specialized training, in which both the **individual worker** and the **enterprise** have training **investment incentives**.
- It also states that direct training provision by the government is not desirable and as a result, **optimal efficiency** of skills development **can be achieved** under **the principles of a free, competitive market**.
- Furthermore, the human capital theory maintains that **government intervention** in skills development is **unnecessary** and may be **harmful**, assuming that the **free, competitive market** can bring about **sufficient investment** in **skills development**.
- Therefore, the only action a government needs to take is to **refrain from intervention** and to **make sure** that **a free, competitive** market is **well functioning**.

# 1. Introduction

## 1.1 Skills Development and the Role of Government

- In the real labor market, however, **market failures like poaching of workers and other externalities** occur inevitably.
- **Firms** are likely to **under-provide general training** because they worry that trainees, once their training has been completed.
- **Such market failure** causes **inefficient resource allocation**. **Vocational training** is considered a **public good**.
- It is likely to be under-provided when left entirely to the private sector.
- The **benefit of skills training does not accrue exclusively to the workers** who underwent training and can be **shared by other people in society** like **a public good**; and employers are **reluctant to provide training** to their workers.
- Therefore, the government should **intervene in skills development** to produce an **optimal level** of **training** either by **providing subsidies** or **incentives** to **enterprises** and workers or **directly providing training** to workers.

# 1. Introduction

## 1.2 The Role of Government in Korea's Skills Development

- The Korean case offers a **good example** of the **active role** played by **the government** in **skills development** of workers.
- Korea is well known for **adopting a government-led skills development system** to assure industry the **supply of a skilled workforce** and to **protect** the **vulnerable groups** of population.
- **Governmental intervention** in skills development at an early stage in Korea's industrialization was necessary for **three reasons**.
  - Firstly, **workforce mobility** was **frequent** at the time of rapid industrialization in Korea. Enterprises, rather than training their own workers, **practiced “free-riding and poaching”** of the workers trained by others.

# 1. Introduction

## 1.2 The Role of Government in Korea's Skills Development

- Secondly, a massive unskilled workforce began to **migrate from rural to urban areas**. The resulting differences in **employment rates** and **skill levels** among the national workforce were significant and were reflected in **individual productivity and wage disparities**. To **redress the inequality** in employment and **income distribution**, therefore, the government needed to **enhance job opportunities** and **productivity through training provision**.
- Thirdly, government intervention was needed because the **demand of future skilled** workers **would not be met** if skills development were **left to the free market**.
- As described above, **government intervention** as a strategy **intended to resolve market failure** does have some rationality.
- It also **transformed mass unskilled youth** leaving **rural areas** to a skilled workforce through **vocational education** and **training** (Shim, 1997).

# 1. Introduction

## 1.2 The Role of Government in Korea's Skills Development

- This skills development policy served **a double purpose**.
- While training opportunities were provided to an **annual urban influx of up to 400,000 unskilled rural youth**, it also **met the demand of the skilled workforce** during Korea's **high growth stage** in the **1970s-1980s** (Suh, 2002).

**Table 1.** Evolution of Skills Development System in response to Economic Development

|                                                                                | 1960s                                                                                                                                                                                                                 | 1970s                                                                                                                                                                                                                                                 | 1980s                                                                                                                                                                                         | 1990s                                                                                                                                                                                                                                                              | 2000s                                                                                                                 |
|--------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| <b>Per Capita GDP</b>                                                          | \$80                                                                                                                                                                                                                  | \$254 → \$1,676                                                                                                                                                                                                                                       | \$1,645 → \$5,418                                                                                                                                                                             | \$6,417 → \$9,438                                                                                                                                                                                                                                                  | \$10,841 → \$20,000                                                                                                   |
| <b>Economic Development Stage</b>                                              | 1st & 2nd Five Year Economic Development Plan(FYEDP)                                                                                                                                                                  | 3rd & 4th FYEDP: Heavy Chemical Industrialization & Take-Off for High Growth                                                                                                                                                                          | 5th & 6th F FYEDP: Stabilization & Open Economy Policy                                                                                                                                        | 7th or New Economy Plan. Average Growth, Low Unemployment & Economic Crisis in 1997                                                                                                                                                                                | Global Economy & Slow Economic Growth                                                                                 |
| <b>Stage of Skills Development System</b>                                      | Introduction of Skills Development System (1967)                                                                                                                                                                      | Enterprise Training System Take- Off Period                                                                                                                                                                                                           | Public Training Institutes Expansion Period                                                                                                                                                   | Transition Period & Reorganization under EIS                                                                                                                                                                                                                       | Innovation Period with surveys and evaluations                                                                        |
| <b>Demand for Skilled Workforce and Responding Skills Development Strategy</b> | For transition from an agricultural to industrial economy → Supply of skilled workers manly through formal education system; non- formal skills development system introduced with subsidies for enterprise training. | Shortage of skilled workforce in heavy-chemical industries→ unlimited supply of unskilled workforce migrating from rural areas; technical high schools and public training centers established; obligatory enterprise training system with a training | Economic Stabilization Policies and declining demand for skilled & technical manpower → Establishment of HRD Service & expansion of public training centers for skilled and master craftsmen. | Increasing demand for upgrade training for incumbents & mass training provision for the unemployed → The levy system for the obligatory enterprise training system converted into levy-grant (rebate) system under EI; mass training of unemployed as a safety net | Flexible labor market & lifelong skills development for both incumbents, the unemployed, and other vulnerable workers |
| <b>Related Laws</b>                                                            | 1967: Vocational Training Act                                                                                                                                                                                         | 1974: Voc. Trg. Special Measure Act; 1976: Basic                                                                                                                                                                                                      | 1976: Basic Vocational Training Act                                                                                                                                                           | 1995: EI Act                                                                                                                                                                                                                                                       | 1995: EI Act                                                                                                          |
| <b>Market Failure and Government Intervention</b>                              | Market failure of skills supply (frequent scouting and poaching)                                                                                                                                                      | Relief of market failure by government-led regulatory policy                                                                                                                                                                                          | Employers avoiding enterprise training & appearance of government failure                                                                                                                     | Government intervention changed to incentives (levy-grant system) and to public training for vulnerable groups                                                                                                                                                     | Correcting gov't failure by strengthening incentive system for SME training and public training for vulnerable groups |

