

***Unemployment-Related Benefit Systems
in South Korea***

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Prepared by

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EXECUTIVE SUMMARY

1. South Korea's economic growth began in the 1960s. In the late 1980s, unemployment rate in South Korea maintained at an average level of below 3 percent. Upon political democratization in 1987, there has been a dramatic increase in labour union activities. In 1987 and 1988, labour movement and labour disputes spread across South Korea, causing a sharp increase in wages. The shortage of manual labour, the increase in wages and the rise of unionism called for a new framework to manage industrial relations.
2. To respond to these changes, the South Korean Government began to consider setting up an employment insurance system in 1992. The South Korean Employment Insurance Act, which enshrined the unemployment insurance system, was put into effect on 1 July 1995.
3. The South Korean Employment Insurance System involves not only traditional unemployment benefits, but also active labour policy measures designed to reduce the adverse effects of the benefit system on work incentives. These measures include job placement services and vocational training for the unemployed persons.
4. The South Korean Employment Insurance System comprises three basic programmes: Unemployment Benefits, Employment Stabilization Programme, and Job Skill Development Programme. The Unemployment Benefits provide cash benefits for the unemployed workers to stabilize their livelihood and to seek early reemployment. The benefits comprise the Job-seeking Allowance and the Employment Promotion Benefits.
5. The Employment Stabilization Programme (ESP) seeks to enhance employment security in the course of structural changes in industries and technologies. ESP consists of four different schemes: Employment Adjustment Assistance, Regional Employment Stimulation Grant, Employment Facilitation Assistance and Labour Market Information and Job Placement Services.
6. The Job Skill Development Programme (JSDP) aims at promoting the competitiveness of enterprise, developing the quality of the work force and providing incentives to individual firms to invest in vocational training. JSDP comprises three different schemes: Assistance to Employers, Assistance to Employees and Assistance for Training the Unemployed.
7. At the end of 1997, South Korea faced an unprecedented economic crisis. In order to provide immediate support for those who are from unemployed, the coverage of Employment Insurance System was extended rapidly after the crisis. The amount of unemployment benefits has also been increased.
8. Besides the Employment Insurance System, the South Korean Government is trying to establish a national livelihood security system through the enactment of the National Basic Livelihood Security Act.

UNEMPLOYMENT-RELATED BENEFITS SYSTEMS IN SOUTH KOREA

PART 1 - INTRODUCTION

1. Background

1.1 In October 1999, the Panel on Manpower and Panel on Welfare Services requested the Research and Library Services (RLS) Division of the Legislative Council (LegCo) Secretariat to conduct a study on unemployment-related benefits systems.

2. Objectives and Scope

2.1 The objectives of the study are:

- to examine the experience of China, Taiwan, Malaysia, Singapore, South Korea, the United Kingdom (UK), and the United States (US) in implementing their unemployment-related benefits systems;
- to outline the research findings of the Organisation for Economic Co-operation and Development (OECD) and the Conventions and Recommendations of the International Labour Organisation (ILO) in unemployment benefits systems; and
- to make an overall comparative analysis of the experience in the above places in implementing their unemployment-related benefits systems, and study current provisions in helping the unemployed in Hong Kong.

2.2 The scope of the research, as agreed by the Panels, covers

- historical development;
- main features and components;
- eligibility requirements;
- types of benefits and amounts;
- duration of payment of benefits;
- tax treatment of the benefits;
- source of funds for the benefits; and
- administration of the unemployment-related benefits systems.

2.3 In this report, we outline the experience of South Korea in the establishment and operation of the unemployment-related benefits system. South Korea is chosen because it can offer useful reference in the Asian context. South Korea joined the International Labour Organisation (ILO) in 1991 and the Organisation for Economic Co-operation and Development in 1996. As of the end of 1999, the South Korean Government has ratified eleven ILO conventions. None of these conventions relates to unemployment benefits.

2.4 This report forms part of the series of studies discussing unemployment-related benefits systems. There are eleven separate research reports (RP13/99-00 to RP23/99-00) on this subject.

2.5 In this research, "unemployment-related benefits" refer to unemployment benefits and related welfare benefits. Unemployment benefits comprise unemployment insurance and unemployment assistance. Unemployment benefits are available to the unemployed only. In other words, these benefits are not available to people who are not unemployed. The recipient must be currently unemployed, able to work, willing to work and looking for work. Where there are no unemployment benefits or where these benefits are exhausted, welfare benefits may be made available to provide assistance for those in need. These related welfare benefits, as defined in the 1996 OECD study of "benefit systems and work incentives", include family benefits, housing benefits, child-care benefits and social assistance. They are made available to all citizens subject to a means-test, and are not specifically targeted at the unemployed.

