

Labour Migration and Remittances in Korea

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CONTENTS

1. Introduction
2. Korea's Overseas Employment and Remittances
3. Economic Effects of Labour Migration
4. Government Support System to Labour Migration in Korea
 - (1) Laws and Regulations Governing the Labour Migration
 - (2) Related Ministry and Agencies
 - (3) Various Forms of Access to Overseas Employment
 - (4) Management of Migrant Workers
 - (5) Savings Incentive from Remittances by Overseas Employees
5. Critical Evaluation of Overseas Employment Policy in Korea
 - (1) Problems in Overseas Employment Policy
 - (2) Policy Direction
6. Conclusion and Recommendation for ECDC

1. Introduction

The history of the emigration in Korea is about a century old. Towards the end of 19th century, some Koreans emigrated to Hawaii as labourers and most of them settled there. During the Japanese occupation, many Koreans went over to Japan to earn their living and some of them also settled there for good. The number of Koreans living outside Korea was estimated to be about 1.6 million in 1981.

More specifically there were 1.4 permanent Korean residents living outside Korea, mostly in Japan and the United States in 1981. Of the 1.6 million Koreans living overseas, there were about 240 thousand Koreans temporarily living outside Korea; most of them were labourers employed overseas either by Korean firms or foreign companies. About 66 percent of

the Koreans temporarily living outside Korea were in the Middle East region. Those working in the North America accounted for about 20 percent and the rest were scattered around the world.⁽¹⁾

This shows that although the emigrated permanent residents are mostly concentrated in the USA and Japan, the majority of the Korean workers are mainly working in the Middle East countries. However, the Korean labour migration to the Middle East is a rather recent phenomenon. It was not until the middle of 1970s that the Korean workers began to work in great multitude in the Middle East region.

Soon after the first oil shock in 1973, Saudi Arabia, Kuwait, the United Arab Emirates, Qatar and Bahrein were the countries where the Korean construction and contracting companies were successful in obtaining projects on civil engineering works and the number of Korean workers in the Middle East began to dramatically increase every year especially after 1975. In recent years, Libya, Iraq, Jordan, Egypt and even Sudan became the countries where the Koreans began to be active and the types of projects which the Korean construction and contracting companies could take up have become much more diversified ranging from simple labour-intensive civil engineering projects to sophisticated construction and technology-intensive projects.

The rapid rate of labour migration to the Middle East began to influence the Korean economy in two major ways from the middle of 1970s. The first was the impact on the labour market. As many of the skilled construction labourers were attracted to the relatively high wage offered by the overseas construction companies, their departure in great numbers created a situation of labour shortage particularly in certain fields of labour skill. This began to exert an adverse effect on the labour market in Korea rapidly causing the wage rate to rise in those particular sectors, but spreading all other sectors ultimately increasing the general wage rate in

(1) Ministry of Foreign Affairs, *The Status of the Koreans Living Abroad*.

the whole economy.⁽²⁾

The second was the effect of remittances on the Korean economy in general and the economic management in particular. Never before in the history of Korean economy have we had such a flow of large sum of remittances from abroad. That the remittances helped ease the balance of payment difficulties and stimulate the economic growth needs no belabouring. It appeared however that the Korean government was a bit at a loss how to manage these remittances as the government was always used to devise an economic policy to cope with the situation of the payment deficit.⁽³⁾ The monetary expansion brought about by the increase of foreign exchange earnings due to the sudden increase of remittances through labour migration together with the remittances sent in by the construction companies began to exert an inflationary pressure on the Korean economy, which in fact had to go through a high inflationary period during the late 1970s. The consequence of the failure of the economic management was the change of the economic ministers in 1978; the new team began to adopt a very restrictive monetary policy beginning from 1979 and continuing until now.

The Korea's opportunities in the Middle East rather fluctuated over the last ten years but never was disappointing. There were the years when the projects were less forthcoming but nevertheless the number of projects and the sums involved continued to increase on the whole. Consequently, the labour migration has continued to grow and the remittances have commensurately exerted various economic impacts on the national eco-

(2) It is difficult to ascertain correctly whether it was entirely due to the great stride into the Middle East that the general wage rate was caused to rise but it is generally accepted that the Middle East was one of the major factors that affected the increase of wage rate in Korea. For a more structural explanation for wage increase, see Bai Moo-ki, "The Turning Point of the Korean Economy" in W.H. Park and T. Watanabe, ed. *Economic Development of Korea* (Tokyo: Munch-dang, 1983) (in Japanese), especially pp. 165-172.

(3) For the first time in many years, Korea registered a current account surplus in 1977. This record has not yet been broken again.

nomy.⁽⁴⁾

In this paper, the labour migration is defined as those Korean workers employed either by the Korean or foreign companies to work outside Korea temporarily. The remittances under the present study are limited to those parts of earnings of the labourers which are transferred back to Korea. Therefore the remittances sent home by the construction, contracting and management companies are not included in the study.

2. Korea's Overseas Employment and Remittances

Up until 1965 Korea's overseas employment was very insignificant. A very small number of Korean workers were employed in foreign countries either at the invitation of their Korean relatives living abroad or through a private contact with foreign companies. However Vietnam and other Southeast Asian countries became important labour markets to Korean workers after 1965, and the Middle East after the first oil shock in 1973. The consequence of the enlargement of Korean employment opportunities abroad was an increasingly active involvement of the Korean government in overseas employment policy. This led to, among others, the establishment of Korea Overseas Development Corporation (KODC) in 1965.⁽⁵⁾

With the demise of the importance of South Vietnam as overseas labour market due to the close of the Vietnam war and after the oil shock that arose out of the October war in 1973, the Middle East suddenly became a very important construction and labour market to Korea. Although Korea has been continuously pursuing for a policy of diversification looking for new markets in Southeast Asia, Africa and Latin America, the Middle

(4) For the relationship between Korea and the Middle East particularly in the field of construction, see Seung Soo Han, *The Economics of the Middle East: The Foundation of Arab Renaissance* (Seoul: Bakyoungsa, 1977) (in Korean), pp. 169-80.

(5) The KODC was created charged with dealing the task of permanent emigration and temporary overseas employment. The organisation is under the supervision of the Ministry of Health and Social Affairs.