Source: Young-Sun Ra & Kyung Woo Shim (2009)

## II. Skills Development for Economic Growth

### 2.1.1 Division of the Role of the Government and the Private Sector

- It is evident that the **government-driven skills development** policy **supported the economic development** policy in Korea.
- Skilled workers were **trained and supplied in accordance** with the **demand of the advancing industrialization** – from **light to heavy** and again to advanced industry.
- As shown in Table 2, about **2.5 million workers** were trained and supplied during the **30-year industrialization** period: 1967-1996.
- This technically qualified workforce became the **basis for high growth**.

**Table 2.** Number of Skilled Workers Trained during Second to Seventh Five-Year Economic Development Plans (Person, Percent)

|                                | <i>Total</i>         | <i>2<sup>nd</sup> Plan</i> | <i>3<sup>rd</sup> Plan</i> | <i>4<sup>th</sup> Plan</i> | <i>5th Plan</i>    | <i>6th Plan</i>    | <i>7th Plan</i>      |
|--------------------------------|----------------------|----------------------------|----------------------------|----------------------------|--------------------|--------------------|----------------------|
| <i>Type</i>                    | <i>1967-96</i>       | <i>1967-71</i>             | <i>1972-76</i>             | <i>1977-81</i>             | <i>1982-86</i>     | <i>1987-91</i>     | <i>1992-96</i>       |
| <i>Total</i>                   | 2,501,588<br>(100.0) | 98,863<br>(100.0)          | 312,736<br>(100.0)         | 495,739<br>(100.0)         | 273,151<br>(100.0) | 313,275<br>(100.0) | 1,006,822<br>(100.0) |
| <i>Public Training</i>         | 623,736<br>(24.9)    | 36,317<br>(36.7)           | 81,294<br>(26.0)           | 120,117<br>(24.2)          | 121,044<br>(44.3)  | 113,802<br>(36.3)  | 151,160<br>(15.0)    |
| <i>In-Plant<br/>Training</i>   | 1,502,479<br>(60.0)  | 47,225<br>(48.8)           | 177,350<br>(56.7)          | 337,388<br>(68.1)          | 114,773<br>(42.0)  | 116,389<br>(37.0)  | 708,354<br>(70.3)    |
| <i>Recognized<br/>Training</i> | 375,373<br>(15.0)    | 14,321<br>(14.5)           | 54,092<br>(17.3)           | 38,234<br>(7.7)            | 37,334<br>(13.7)   | 83,034<br>(26.5)   | 148,309<br>(14.7)    |

Source: Ministry of Labor of Korea, Yearly.

# II. Skills Development for Economic Growth

## 2.1.1 Division of the Role of the Government and the Private Sector

- Over the years, **the management of the training** programs and their funding schemes has **evolved**.
- At the outset of the industrialization in the 1960s and 1970s, the **government played the dominant role** in the planning, financing and regulation of skills development.
- However, the main responsibility for providing training services was **delegated to the private sector**.
- In the provision of training, the government encouraged **large enterprises to play a key role** by providing **subsidies** and **other inducements** to employers (1967).
- Consequently, **private sector's share** of training provision was much **greater than the public provision** (Table 2).
- As the government realized that the training subsidies for enterprises could not be continuously expanded **due to fiscal constraints**, the government started **imposing compulsory training obligations** on enterprises (1974).