3. Methodology

3.1 Information for this report is obtained from the Internet, government reports as well as correspondence with the relevant agencies and organization in South Korea.

3.2 Part 1 of this report first outlines the basic structure and operation of the Employment Insurance System in South Korea. As the focus of this study is on unemployment benefits systems, Part 2 of this report examines the relevant components in the Employment Insurance System that provide unemployment-related benefits. Part 3 looks at other major unemployment-related benefits in South Korea, including its Public Assistance Programme.

3.3 On 30 December 1999, the exchange rate of the South Korean currency was 146 South Korean won = HK\$1.

PART 2 - EMPLOYMENT INSURANCE SYSTEM

4. Historical Development

4.1 South Korea, officially known as The Republic of Korea, has an area of 99 263 sq. km and a population of 45 million. South Korea's economic growth began in the 1960s. The Gross Domestic Product (GDP) grew from 2 billion US dollars in 1960 to 421 billion US dollars in 1997, while the per capita Gross National Product (GNP) increased from 249 US dollars in 1970 to 10,307 US dollars in 1997.

4.2 When the South Korean economy experienced the first oil shock in early 1970s, there had been preliminary discussions whether there was need for an unemployment insurance system. In the latter half of the 1970s, South Korea's economic structure was transformed from an agricultural to an industrial economy. The labour market in consequence went through major changes and the excess supply of labour was absorbed by the industries.

4.3 When the second oil shock hit the South Korean economy in 1979, the unemployment rate in 1980 reached 7.5 percent. The situation forced the South Korean Government to reconsider the establishment of an unemployment insurance system. However, the South Korean Government finally gave up the idea. According to one report¹, the reasons were 1) many South Koreans believed that an unemployment insurance system would act as a disincentive for the unemployed person to seek re-employment; and 2) some opinions considered that the South Korean economy was not strong enough to implement the system.

4.4 In the late 1980s, unemployment rate stayed at an average level of below 3 percent. Upon political democratization in 1987, there has been a dramatic increase in labour union activities which brought about a sharp increase in wages in the following years. (See Table 1) The shortage of manual labour, the increase in wages and the rise of unionism called for a new framework to manage industrial relations.

4.5 To respond to these changes, the South Korean Government commissioned the Korea Labor Institute² to formulate an employment insurance system in 1992. A Commission --the Employment Insurance Research Commission--was then formed by the Korea Labor Institute in the same year, which was charged with the responsibility to come up with a detailed proposal of an employment insurance system and to carry out necessary research. The Commission presented its findings, under the name of "Proposed Employment Insurance System for Korea", to the South Korean Government in May 1993.

¹ Yoo Kil-sang, *The Employment Insurance System in Korea*, South Korea: Korea Labor Institute, 1999, p. 2.

² The Korea Labor Institute was established in 1988, which has conducted multidisciplinary research in the fields of industrial relations, labor market, employment policy, and welfare related topics.

4.6 Based on the Commission's recommendations and opinions collected through a series of consultations, the South Korean Government submitted the Employment Insurance Bill to the National Assembly in September 1993. The National Assembly later passed the bill unanimously. The Employment Insurance Act³, which enshrined the unemployment insurance system, was put into effect on 1 July 1995.

Table 1 - Major Statistics of the South Korean Economy and Labour Market

Year	GNP Growth Rate (percent)	Per Capita GNP (U.S. dollars)	CPI Increase Rate (percent)	Real Wage Increase Rate (percent)	Unemployment Rate (percent)
1986	11.6	2,568	2.8	5.3	3.8
1987	11.5	3,218	3.0	6.8	3.1
1988	11.3	4,295	7.1	7.8	2.5
1989	6.4	5,210	5.7	14.5	2.6
1990	9.5	5,886	8.6	9.5	2.4
1991	9.1	6,810	9.3	7.5	2.3
1992	5.1	7,183	6.3	8.4	2.4
1993	5.8	7,811	4.8	7.0	2.8
1994	8.6	8,998	6.2	6.1	2.4
1995	8.9	10,823	4.5	6.4	2.0
1996	7.1	11,380	4.9	6.7	2.0
1997	5.5	10,307	4.5	2.4	2.6
1998	-5.8	6,823	7.5	-9.3	6.8
1999	7.2*	NA	0.8	NA	6.3

Source : National Statistical Office, *Korea Statistical Yearbook*, Relevant issues.
 Ministry of Labour, *Report on Monthly Labor Survey*, Relevant issues.
 Bank of Korea, *National Accounts*, Relevant issues.