Table 1: Korean Overseas Employment (on Departure Basis)

Year	Number of Workers that left	Year	Number of Workers that left
1963~65	3,809	1974	14,538
1966	12,947	1975	20,986
1967	8,314	1976	21,269
1968	8,528	1977	69,623
1969	5,492	1978	101,998
1970	8,782	1979	120,990
1971	9,280	1980	146,436
1972	10,320	1981	175,114
1973	11,863		

Sources: Ministry of Labour

Note: The numbers given are from a departure basis and therefore cannot be added to obtain the total number of Korean workers now working abroad. For this, those who return each year should be taken account of.

East has been the most important market during the last decade and will remain so for some time.

Korea's overseas employment fluctuated from year to year but by 1982 the total number of Korean workers working abroad was 219 thousands. The number of overseas employment on departure basis is given in table 1. As is seen in table 1, up until 1971 the number of Korean workers leaving for overseas market was less than 10,000 a year. However, since 1972 the number of those leaving Korea for overseas employment opportunities began to rise rapidly. The rate of increase both in 1974 and 1975 is very marked. The largest increase was registered in 1977 when the number of workers leaving for abroad increased from 21,269 in 1976 to 69,623 in 1977; an increase of 327 percent. By 1978 the number of the Korean workers leaving for abroad exceeded 100,000 each year.

Most of the Korean workers that migrated were mainly concentrated in Europe and Asian region during the period before 1973. The number of crews employed by foreign shipping companies increased substantially over the years. For example, during the period between 1963~65 the total number of Korean workers that left Korea were 3,809, of which 59.3 percent went to West Germany and 31.9 percent were employed by foreign

ships. After 1966 when the Vietnam war was at its peak the number of Korean workers that left Korea for that region increased dramatically.

After the first oil shock in 1973 the Middle East has become the most important area of Korean workers' migration. Apart from these, the number of crews have continuously increased over the years. Towards the end of 1970s, the Korean migration to Europe began to cease and Africa has slowly become a potential area for Korean migration. Even so, the importance of America and Africa as a potential area of migration has not yet been fully exploited yet. By 1981, the total number of Korean workers that left Korea in that year amounted to 175,114, of which the Middle East accounted for 79.0 percent, Asia for 5.2 percent and the shipping crews for 15.7 percent. Table 2 shows the detailed account of the Korean overseas employment by area on departure basis for 1963~1981.

Table 2: Korea's Overseas Employment by Region

	Middle East	Europe	Asia	America	Africa	Country of Ships' Registry	Others	Total
1963~1965	—	2,257	182	295	—	1,215	66	3,809
1966	—	1,520	10,418	24	—	978	7	12,947
1967	—	428	5,734	234	—	1,861	57	8,314
1968	—	94	6,482	582	—	1,307	73	8,528
1969	—	847	2,604	413	—	1,577	51	5,492
1970	—	3,022	1,640	914	—	2,874	108	8,782
1971	—	2,731	3,110	844	—	4,089	61	9,280
1972	—	1,728	1,548	736	—	6,199	109	10,320
1973	—	2,120	1,445	973	—	7,278	47	11,863
1974	395	2,416	2,697	608	—	8,403	19	14,538
1975	6,466	910	2,867	358	—	10,323	62	20,986
1976	21,269	879	1,765	526	—	23,098	155	37,192
1977	52,247	399	1,570	505	428	14,074	—	69,623
1978	81,987	97	903	676	166	18,109	—	101,998
1979	99,141	—	820	225	217	20,527	—	120,930
1980	120,535	3	4,004	141	91	21,649	—	146,436
1981	138,310	—	9,081	61	97	27,556	—	175,114

Sources: Ministry of Labour

Notes: Employees in Europe includes those in West Germany only until 1976 and those in other European countries are included in Others.

Table 3: Present Status of Korean Workers by Job for 1976~1981

Job	1977	1978	1979	1980	1981
Construction & Civil Engineering	33,060	55,433	57,760	71,482	87,869
Driver & Maintenance	9,192	11,286	14,578	17,832	22,872
Crews	17,082	19,269	19,160	21,284	24,850
Miners	1,432	1,257	1,100	335	335
Nurses	7,043	5,443	5,221	4,818	5,135
Unskilled	8,152	12,744	24,721	31,827	38,969
Others	7,301	16,989	18,129	18,473	22,208
Total	83,262	122,421	140,669	166,051	202,238

Sources: Ministry of Labour

Notes: The total number of those employed overseas by the end of each year.

As most of the Korean labourers working abroad are on a fixed term basis and toil under very difficult climatic condition there tends to be a high rate of labour mobility. Consequently the Korean overseas employment on departure basis is not a good guide on how many Korean workers are currently resident in host countries. Table 3 shows the present status of Korean workers by job description for 1977~1981. The total number of Korean workers in 1977 were 83,262. The construction and civil engineering workers accounted for 39.7 percent, the crews for 20.5 percent, drivers and maintenance technicians for 11.0 percent, unskilled labours for 9.8 percent, nurses for 8.5 percent and miners for 1.7 percent in 1977. By 1981 the share of miners and nurses has declined sharply and the share of construction and civil engineering workers and of unskilled labourers increased substantially, reflecting the demise of Europe as a potential area of Korean migration and the continuous rise of Middle East as the most important area of foreign labour market. By 1981 the total number of Korean workers resident abroad were 202,238. There were 87,869 construction and civil engineering workers which accounted for 43.4 percent of the total Korean workers resident abroad. The drivers and maintenance technicians accounted for 11.3 percent, unskilled labourers for 19.1 percent and the crews for 12.3 percent of the total in 1981.

Table 4. Korean Workers by Job and Area in 1981

Job	Area Middle East	Europe	Asia	America	Africa	Crews	Total
Construction & Civil Engineering	82,017	—	5,767	13	72	—	87,869
Driver & Maintenance	23,341	—	1,489	35	7	—	22,872
Unskilled	37,982	—	975	2	10	—	38,969
Nurses	528	4,594	12	—	1	—	5,135
Miners	—	335	—	—	—	—	335
Crews	—	—	—	—	—	24,850	24,850
Others	20,234	—	1,563	402	9	—	22,208
Total	162,102	4,929	9,806	452	99	24,850	202,238

Sources: Ministry of Labour

Notes: The total number of those employed overseas by the end of 1981

As in already mentioned, the Middle East countries have increasingly become an important area of Korean migration and by 1981 80.2 percent of the total Korean workers working abroad were concentrated in this region. As is shown in table 4, there were 162,102 Korean workers in the Middle East in 1981. The Middle East accounted for 93.3 percent of construction and civil engineering workers, 93.3 percent of drivers and vehicle maintenance technicians, 97.5 percent of unskilled labourers, 10.2 percent of nurses and 91.1 percent of other workers not classified in the table. Of the rest of the total of 202,238 in 1981, 12.3 percent was the crews on foreign ships, 4.8 percent was accounted for by Asia, 2.4 percent by Europe, 0.2 percent by America and 0.04 percent by Africa.