## II. Skills Development for Economic Growth

### 2.1.1 Division of the Role of the Government and the Private Sector

- At the beginning of the 1980s, the **international recession slowed the pace of Korean export growth**, and consequently the **domestic demand for skilled workers contracted**.
- **Enterprises** sharply **reduced their training activities**; however, **the public training** institutions **maintained** the high level of their training activities.
- The government believed that training and productivity improvement would require a **long gestation period**, and **the same level** of training activities should **continue**.
- Consequently, when the economic cycle turned to **prosperity** in early 1990s, the **sharply increasing demand** for a skilled workforce **could be met without much difficulty**.

## II. Skills Development for Economic Growth

### 2.1.2 Complementarities between Vocational Education and Vocational Training

- Skilled workers are generally supplied through **both formal pre-employment vocational education** and **non-formal, targeted vocational training programs**.
- **Pre-employment vocational education** contributes to a skilled workforce through **long-term formal education**, and **targeted vocational training programs** focus on **short-term training** of new recruits and incumbent workers.
- Many countries implement targeted vocational training programs to meet a variety of skills demands while retaining a formal vocational education system (Suh, 2002).

## II. Skills Development for Economic Growth

### 2.1.2 Complementarities between Vocational Education and Vocational Training

- In the case of Korea, formal vocational education and non-formal vocational training **were developed and implemented complementarily** so as to **adequately supply the human resources** needed for industrialization.
- The **complementary implementation** of the two tracks has been beneficial in ensuring skilled manpower in **a timely manner**.
- The successful development of the formal vocational education and non-formal vocational training owes to several factors.
  - First, there was ever **increasing demand for a skilled** and **technical workforce**.
  - Second, **non-formal vocational** training targeted initially out of school youth who **dropped out of high schools** or **high school graduates** who did not proceed with higher education and therefore **did not compete with formal vocational** education for clients.

## II. Skills Development for Economic Growth

### 2.1.2 Complementarities between Vocational Education and Vocational Training

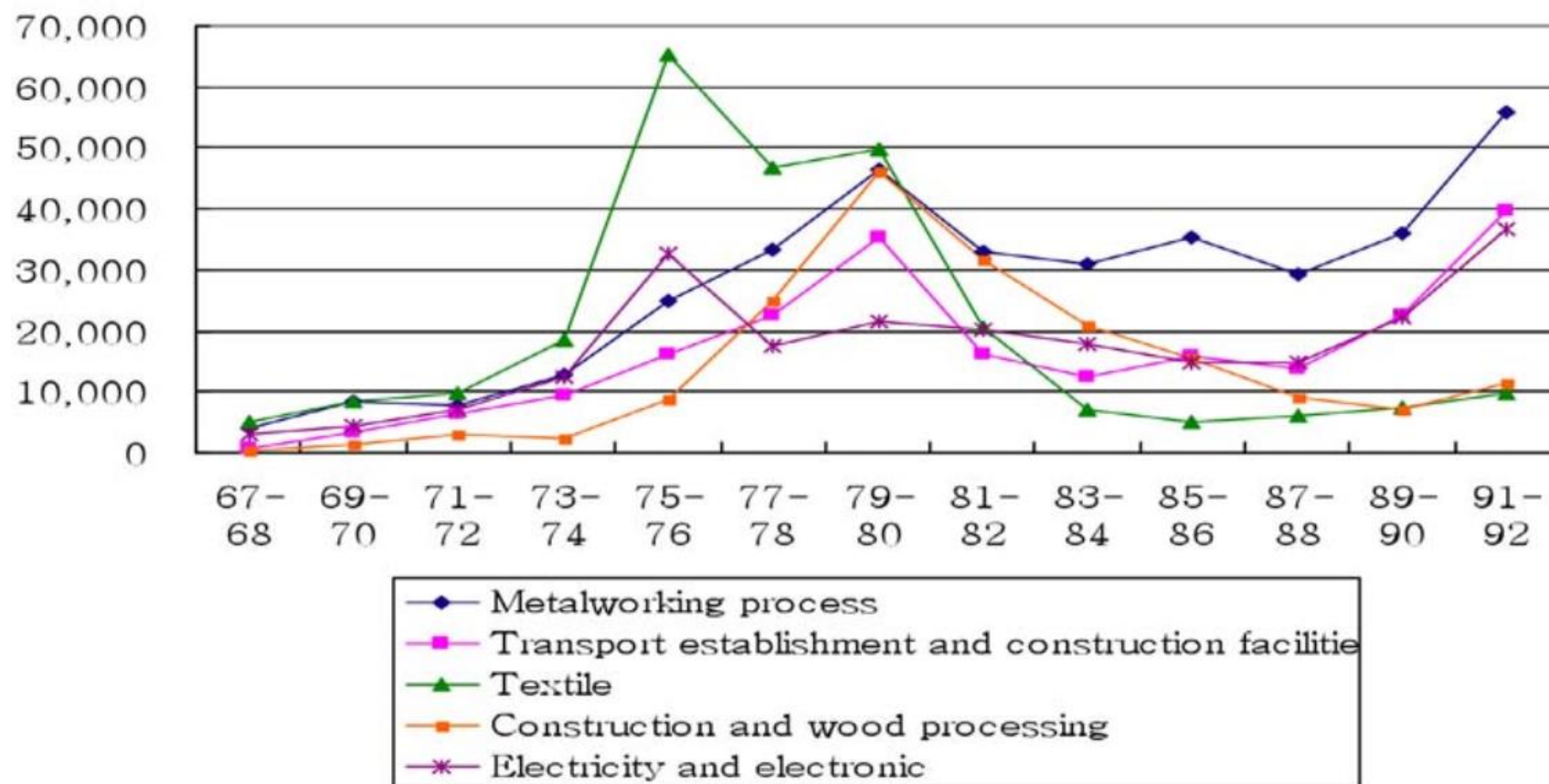
- Third, the quality of both formal and non-formal vocational education and training was high because the **universal primary education** had **already been attained in the 1950s**, and **universal secondary education** had been attained by **1980s**.
- For those less developed countries with **a low educational attainment** and a **weak industrial base**, an emphasis should be placed on **basic education rather than early vocational** education and training.
- **Once basic education is well established**, a vocational education and training system **would be more effective and efficient** in supplying a skilled workforce.