Note : *-- First half of 1999, NA--not available, CPI--Consumer Price Index

³ The Act can be found at <http://152.99.129.51/English/English.html>.

4.7 At the end of 1997, South Korea faced an unprecedented economic crisis, forcing it to accept a \$57 billion US dollars rescue package led by the International Monetary Fund. In the process of economic restructuring, the labour market quickly shrank in 1998 and early 1999. The unemployment rate increased from 2.6% in 1997 to 6.8 % in 1998, while the number of unemployed persons increased from 0.5 million to 1.5 million over the same period. The unemployment rate reached the highest point at 8.6 % in February 1999 since the onset of the economic crisis, but has fallen since then. In 1999, South Korea recorded an unemployment rate at 6.3%. (see Table 1)

4.8 The major challenge for South Korea is to strengthen its economic structure by restructuring the financial and corporate sectors, while dealing with the problems of shrinking industrial activities and unemployment. On 15 January 1998, the Tripartite Commission, composed of representatives of government, employees and employer's organizations, was established⁴. The tripartite representatives reached a compromise on 6 February 1998, and adopted the "Tripartite Joint Statement on Overcoming the Economic Crisis and Preparing Another Leap Forward".⁵

4.9 Based upon this tripartite joint statement, new labour legislation and a series of major amendments to existing labour laws were passed at a special session of the South Korean National Assembly held in February 1998. Among them, the Employment Insurance Act was revised so as to extend the coverage of the Employment Insurance System, thereby helping to promote the stability of the livelihood of unemployed persons.

5. Purpose of the Employment Insurance System

5.1 The Employment Insurance Research Commission provided the following five reasons for introducing the Employment Insurance System (EIS) in South Korea.⁶ First, EIS can be used to ease the negative impacts of the industrial restructuring process by institutionalizing benefit provisions and re-training opportunities.

5.2 Second, EIS can be used to address the structural imbalance between labour supply and demand by helping streamline job placement services and providing updated labour market information.

5.3 Third, EIS can also be used to promote vocational training, thereby improving the quality of the work force and strengthening firm competitiveness.

⁴ For a complete description, see Kim Woo-choong, *Handbook of the Social Agreement and New Laws of Korea*, South Korea : Korea International Labor Foundation, 1998.

⁵ See note 4, Chapter 2.

⁶ See note 1, pp.12-13.

5.4 Fourth, EIS provides financial assistance and services to unemployed workers so as to stabilize their livelihood and facilitate their timely re-employment.

5.5 Fifth, EIS can be used to provide aid to unemployed workers from North Korea during reunification in the future.

5.6 The first clause of the Korean Employment Insurance Act stipulates that the purpose of EIS is “ to prevent unemployment, to promote employment, to develop and improve the vocational ability of workers, to strengthen the nation’s vocational guidance and job placement capacity and to stabilize the livelihood of workers and promote their job-seeking activities, by granting necessary benefits when they are out of work, thereby contributing to economic and social development of the nation.”