Korea's remittances that have accrued from labour migration were insignificant in absolute terms up until 1973. Before 1973, most of the remittances accrued from the Korean workers in South Vietnam and a trickle of remittances from miners and nurses in West Germany. The total remittances in 1965, for example, were only 18.4 million US dollars. Because of the Vietnamese boom, they went up to 114.7 million dollars in 1967. However, it was not until 1973 that the remittances exceeded 100 million dollars again. The increase of remittances since then has been phenomenal mainly due to the contribution made by the Middle East.

Table 5. Korea's Remittances from Labour Migration

(unit: Million dollars)

Year	Remittances (1)	Export (2)	Receipt from Invisible Trade (3)	(1)/(2) (%)	(1)/(3) (%)
1965	18.4	175.1	125.8	10.5	14.7
1966	57.3	250.3	238.4	22.9	24.0
1967	114.7	320.2	375.2	35.8	30.6
1968	86.5	455.4	424.5	19.0	20.4
1969	69.2	622.5	497.1	11.1	13.9
1970	48.4	835.2	490.7	5.8	9.9
1971	46.4	1,067.6	486.6	4.3	9.5
1972	56.8	1,624.1	579.2	3.5	9.8
1973	113.3	3,225.0	936.3	3.5	12.1
1974	144.4	4,460.4	987.3	3.2	14.6
1975	158.2	5,081.0	992.0	3.1	15.9
1976	303.4	7,715.1	1,799.7	3.9	16.9
1977	584.2	10,046.5	3,098.0	3.4	11.1
1978	769.8	12,710.6	4,565.7	5.1	14.3
1979	1,158.3	15,055.5	4,824.5	7.7	24.0
1980	1,292.4	17,505.9	5,169.3	7.4	25.0
1981	1,673.4	21,253.8	6,328.5	7.9	26.4

Sources: Bank of Korea, *Economic Statistical Yearbooks*; also from the Economic Planning Board and Ministry of Finance

market. The remittances in 1973 amounted to 113.3 million dollars and by 1981 they increased to 1,673.4 million dollars by more than 14 times. Table 5 shows the inflow of remittances and their relative size to the export and the receipt from the invisible trade.⁽⁶⁾

The relative size of remittances in terms of export has been less than 10 percent since 1970 mainly due to the rapid growth of the export in Korea. However the remittances accounted for almost a quarter of receipt from invisible trade in 1979~1981. As compared with other labour-export-

(6) In this study, the remittances are defined as those parts that accrue to the employees working abroad. Unlike the labour exporting developing countries in the periphery of Europe such as Greece, Turkey, Morocco and Yugoslavia which export their labour alone, the Korean experience is unique in that it is not only the employees but also the employers in the form of overseas construction companies that are active overseas especially as in the Middle East.

ing countries such as Greece, Morocco, Turkey and Yugoslavia where the remittances accounted for 35 percent, 43 percent, 50 percent and 35 percent of their respective export in 1976, Korea's remittances played a less significant role in the national economy.⁽⁷⁾

3. Economic Effects of Labour Migration

The labour migration tends to exert several favourable and unfavourable effects on the national economy. The unfavourable economic impacts are closely related to the condition of the domestic labour market. When there is a surplus labour, the unfavourable impact can be much dampened. It is often pointed out by several scholars that the outflow of the effect of domestic investment in human resources adversely affect the economy of home country by draining brains.⁽⁸⁾ The brain drain, however, is usually referred to the intellectually sophisticated manpower emigrating from the developing countries to the developed countries for the purpose of permanent residence. However the brain drain is not the main concern of this study; rather the problems involved are "Hand Drains". Those who have emigrated with technical skills would create problems when the labour market becomes tighter at home; the situation that once arose during the 1977~78 boom period. Yet many people concur that the favourable effect from labour emigration and the remittances therefrom far outweighs the unfavourable impacts.

One of the favourable impacts of the labour migration and remittances that accrue from this is the effect on the economic growth and employment. For example, the remittances from labour migration in 1981 were 1,673.4 million dollars and this accounted for 2.7 percent of GNP in the same

(7) A.G. Chandavarkar, "Use of Migrant Remittances in Labour-Exporting Countries", *Finance and Development* (June 1980).

(8) For a general issues concerned with the brain drain, see J.N. Bhagwati, ed. *The Brain Drain and Taxation: Theory and Empirical Analysis* (Amsterdam: North Holland Publishing Co., 1976).

Table 6. The Contribution of Remittances in GNP

(unit: billion won)

Year	GNP (1)	Remit- tances (2)	(2)/(1) (%)	Year	GNP (1)	Remit- tances (2)	(2)/(1) (%)
1965	805.7	4.5	0.6	1974	7,332.5	57.8	0.8
1966	1,037.0	15.6	1.5	1975	9,792.9	76.5	0.8
1967	1,281.2	31.0	2.4	1976	13,272.6	146.8	1.1
1968	1,652.9	23.9	1.4	1977	17,021.4	282.8	1.7
1969	2,155.3	19.9	0.9	1978	22,917.6	372.6	1.6
1970	2,684.0	15.0	0.6	1979	29,072.1	560.6	1.9
1971	3,294.8	16.2	0.5	1980	34,321.6	852.9	2.5
1972	4,028.9	22.3	0.6	1981	43,155.3	1,172.2	2.7
1973	5,238.3	45.1	0.9				

Sources: As in table 5.

Notes: Remittances in Won were calculated by making use of the going exchange rate.

year.

The share of remittances in GNP has fluctuated over the years. It was relatively higher during the late 1960s but was lower, less than 1 percent of GNP during the first half of 1970s. It has risen continuously since then. The share of remittances in GNP is given in table 6.