# II. Skills Development for Economic Growth

## 2.1.3 Adaptation of Training Fields to Meet Industrial Demand

- **Public training institutes** targeted those **occupations commonly demanded by all industries**, while **enterprise-based training** was encouraged to focus on **specialized occupations**.
- In this way, training occupations have been **adjusted to meet** the changes in **industrial demand over time**.
- Figure 1 shows the change in the number of trained persons per training field from 1967/1968 to the early 1990s.
- It also indicates the number of participants by year in the five training fields (within a **total of 13 fields**) with the largest number of trainees: **metal processing**; **transport equipment**, and **construction installation**; textiles; construction and wood processing; and, electricity and electronics.

Figure 1. Number of Trainees by Major Occupational Training Field (1967-1992)



Source: Ministry of Labor of Korea, Yearly.

Table 3. Employment Trend by Industry, 1953-1963 (1,000 Persons)

|             | <u>Employment by Industry</u> |                |                  |                 | <u>Composition Rate (%)</u> |                  |                 |
|-------------|-------------------------------|----------------|------------------|-----------------|-----------------------------|------------------|-----------------|
| <u>Year</u> | <u>Total</u>                  | <u>Primary</u> | <u>Secondary</u> | <u>Tertiary</u> | <u>Primary</u>              | <u>Secondary</u> | <u>Tertiary</u> |
| 1953        | 6,536                         | 4,928(-)       | 321(-)           | 1,287(-)        | 75.40                       | 4.91             | 19.69           |
| 1954        | 6,550                         | 4,865(-1.3)    | 353(+10.0)       | 1,332(+3.5)     | 74.27                       | 5.39             | 20.34           |
| 1955        | 6,578                         | 4,811(-1.1)    | 386(+9.3)        | 1,381(+3.7)     | 73.14                       | 5.87             | 20.99           |
| 1956        | 6,628                         | 4,767(-1.0)    | 424(+9.8)        | 1,437(+4.1)     | 71.92                       | 6.40             | 21.68           |
| 1957        | 6,700                         | 4,736(-0.7)    | 466(+9.9)        | 1,498(+4.2)     | 70.69                       | 6.96             | 22.35           |
| 1958        | 6,798                         | 4,716(-0.5)    | 515(+10.5)       | 1,567(+4.6)     | 69.37                       | 7.57             | 23.06           |
| 1959        | 6,923                         | 4,710(-0.2)    | 569(+10.5)       | 1,644(+4.9)     | 68.03                       | 8.22             | 23.75           |
| 1960        | 7,082                         | 4,720(+0.2)    | 629(+10.5)       | 1,733(+5.4)     | 66.65                       | 8.88             | 24.47           |
| 1961        | 7,269                         | 4,744(+0.5)    | 695(+10.5)       | 1,830(+5.6)     | 65.26                       | 9.56             | 25.18           |
| 1962        | 7,500                         | 4,789(+0.9)    | 771(+10.9)       | 1,940(+6.0)     | 63.85                       | 10.28            | 25.87           |
| 1963        | 7,779                         | 4,856(+1.4)    | 855(+10.9)       | 2,068(+6.6)     | 62.42                       | 10.99            | 26.59           |

Note: () is growth rate year-on-year, + is increase, - is decrease.