According to one of the studies on the economic effect of Korean emigration, it was found that the labour migration had contributed to the economic growth by 12.2 percent in 1965, 11.8 percent in 1966 and 15.1 percent in 1967. Between 1968 and 1975, the study estimated the contribution to have been almost insignificant. Since 1975, the contribution of remittances on the economic growth has become significant again. The study shows that the labour migration had contributed to the economic growth by 0.7 percent in 1975, 4.6 percent in 1976, 11.7 percent in 1979, 3.4 percent in 1980 and 8.4 percent in 1981. However the study appears to have overestimated the contribution of the remittances to economic growth since 1976. By making use of available data on remittances in 1977, it was found that the contribution by remittances on economic growth was 3.2 percent in 1976, 7.1 percent in 1977, 1.3 percent in

Table 7. Remittances and Economic Growth

(unit: billion dollars)

Year	Net Increase in GNP (1)	Net Increase in Remittances (2)	Contribution (2)/(1) (%)
1965	213.5	23.1	12.2
1966	493.5	52.0	11.8
1967	290.9	38.1	15.1
1968	526.2	-38.0	-6.7
1969	715.8	-20.6	-2.8
1970	451.6	-19.0	-4.0
1971	599.5	-0.1	-0.0
1972	403.1	5.3	1.3
1973	1,097.9	32.1	3.0
1974	677.6	-0.8	-0.1
1975	651.9	4.5	0.7
1976	1,482.7	47.9	3.2
1977	1,156.8	82.2	7.1
1978	1,444.8	19.1	1.3
1979	882.0	61.5	7.0
1980	-916.3	56.8	6.2
1981	977.2	62.9	6.3

Sources: As in Table 5

Notes: (1) Figures for 1965~1975 are taken from Kim Suyong, "Haioe illyok jinchul eui kyongjuk hyokwa bunsuk" (Economic Analysis of Korean Manpower Migration), *Sogang University Journal of Economics and Business* (September 1983), Table 8, p.50.

(2) All figures are in constant prices (1975=100)

1978, 7.0 percent in 1979, and about 6 percent both in 1980 and 1981. The contribution of remittances on economic growth was calculated by dividing the net increase in remittances in constant prices with the net increase in GNP in constant prices⁽⁹⁾

The results are given in table 7. The estimate of contribution made by remittances on economic growth in table 7 must be interpreted with some

(9) Kim's study is the only paper that has analysed this particular issue. However, his study contains some errors in figures of remittances for 1976-81, rather crucial years for the purpose of this kind of study. See Kim Suyong, "Economic Analysis of Korean Manpower Migration" (in Korean), *Sogang University Journal of Economics and Business* (September 1983), especially Table 8 in p. 50.

care. If the concept of opportunity cost were to be introduced in estimating the growth implications of remittances, the loss of domestic production due to the labour migration would have to be taken into account of. This is particularly applicable to the national economy after 1976. It is usually accepted that the labour surplus has disappeared since the middle of 1970s in Korea. Accordingly the estimates of contribution by remittances on economic growth are overestimated, particularly those after 1976. As the wage rate to the Korean workers overseas is roughly two times more than the domestic wage, the opportunity cost concept would halve the contribution made by remittances on economic growth.

That the labour migration has had a very favourable effect on the level of employment needs no belabouring. This is particularly true in the case of labourers in the civil engineering and construction industries. The rate of unemployment in Korea was 3.2 percent in 1978, 3.8 percent in 1979, 5.2 percent in 1980 and 4.5 percent in 1981. Under the situation, the overseas employment opportunity somewhat has caused to ease the pressure on unemployment.

It is estimated by a rough calculation that the contribution made by the labour migration to employment was 0.9 percent in 1978, 1.0 percent in 1979, 1.2 percent in 1980 and 1.4 percent in 1981. This refers to the industry as a whole. However the degree of contribution to employment differs from industry to industry. For example, in the case of construction industry, it is estimated to have been 6.5 percent in 1978, 6.7 percent in 1979, 8.1 percent in 1980 and 9.6 percent in 1981. The construction industry has been the most competitive in making inroads into the overseas market in the past and it is for this reason that the employment effect was the largest in this industry. As compared with the construction industry, the employment effect in mining and manufacturing and service industries was minimal. The employment effect of labour migration is shown in table 8.

The fact that there is a marked difference in wage rate paid for between

Table 8: Employment Effect of Labour Migration

(unit: 1000 workers)

Year	No. of those employed	All Industry	Mining	Construction	Manufacturing & Service	Rate of Unemployment (all industry)
1978	Domestic	13,490	107	821	12,562	3.2%
	Overseas	122.4	1.3	55.4	65.7	
	Employment Contribution(%)	0.9	1.2	6.5	0.5	
1979	Domestic	13,664	111	836	12,717	3.8%
	Overseas	140.7	1.1	57.8	81.8	
	Employment Contribution(%)	1.0	1.0	6.7	0.6	
1980	Domestic	13,706	124	841	12,741	5.2%
	Overseas	166.1	0.3	71.5	94.3	
	Employment Contribution(%)	1.2	0.2	8.1	0.7	
1981	Domestic	14,048	124	875	13,049	4.5%
	Overseas	202.5	0.3	87.9	114.3	
	Employment Contribution(%)	1.4	0.2	9.6	0.8	

Sources: Economic Planning Board, *Korean Statistical Monthly* for each year; Ministry of Labour

Notes: Employment contribution of labour migration is calculated by dividing the number of workers employed overseas by that of workers employed at home.

those employed at home and overseas is the major incentive for labour emigration in Korea. For example, the average monthly wage rate for those employed in overseas construction sites was 561 dollars in 1976. The total wage is composed of the basic wage and overtime pay plus allowances for working on holidays and others. It is usual that the allowances exceed the basic wage rate. As compared with the wage paid at home, the total wage received by those employed overseas was estimated to be about twice more. In 1976 the average monthly wage paid to the construction workers at home was 210 dollars whereas that paid to the overseas construction workers was 516 dollars of which 278 dollars were the basic wage and 238 the allowances. The wage rate received overseas was 2.5 times more that received at home. By 1980, the total wage for those working overseas in the construction site was 748 dollars per month of which 352 dollars were the basic wage rate and 396 dollars allowances whereas the domestic

Table 9: Average Monthly Wage Rate of Overseas Employees
(unit: US dollar)

	1976	1977	1978	1979	1980
Total Wage (a)	516	619	682	729	748
Basic Rate	278	379	339	356	352
Other Allowances	238	290	343	373	396
Domestic Wage (b)	210	275	382	455	386
Ratio (=a)/(b)	2.5	2.3	1.8	1.6	1.9

Sources: Ministry of Labour

Notes: This refers to the construction industry.

construction workers received 386 dollars per month. The difference between the wage rate paid at home and overseas has declined from 2.5 times in 1976 to 1.9 times in 1980. The monthly average wage of those employed in home and overseas construction industry is shown in table 9.