Source: Kim and Seo, 1987.

Table 4. Technical Manpower Requirements during First Five-Year Economic Development

Plan (1,000 Persons, Percent)

|                   | <u>1961</u> | <u>1962</u> | <u>1963</u> | <u>1964</u> | <u>1965</u> | <u>1966</u> |
|-------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <i>Engineer</i>   | 8,616       | 10,994      | 12,814      | 15,032      | 17,055      | 19,411      |
| <i>Technician</i> | 11,128      | 55,509      | 66,129      | 78,266      | 87,739      | 97,059      |
| <i>Craftsman</i>  | 279,670     | 282,933     | 339,131     | 402,334     | 444,974     | 485,293     |
| <i>Total</i>      | 299,414     | 349,436     | 418,164     | 495,632     | 549,758     | 601,763     |

Source: Suh, 2002.

Table 5. Employment Trend by Economic Activity, 1963-1972 (1,000 Persons, Percent)

| Year | Older than 15 Years |                                |          |            |                                          | Labor<br>Force<br>Participa-<br>tion Rate | Employ-<br>ment<br>Rate | Unemploy-<br>ment Rate |
|------|---------------------|--------------------------------|----------|------------|------------------------------------------|-------------------------------------------|-------------------------|------------------------|
|      | Total               | Economically Active Population |          |            | Economically<br>Non-Active<br>Population |                                           |                         |                        |
|      |                     | Total                          | Employed | Unemployed |                                          |                                           |                         |                        |
| 1963 | 14,551              | 8,230                          | 7,563    | 667        | 6,321                                    | 56.6                                      | 91.9                    | 8.1                    |
| 1964 | 14,967              | 8,341                          | 7,698    | 643        | 6,627                                    | 55.7                                      | 92.3                    | 7.7                    |
| 1965 | 15,367              | 8,754                          | 8,112    | 642        | 6,613                                    | 57.0                                      | 92.7                    | 7.3                    |
| 1966 | 15,753              | 8,957                          | 8,325    | 632        | 6,796                                    | 56.9                                      | 92.9                    | 7.1                    |
| 1967 | 16,121              | 9,180                          | 8,624    | 556        | 6,941                                    | 56.9                                      | 93.9                    | 6.1                    |
| 1968 | 16,456              | 9,541                          | 9,061    | 480        | 6,915                                    | 58.0                                      | 95.0                    | 5.0                    |
| 1969 | 16,852              | 9,747                          | 9,285    | 462        | 7,105                                    | 57.8                                      | 95.3                    | 4.7                    |
| 1970 | 17,468              | 10,062                         | 9,617    | 445        | 7,407                                    | 57.6                                      | 95.6                    | 4.4                    |
| 1971 | 18,118              | 10,407                         | 9,946    | 461        | 7,711                                    | 57.4                                      | 95.6                    | 4.4                    |
| 1972 | 18,819              | 10,865                         | 10,379   | 486        | 7,954                                    | 57.7                                      | 95.5                    | 4.5                    |

Source: Korea National Statistical Office, Yearly.

Table 6. Employment Trend by Industry, 1972-1979 (1,000 Persons, Percent)

| Year | Total  | Agri/Forestry/<br>Fishing<br>(Primary) | Mining And<br>Manufacturing<br>(Secondary) | SOC Other<br>Services<br>(Tertiary) | Annual Increase Rate |         |           |          |
|------|--------|----------------------------------------|--------------------------------------------|-------------------------------------|----------------------|---------|-----------|----------|
|      |        |                                        |                                            |                                     | Total                | Primary | Secondary | Tertiary |
| 1972 | 10,382 | 5,238(50.5)                            | 1,468(14.1)                                | 3,674(35.4)                         | 4.4                  | 9.2     | 3.9       | -1.7     |
| 1973 | 10,942 | 5,445(49.8)                            | 1,779(16.2)                                | 3,719(34.0)                         | 5.4                  | 4.0     | 21.2      | 1.2      |
| 1974 | 11,421 | 5,481(48.0)                            | 2,027(17.7)                                | 3,914(34.3)                         | 4.4                  | 0.7     | 13.9      | 5.2      |
| 1975 | 11,692 | 5,339(45.7)                            | 2,235(19.1)                                | 4,118(35.2)                         | 2.4                  | 2.6     | 10.3      | 5.2      |
| 1976 | 12,412 | 5,514(44.4)                            | 2,708(21.8)                                | 4,191(33.8)                         | 6.2                  | 3.3     | 21.2      | 1.8      |
| 1977 | 12,812 | 5,342(41.7)                            | 2,866(22.4)                                | 4,604(35.9)                         | 3.2                  | 3.1     | 5.8       | 9.9      |
| 1978 | 13,412 | 5,154(38.4)                            | 3,092(23.1)                                | 5,167(38.5)                         | 4.7                  | 3.5     | 7.9       | 12.2     |
| 1979 | 13,602 | 4,866(35.8)                            | 3,209(23.6)                                | 5,527(40.6)                         | 1.4                  | 5.6     | 3.8       | 7.0      |

Note: ( ) is component ratio.

Source: Korea National Statistical Office, Yearly.

Table 13. Unemployment Trends by Industry: 1997 and 1998

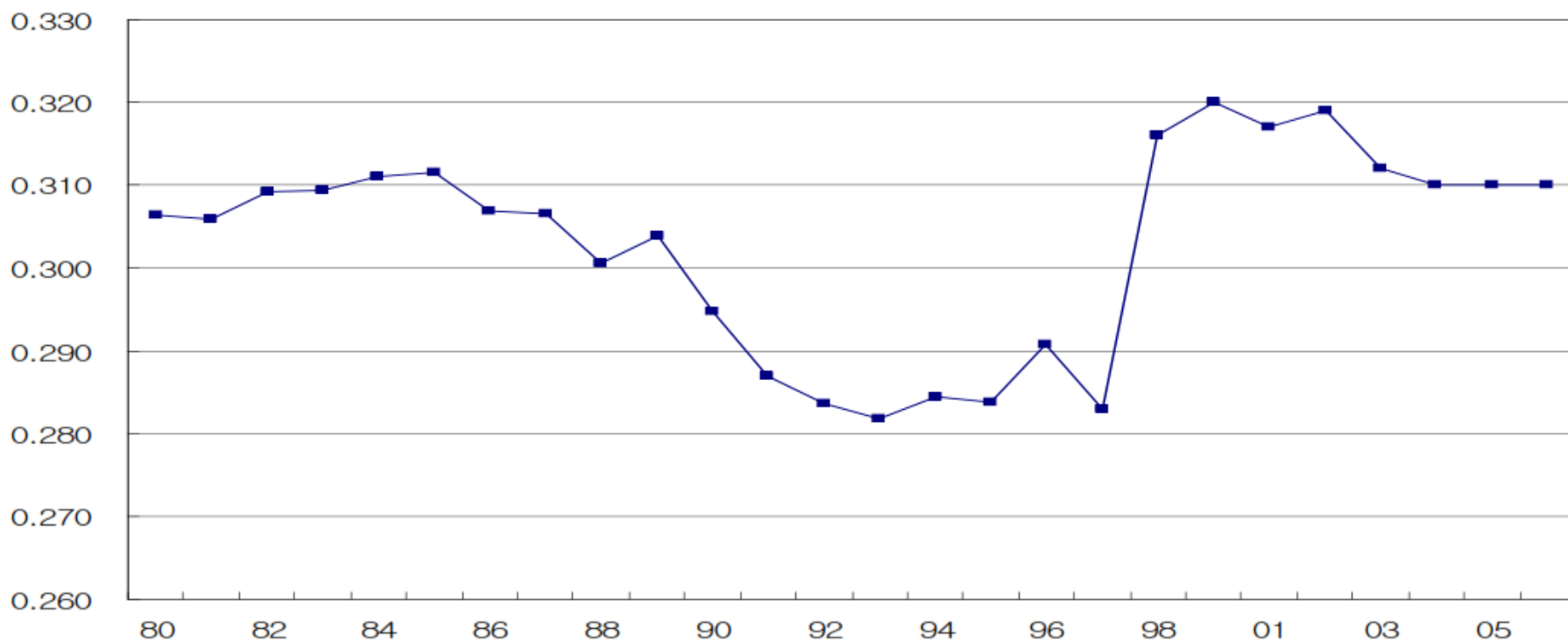
(1,000 Persons, Percent)