A more detailed analysis of the average monthly wage rate of those employed overseas has also been made. It is shown that the wage rate of the carpenters working in the Middle East exceeded that of those employed at home by 3.5 times in his basic wage rate and by 5.4 times in his total wage rate in 1976. In the same year the difference between the total wage rate paid to the electricians, welders, pipe, layers, other building technicians and heavy machinery drivers in the Middle East and that paid at home was 3.5 times, 5.1 times, 3.2 times, 3.3 times and 4.3 times respectively in 1976.

During the period between 1976 and 1979 when the labour migration to the Middle East took place in earnest, the wage difference between home and overseas employment began to exert some pressure on the wage increase at home. Between 1976 and 1979, the nominal wage rate increased by 31.6 percent per year and the real wage rate increased by 14.9 percent. Consequently it is usually argued that the wage gap between the home and overseas employment especially in the Middle East, and the consequent large scale emigration of Korean labourers, had induced the sudden wage increase during the period concerned.

Table 10: Comparison of Monthly Wage Rate for between Those Employed at Home and in the Middle East (unit: 1000 won)

Job	1976 Korean workers employed in				Ratio	
	Middle East		At Home			
	Basic Wage(1)	Total (2)	Basic Wage(3)	Total (4)	(1)/(3)	(2)/(4)
Unskilled	—	—	44.9	54.3	—	—
Carpenter	155.4	339.7	44.4	62.9	3.5	5.4
Electrician	143.8	314.3	59.9	89.8	2.4	3.5
Welder	150.6	328.4	40.7	64.4	3.7	5.1
Layer	135.0	294.7	58.7	92.1	2.3	3.2
Other Building Technician	134.0	285.8	67.0	86.6	2.0	3.3
Heavy Machinery Driver	169.6	363.4	53.0	84.5	3.2	4.3

Job	1980 Korean Workers employed in				Ratio	
	Middle East		At Home			
	Basic Wage(1)	Total (2)	Basic Wage(3)	Total (4)	(1)/(3)	(2)/(4)
Unskilled	165.5	364.7	137.9	165.8	1.2	2.2
Carpenter	199.9	424.6	133.3	163.3	1.5	2.6
Electrician	217.9	458.4	136.2	176.3	1.6	2.6
Welder	236.7	498.8	112.7	146.7	2.1	3.4
Layer	212.3	454.7	124.9	156.8	1.7	2.9
Other Building Technician	196.0	436.2	163.3	229.6	1.2	1.9
Heavy Machinery Driver	244.3	525.5	143.7	202.1	1.7	2.6

Sources: Park Naeyoung, "Jungdong jillyuk chinchuli kuknae nodong shiange michin younghyang" (Effect of Labour Emigration to the Middle East on the Korean Labour Market) in UNESCO of Korea, *Hankukin eui Haeeichu yonku—Chungdong* (A Study of Korean Emigration: Middle East) (mimeographed, 1983)

Notes: The wage rate for 1976 refers to the middle east alone but that for 1980 refers to the average wage rate for those employed overseas.
The exchange rate applied for 1976 was 485 won per dollar, and for 1980 580 won per dollar.

The consequence of the wage increase at home on the reduced difference of wage rate of between those employed at home and overseas is given in table 10. It can be seen from the table that the ratio of difference between home and overseas pays declined markedly in 1980 as compared with 1976. ⁽¹⁰⁾ The ratio of difference which was 5.4 times for the carpenters

(10) Park's differential of overseas and domestic wages is at variance with other

and 4.3 times for the heavy machinery drivers in 1976, for example, declined to 2.6 times and 2.6 times respectively by 1980. In the case of welders, the difference ratio of basic wage and the total wage was 3.7 times and 5.1 times respectively in 1976 but it declined to 2.1 times and 3.4 times by 1980. The trend of the equalization of wage rate between home and overseas employment will continue until that time when there is no more incentive to emigrate. It will take some time, no doubt, but the fast economic growth at home will dampen the enthusiasm of those going to work abroad in the coming years.

The labour migration brings in foreign exchange earnings and there is every reason to believe that the foreign exchange earnings from remittances had greatly helped ameliorate the balance of payment difficulties in the past. As shown already in table 5, the workers' remittances accounted for more than a quarter of the receipts from invisible trade in 1981. In actual fact, for three years between 1979 and 1981, workers' remittances accounted for about a quarter of the receipts of the invisible trade. For earlier years between 1973 and 1978, they accounted for more than 10 percent of the invisible trade receipts.

Consequently the ratio of the workers' remittances to export is not insignificant. Between 1978 and 1980, the percentage of remittances to export was more than 7 percent. Between 1972 and 1977, it was in the range of more than 3 percent. In the earlier years, the percentage was much higher. During the period between 1965 and 1981, more than 17 percent of the receipts of the invisible trade was accounted for by the workers' remittances.⁽¹¹⁾

official publications but the differential has been narrowed over the years. See Park Naeyoung, "The Effect of Labour Migration to the Middle East on the Korean Labour Market" (in Korean) in UNESCO of Korea, *A study of Korean Migration: Middle East* (in Korean) (mimeographed 1983).

(11) For a more detailed explanation of the incentive scheme for savings from remittances, see Bank of Korea Savings Department, *A Guide to Savings* (July 1982), especially Part 5 and 6.

4. Government Support System to Labour Migration in Korea

(1) Laws and Regulations Governing the Labour Migration

There are several laws and regulations that govern the labour migration in Korea. Laws and regulations concerned are those that govern the licensing of the overseas business, the advertisement and enlistment of overseas workers and their send-out, the exit procedures, and the labour management and industrial relations when in overseas.

In order to regulate the overseas licensing business, there are five Laws and related Regulations. They are the Job Stabilisation Law and Regulations, the Overseas Construction Promotion Law and Regulations, the Technology Development Promotion Law, the Regulations on Foreign Exchange Management and the Harbour Transport Business Law. The Job Stabilisation Law and related Regulations are concerned with the licensing service business, the permit requirement and procedures for the intermediary companies that introduce the overseas employment, and the permit procedures and requirement of the companies that supply the needed workers. The Overseas Construction Promotion Law and related Regulations are concerned with the permit of the overseas construction and contracting businesses. The Technology Development Promotion Law is concerned with the export of technical service other than the construction service. The Foreign Exchange Management Regulation is concerned with the permit on the use of foreign exchange earned in overseas business activities whilst the Harbour Transport Business Law is concerned with the permit of the loading and unloading business in overseas harbours.

The advertisement, enlistment and the send-out of the workers are regulated by the Job Stabilisation Law and related Regulations and the Crews Law and related Regulations, which specify who should advertise, the method, report and procedures of enlistment, the requirement of send-out permit and its procedures. The exit procedures are regulated by the

Passport Law, the Implementing Regulations on Crews Law and Exit and Entry Law, and the Overseas Development Corporation Law. The management of workers are regulated by the Job Stabilisation Law, Crews Law, Fundamental Law on Job Training, Law on Industrial Safety, and the Basic Labour Law.

As is shown, there are many laws and implementing regulations that govern the overseas construction and other business activity directly involved in labour migration. The impression which the multitude of these laws and regulations give is that they are more of an inhibiting than supportive factor to labour migration in Korea. However it appears that the series of laws and regulations are necessary for an orderly management of labour migration in Korea.

(2) Related Ministry and Agencies

The major government agency that is directly concerned with the labour migration in Korea is the Ministry of Labour. According to the Government Organisation Law, the Ministry of Labour is charged with the establishment of the overseas employment policy, the licensing of the advertisement and the selection of overseas workers, the permit to establish the labour supply agencies, the management of overseas workers, and the supervision of the public and private intermediary agencies.

The labour migration is the concern of the Bureau of the Job Stabilisation under which there are three divisions; the Division of Employment Policy where the planning of the overseas activities is being dealt with, the Division of Overseas Employment and the Division of Overseas Supervision. Altogether there are 18 government officials who are concerned with the administration involved in the labour migration. Apart from these officials at home, there are several Labour Attachés attached to the Korean Embassies in the respective countries where there are Korean workers. There were only 4 labour attachés in 1965. All of them were stationed in West Germany. The number increased to 7 by 1966 when three more were

dispatched to South Vietnam. By 1974 the number of labour attachés increased to 13, of which there were 4 attachés in Iran and one in Saudi Arabia. There were 17 attachés in 1976, of which there were 4 attachés in Iran, four in Saudi Arabia and one each in Kuwait, Bahrein and Jordan. The labour attachés numbered 19 both in 1977 and 1979, of which 13 attachés were stationed in the Middle East countries. As the consequence of the government's effort to reduce the level and to reorganise the structure of government expenditure in 1980, the Ministry of Labour's overseas activities were also affected and the number of the labour attachés were reduced to 11, of which two were still in West Germany, four in Saudia Arabia, one each in Kuwait, Qatar, United Arab Emirates, and Libya. Reflecting the brisk business in Iraq, the Ministry of Labour dispatched one attaché to Baghdad in 1982. It was estimated in 1982 that the total budget allocated to the field of overseas employment was approximately 740 million won (roughly 1 million US dollars), 1 percent of the Ministry of Labour's total budget in the same year.

As regards the overseas employment of crews, it is not the Ministry of Labour but the Maritime and Harbour Agency that is responsible for the advertisement, enlistment and send-out. Consequently, the Maritime and Harbour Agency has the Bureau of Crews and Ships which plans and evaluates the demand and supply of crews and supervises the intermediating agencies. There were 71 intermediary agencies in 1981. They act for the foreign ship owners in introducing, enlisting and managing the prospective crews. It is estimated that the total number of crews managed by these intermediary agencies were 24,850 by the end of 1981, accounting for 12.3 percent of total overseas employment in the same year. They earned 255 million dollars in 1981, accounting for 15.2 percent of the total foreign exchange earnings by overseas employment in the same year.

The most important organisation in labour migration in Korea is the Korea Overseas Development Corporation (KODC). KODC is charged with the consultation, recommendation, advertisement, and send-out. It also

plays a role as an employment agency. For example, about 8 percent of the total overseas employment was carried out by the good offices of KODC during the period from 1976 to 1981.

There are several offices in KODC which is directly charged with overseas employment. They are the Training Institute where the prospective employees are given a pre-departure training, the Bureau of Research and Development where researches are being conducted and the advices are given on the respective agreements, the Bureau of Employment where the selection and exit affairs are looked after. KODC has a branch in Saudi Arabia and another in Busan. All in all the number of employees engaged in the labour migration in the KODC is almost 100 in 1982. The total expenditure on overseas employment by KODC was 593 million won and 874 million won respectively in 1981 and 1982.

(3) Various Forms of Access to Overseas Employment

Roughly there are four types of overseas employment opportunity in Korea. The first is through an individual contact. This process starts with the receipt of an invitation from foreign employers or friends. The invitation has to be confirmed by the resident Korean Embassy, which then reports the content to the Ministry of Foreign Affairs which in turn refer the invitation to the Ministry of Labour. Upon receipt of the invitation, the Ministry of Labour gives the overseas work permit and recommends him to the Ministry of Foreign Affairs to issue the passport. The invited worker is responsible for getting through various procedural problems including the visa.

The second is the employment by the foreign employers by indirect means. This is usually done by the good offices of the Korea Overseas Development Corporation. Upon receipt of a request from foreign employers and/or companies, the KODC advertises the overseas employment opportunity and makes contract with the foreign employers on the terms of employment which include the number of workers needed by job descrip-

tion, wage rate, boarding, return travel expenses, injury compensation and others. The Korean Embassy will confirm the content of the contract and send it together with the Embassy's opinion to the Ministry of Foreign Affairs, which in turn sends it to the Ministry of Labour. The Ministry of Labour then recommends the number of employees three to five times more than requested from the register roster of the aspiring workers, from which the KODC or the agencies entrusted by the employing foreign employers will select the prospective overseas workers. When the KODC applies for the dispatch of workers to the Ministry of Labour, the Ministry will give permit and simultaneously recommends to the Ministry of Foreign Affairs the issue of passport. The KODC takes direct charge of procedural problems related to the departure.