|                              | <u>1997</u> |       |                | <u>1998</u> |        |                | <i>Increase/<br/>Decrease <u>R</u><br/><u>ate</u></i> |
|------------------------------|-------------|-------|----------------|-------------|--------|----------------|-------------------------------------------------------|
|                              | <u>Size</u> |       | <u>Percent</u> | <u>Size</u> |        | <u>Percent</u> |                                                       |
| <i>Total</i>                 | 319         | (1.5) | 100.0          | 1,193       | (5.6)  | 100.0          | 273.9                                                 |
| <i>Agr./forestry/fishing</i> | 4           | (0.2) | 1.3            | 17          | (0.7)  | 1.4            | 315.2                                                 |
| <i>Mining</i>                | 81          | (1.8) | 25.4           | 279         | (6.7)  | 23.4           | 244.4                                                 |
| <i>Manufacturing</i>         | 80          | (1.8) | 25.1           | 278         | (6.7)  | 23.3           | 247.0                                                 |
| <i>Service</i>               | 235         | (1.6) | 73.7           | 897         | (6.2)  | 75.2           | 281.7                                                 |
| <i>Construction</i>          | 50          | (2.4) | 15.7           | 299         | (15.9) | 25.1           | 498.4                                                 |
| <i>Wholesale/retail</i>      | 110         | (1.9) | 34.5           | 346         | (5.9)  | 29.0           | 214.4                                                 |
| <i>Other service</i>         | 75          | (1.2) | 23.5           | 252         | (3.8)  | 21.1           | 236.0                                                 |

Note: Figures in parenthesis represent the unemployment rate.

Source: Korea National Statistical Office, 1998.

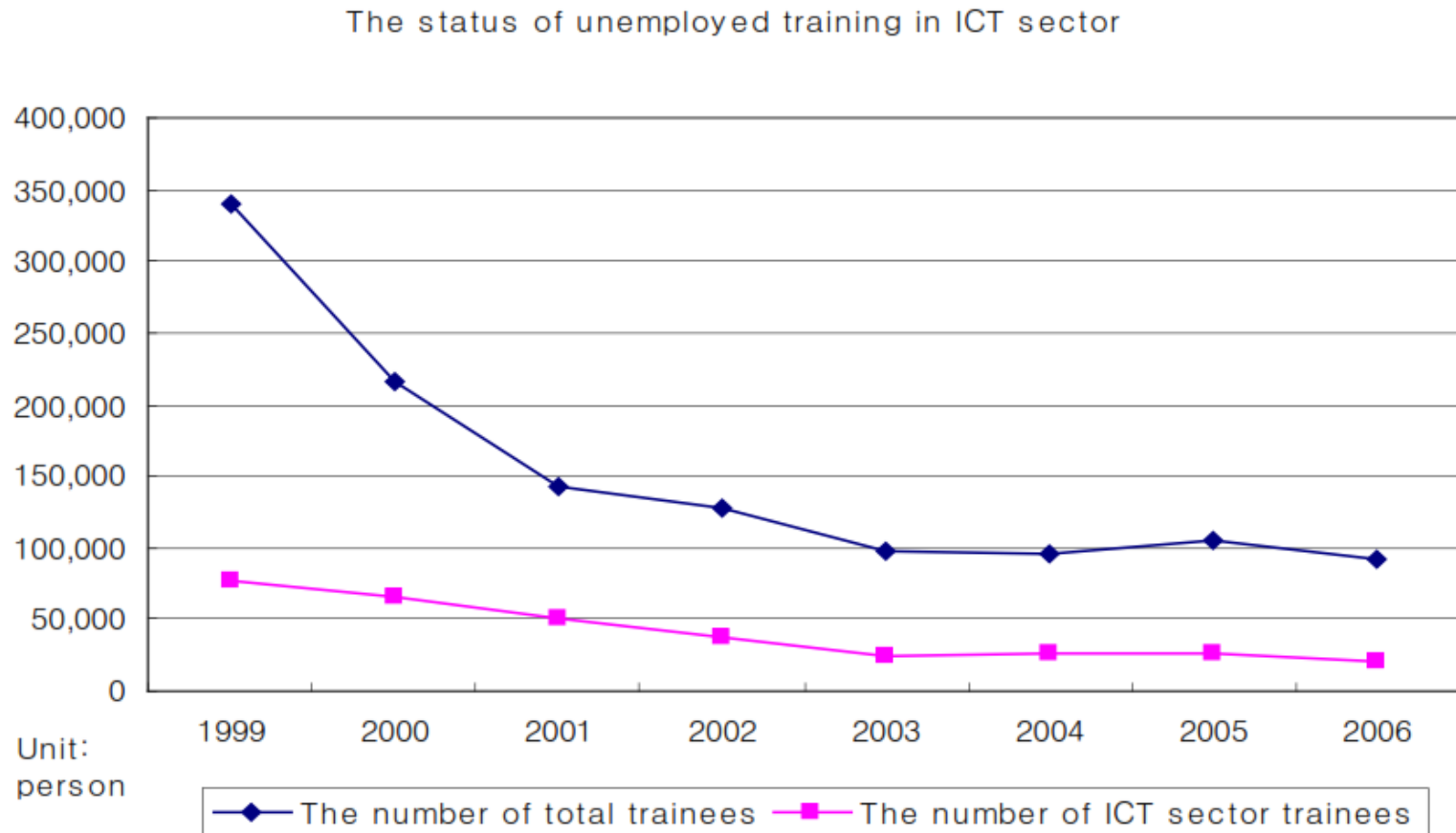
Figure 3. Trend of Gini Coefficient in Korea (1980-2006)



Source: Korea National Statistical Office, Yearly.