The third is through being employed on the overseas sites of domestic construction and other companies. Usually when the construction and contracting companies are designated as the lowest bidder for a project and the contracts are being drawn up, the respective companies will start advertising the number of the workers together with the types of skills required on the sites. The Ministry of Labour usually reviews the content of the projects and recommends to the Ministry of Foreign Affairs to issue the passport to the respective workers. It is usual that the construction and contracting companies bear the cost for the enlistment of overseas workers.

The fourth is the employment of crews on foreign ships. The employment of crews on foreign ships is entirely under the jurisdiction of the Maritime and Harbour Agency. It is usual that the private agencies are entrusted with the tasks from introduction to the follow-up management.

Of the four types, the second (i.e. the employment by foreign employers with the help of domestic intermediaries) and the third (i.e. the employment directly by the domestic companies that have obtained a project overseas) are the predominant in labour migration. It is usual that it takes about 28 days for an employee to be chosen and sent out to the overseas

work site. It unfavourably compares with the case of overseas employment in the Philippines where it takes about 18 days to complete the employment procedures. The cost to the employee during the process of obtaining overseas employment is about 130,000 won in Korea as compared with 280,000~480,000 won (equivalent) in the Philippines. The above example roughly shows that whereas the cost to the employees is relatively lighter in Korea, the time needed to proceed to the employment site is longer.

(4) Management of Migrant Workers

The Ministry of Labour is charged with the preemployment as well as follow-up management of overseas workers except crews who are managed by the Maritime and Harbour Agency. For those aspirants who wish to apply for overseas job, the Ministry of Labour provides a training and gives job license. The Ministry of Labour also keeps a roster of aspirants and manages the pooling system from which the prospective overseas workers are selected.

However, the more important responsibility of the Ministry of Labour in managing the overseas workers lies in the follow-up management. Labour attachés or consuls in the respective resident Korean Embassy are in charge of follow-up management of overseas workers most employed by the Korean construction and contracting companies. The follow-up management of Korean workers employed by the foreign companies is much to be desired.

Labour attachés, or government officials when there are no Ministry of Labour officials, investigate the working condition on the sites, ask to correct the work environment when found inadequate, take measures to prevent industrial injury, help to establish the productive management-labour relations, prevent labour disputes and play a role as coordinator in resolving the disputes when they occur, take charge of the follow-up management of the injured and the dead, help to expedite the payment of wages, take a proper legal measure against the law-offending employers, and others. The Ministry of Labour makes endeavour to protect the family

of the overseas workers.

(5) Savings Incentive from Remittances by Overseas Employees

In order to induce and encourage savings from remittances by the overseas employees, the government has been implementing an incentive system for savings. There are four different schemes of savings deposit available to them. They are one-year, two-year, three-year and five-year savings deposit schemes. In all the schemes, the maximum amount of salaries that can receive various benefits, when saved through these schemes, is 30 percent of their monthly wages. There is no limit to the monthly wage income that does not exceed 300,000 won.

In the case of one-year savings deposit, the basic annual rate of interest is 7.6 percent to which the legal bonus amounting to 10.2 percent and the discretionary bonus of 1.8 percent are added to make the final benefits received by the savers to become 19.6 percent per annum. The rate of these benefits increases as the maturity of savings increases. For example, the basic annual rate of interest for the two-year savings deposit is 8 percent to which 11.5 percent as legal bonus and 1.9 percent as discretionary bonus are added to make the total of 21.4 percent per annum. The three-year savings deposit is paid 8 percent basic annual rate of interest, 12.3 percent as legal bonus and 3.6 percent as discretionary bonus, which amount to 22.9 percent per annum and the five-year savings deposit receive, in addition to the basic rate of 8 percent, 13 percent as legal bonus and 2.9 percent as discretionary bonus totalling 23.9 percent per annum.

The legal and other bonuses together with the basic interest income are exempt from various taxes such as income tax, inhabitant tax, inheritance tax, gifts tax and education tax, and, in addition to these exemption, 15 percent of their total interest income is tax-credited against the comprehensive income tax. Apart from these tax incentives, the savers are given a priority for getting the housing loan and buying new shares.

5. Critical Evaluation of Overseas Employment Policy in Korea

(1) Problems in Overseas Employment Policy

Although the prospect for the Middle East economies is not that bright now as in the latter half of 1970s, it is still believed that there are good opportunities to be tapped in various fields of industrial and social development in the Middle East. However, the effort to promote and develop the overseas employment in the Middle East and thereby to increase the remittances from that region was neither actively solicited by the staffs and labour attachés in the Korean embassies nor the public corporations like KODC was active in expanding the job opportunities overseas. It was not only the government agencies that were slow in exploiting the opportunities. The private sector was no exception. If they had been more active and forthcoming in looking for the new market for labour migration and intensifying the existing construction arrangement, there would have been more rooms for labour migration and larger remittances. The main reason given for such a passive approach in developing a new market is often the poor budgetary support and the lack of various institutional arrangements. For example, the total budget that were allocated for the overseas market development in 1982 was only about 91 million won, mere 10 percent of the total budget for overseas activities in that year. Another example is that most of the government officials engaged in the labour migration have been mainly concerned with the task of follow-up management. They were more concerned with the labour relations overseas rather than with the finding and expanding the job opportunity overseas.

Another problem area is the lack of proper information system and data bank; the necessary information is not readily available. Consequently the data that can give a correct description of the quality and the structure of skills of the Korean workers to the foreign governments or employers

are lacking, or poorly provided if ever available. At the same time, the available data on the foreign labour and construction market are not properly collected; the information on the employment situation and vacancies in the countries where the absorptive capacity is relatively low needs to be swiftly channelled into Korea so as for her to meet the foreign demand for labour. Unfortunately the information system of this sort is still much desired.

The language is another problem area. The average Koreans are not used to speaking English, and for that matter any other foreign languages. The poor language standard is not much a problem when the migrant labourers work on the construction sites. However, the situation would become different when the demand for labour in management service increases as sophisticated plants and factories are built. The fluency in language, especially English, would become a very important criterion for success in management service. In this respect, Korea is at a comparative disadvantage as compared with those countries where English is more widely spoken for historical or other reasons.