Source: Young-Sun Ra & Kyung Woo Shim (2009)

Figure 4. Number of Trainees in IT Training Fields: 1999-2006



Source: Ministry of Labor of Korea, Yearly.

Source: Young-Sun Ra & Kyung Woo Shim (2009)

## II. Skills Development for Economic Growth

### 2.1.4 Appropriate Financing Mechanisms

- The strategy for securing **appropriate financial resources** to support skills development has **varied over time**, depending on the **stage of economic development**.
- When the vocational training policy was **first introduced**, the government adopted a **training subsidy policy** for **the largest 16 companies** (1967).
- The objective of the subsidy policy was to instill the training culture among enterprises on the premise that **training is a public good**.
- Although the subsidy did help the establishment of the in-plant training system among large-scale companies, it **could not be spread to other enterprises** without the increase in the total amount of subsidy, and its sustainability was limited by **the constraint in government budgets**.

## II. Skills Development for Economic Growth

### 2.1.4 Appropriate Financing Mechanisms

- The government initially **mandated** that **enterprises of a certain scale** (e.g. on the basis of the number of employees) in key industries invest in their workforce (up to 10%) through **in-house vocational training** (1974).
- Later, the government gave all large scale enterprises an option to choose **either provision of in-plant training or the payment of a training levy** (1976).
- The standard for **the training obligation was changed** from the number of workers to the amount of training expenses as a **percentage of total wage bill** (1987), and **varied types of training was recognized** (1991).

## II. Skills Development for Economic Growth

### 2.1.4 Appropriate Financing Mechanisms

- The **training levy system** was effective in **mobilizing funds** for public vocational training.
- The government **used the training levies** to **build up** the **Vocational Training Promotion Fund** (1976 Act).
- The fund financed establishment of **numerous public training institutions** and the **Vocational Training Management Corporation** that managed them (1981).
- Since 1995, the training expenses have been **reimbursed from the training fund** established with the training levy collected from all enterprises under the **Employment Insurance (EI) System**.

# II. Skills Development for Economic Growth

## 2.1.4 Appropriate Financing Mechanisms

- This **levy-grant (rebate) system** has served as a **financial incentive for enterprises to invest in training** of their workers either **in-plant** or at **training institutions outside**.
- Moreover, the EI fund has reimbursed for **small and medium-sized enterprises (SMEs)** with an amount which is much **greater than the actual training expenses**.
- For certain projects, while **credits and loans** were obtained from the **World Bank** (1975, 1977) and the **Asian Development Bank** (1972), **technical assistance** was received from **the ILO and UNDP**, as well as advanced countries such as **Germany** and **Belgium** as a grant.
- In the end, foreign financial assistance helped establish **25 training institutes**, which contributed to **supplying the skilled workforce** for the industrialization of Korea.

# II. Skills Development for Economic Growth

## 2.1.5 National Qualifications System

- The qualifications system plays the role of **a signal in the labor market**, certifying the skills and capabilities required by industry.
- Korea developed a **qualifications system together with the vocational training system** during its industrialization period.
- At first, the qualifications system was designed to increase the **credibility of the training programs** among employers and the general public, as supported by the **Vocational Training Act of 1967**.
- **A skills certification** clause of the Act established standards by which the government could certify the level of a worker's skills.
- Furthermore, the Act separated testing into **two categories**: the Minister of Labor oversaw the **written test**, and a commissioned organization carried out the **practical test**.

## II. Skills Development for Economic Growth

### 2.1.5 National Qualifications System

- The *National Technical Qualifications Act* was enacted in 1973 to merge various certification regimes operated by the individual ministries and agencies and to **introduce an officially unified certification processes**.
- At the time of enactment, the **Ministry of Science and Technology** managed the **national qualifications scheme** with an emphasis on the qualifications for the **heavy chemical industry**.
- In 1981, the managing ministry was **shifted to** the **Ministry of Labor**, expanding qualifications beyond those relevant to heavy chemicals.

# II. Skills Development for Economic Growth

## 2.1.5 National Qualifications System

- The national qualifications system also contributed to **laying the foundations of human resource development** to effectively support industrialization, by performing a **feedback function** on whether vocational training programs are conducted in such a way that the **demands of industry can be met**.
- As time goes, **cooperation between the public and private sectors** became **more important** in managing the qualifications system.
- The private sector has been increasingly asked to assume a larger part of the management of the national qualifications system.
- The number of **private qualifications** is currently **over 800**, as compared to the **586 government technical qualifications**.