The financial guarantee is yet one other problem area. Unlike in the early years of the advance into the Middle East, say in the 1970s, Korea's construction and contracting companies do not have great difficulties in obtaining the financial support for bid bond, performance bond, and others. However, the smaller-scale management service companies still do not have such a financial support readily available. This is because these companies are smaller in size in comparison with the construction companies and have fewer means of raising necessary financial guarantee. Yet there is a trend in the Middle East that these companies would assume an increasingly important role in the future. Apart from the financial support, the insurance coverage is difficult to obtain at any favourable term.

Lastly it has to be pointed out that the overseas employment cycle extends to 28 days in Korea. The labour migration cycle from the request of migrant workers to the date of departure extends to about 18 days in

the Philippines. This has to be somehow shortened. Almost a month of unnecessary waiting period is wasted in Korea and the time could better utilised for more productive purposes. This is only one of the examples where the unnecessary administrative procedures and redtapes can be done without.

(2) Policy Direction

The Korean economy has been growing very fast during the last two decades and, as a consequence, has become very complex and sophisticated. The national economy has changed so much that the past pattern of economic management, i.e. government-directed management, cannot be efficiently sustained any more. It seems that for the last few years the national consensus has been reached on the need for switching the economic management from the government-led to the civilian-led or market-orientated economic system. This switch implies that the private sector is being given an increasingly important role in shaping the economic life of the country.

This strategy can be equally applied to the policy of labour migration and that of remittances. The new approach should help revitalise the private initiative in establishing many intermediary agencies that can cater for all kinds of eventuality in the field of overseas employment. It may be useful to give more help and assistance to the medium and small size companies for investment in the overseas market and also to provide an infrastructural basis for the export of services by those companies that have a comparative advantage in technical and management services. In order to do this, various kinds of laws and regulations, for example, such as construction promotion law, foreign exchange regulation, have to be revised so as to eliminate the restrictive practices by the existing, relatively large companies.

It is also necessary to make full use of the already existing institutional and personal arrangements, and the manpower already in this field. The

proper utilisation of the intermediary agencies, resident embassy staffs and labour attachés can not be too much emphasised. To help them to more vigorously carry out this responsibility, more budgetary allocation and manpower are essential. The investment in language training in the schools and private training institutes should also be encouraged.

6. Conclusion and Recommendation for ECDC

Although the history of Korean migration is a century old, it was not until the middle of 1970s that a large scale labour migration took place in Korea with some significant impacts on the national economy through labour market and remittances. The effect of labour migration on the employment and of remittances on the balance of payments was not minimal indeed.

The total of Korean workers employed outside Korea numbered over 200 thousand by the end of 1981, of which 80 percent were working in the Middle East. This shows rather well how concentrated Korea's migrant workers were in that particular region and therefore the success of Korea's labour migration has been inevitably closely related with the political and economic situations in the Middle East.

The first oil crisis in the aftermath of the October War, the subsequent rise in oil prices and the amassment of oil dollars by the oil producing Middle East countries, exerted two distinctly different impacts, favourable and unfavourable, on the Korean economy. The unfavourable impact was the sudden increase in the oil prices, which caused the domestic inflation and the deterioration of the balance of payment situation. However, perhaps more importantly, the favourable impact was the opening up of a new outlet for Korea's labour force which also helped to ameliorate the balance of payments through their remittances.

The situation after the second oil crisis was a bit different from the first. By then, the Korean construction industry has become much less

competitive especially in the field of simple labour-intensive civil engineering projects for two reasons. The first was the new entry into the Middle East construction market by the low-wage developing countries and the second was the slow change of recipient governments' policy to prefer their local companies. The local and developing countries' contractors have to have a competitive edge over the Korean contractors. This does not imply, of course, that the Korean construction companies were completely squeezed out of the Middle East market; what it rather says is that if there had not been such new entries or local preferences, Korean companies would have been landed with much more projects than otherwise. Yet there are still good opportunities to be tapped in the Middle East and the Korea's recent experience of the last two years testify this fact.

On the part of Korean construction industry, on the other hand, we cannot assert too much that they have made commensurate progress in upgrading their construction technology and endeavoured to embody the new method of construction during the last ten years. The Korean construction companies are sandwiched in the Middle East between the technology-intensive companies from developed countries and the low cost companies from developing countries. As the Korean companies cannot regress to the good old low-wage days when they had enjoyed a comparative advantage in the simple labour-intensive construction projects, the only way-out appears to be to upgrade their construction technology as soon as possible and for go the advanced technology-intensive projects in competition with companies from the developed countries. This can be done either through importing foreign technology, which does not easily come by, and/or by developing indigenous technology as fast as possible, on which course Korea has now embarked.

The need for the Korean construction companies to upgrade technology and to compete in technology-intensive projects suggests that there is some room for ECDC in the international construction market. Some of the low-wage developing countries will be able to supply, and they are already

doing so, the labourers that are required by the Korean companies, which can no longer rely on the labour market in Korea for the unskilled and semi-skilled as Korea's average wage is too much high to be competitive in the international construction market.

Although the ultimate users of these labourers are private construction companies, it would be worthwhile to initiate a kind of labour cooperation between countries that have some presence in the Middle East and elsewhere. In this regard, it would be very useful to establish a Regional Data Bank on Labour Situation with information drawn both from the users and sellers. The founding of this kind of centre in the region would help reduce the transactions costs now heavily borne by the private construction companies and employees, and also encourage more flow of labour across the national borders. The centre should keep all the data on labour situation in the participating countries by types of skills, wages and others available and required. Any change should be reported, say, on a quarterly basis, so as to keep up with the changes in labour situation in the participating countries. The establishment of the multi-lateral data bank would be a first step towards a much closer cooperation in the field of labour migration in the coming years.

The other area of ECDC especially in the field of bilateral relations would be the joint venture in construction projects and management service. In the case of management service, for example, the language problem which most of Korean management companies are faced with can be overcome by more closely cooperating with the foreign companies which have no such difficulties. It is also desirable that Korea and other advanced developing countries should arrange a joint venture with developing countries where the intermediate technology in construction can be transferred.

Through a closer cooperation in labour migration and hence rapidly increasing the flow of remittances, the balance of payment situation in the region could be made to improve. This, in turn, would help to more stimulate the flow of goods and services among the countries in the region.