6. Structure of the Employment Insurance System

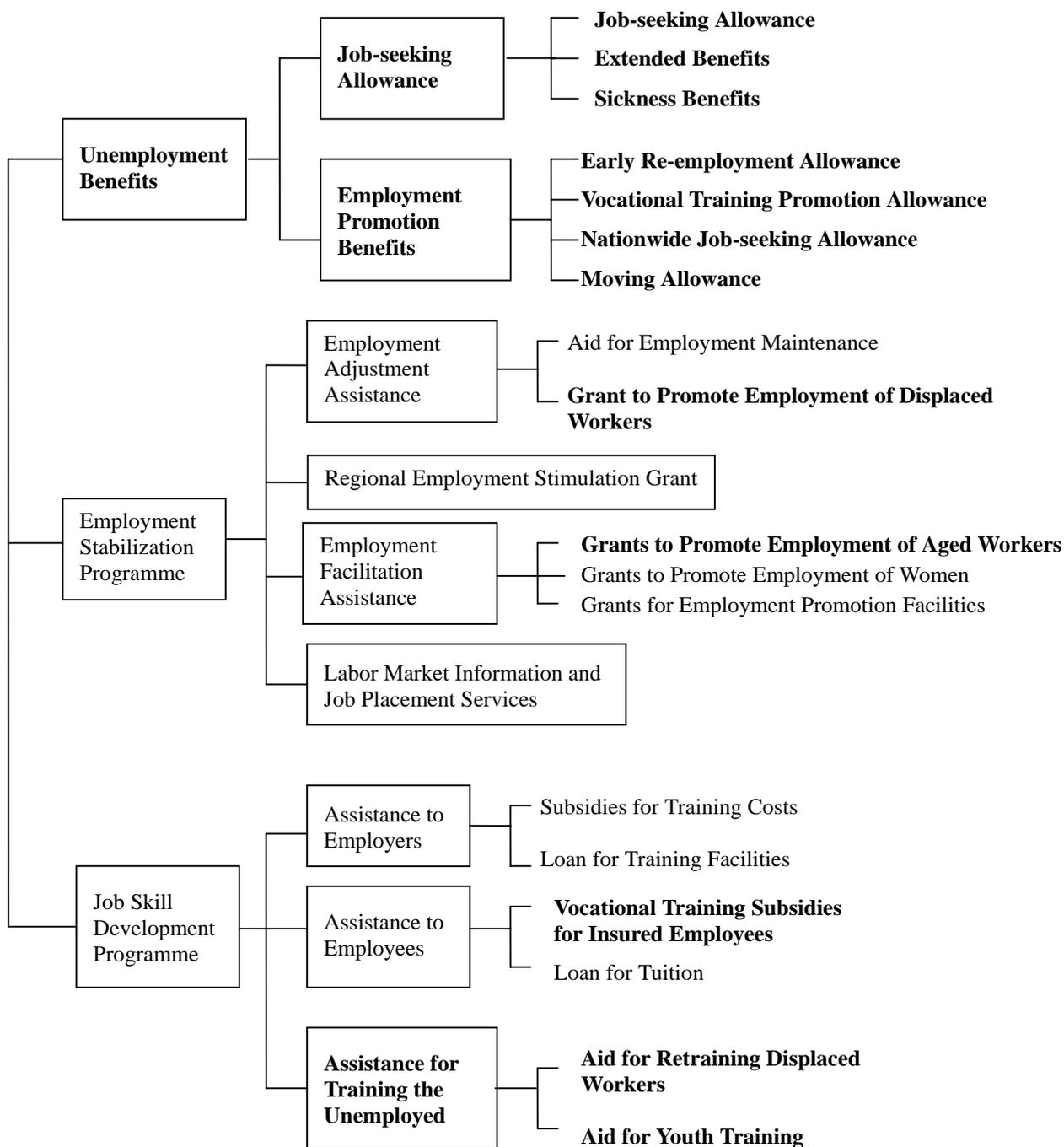
6.1 In line with the above-mentioned purposes, EIS comprises three basic programmes: Unemployment Benefits, Employment Stabilization Programme, and Job Skill Development Programme. The detailed structure of EIS is shown in Figure 1. Components that provide unemployment-related benefits are in bold type, which will be discussed in Part 3.

6.2 The Unemployment Benefits provide cash benefits for the unemployed workers to stabilize their livelihood and to seek early reemployment. The benefits comprise the Job-seeking Allowance and the Employment Promotion Benefits.

6.3 The Employment Stabilization Programme (ESP) seeks to enhance employment security in the course of structural changes in industries and technologies. ESP consists of four different schemes: Employment Adjustment Assistance, Regional Employment Stimulation Grant, Employment Facilitation Assistance and Labour Market Information and Job Placement Services.

6.4 The Job Skill Development Programme (JSDP) aims at promoting the competitiveness of enterprise, developing the quality of the work force and providing incentives to individual firms to invest in vocational training. JSDP comprises three different schemes: Assistance to Employers, Assistance to Employees and Assistance for Training the Unemployed.

Figure 1 - Structure of the Employment Insurance System



Source: Yoo Kil-sang, *The Employment Insurance System in Korea*, South Korea: Korea Labor Institute, 1999, p. 15.

7. Characteristics of the Employment Insurance System

7.1 South Korea's EIS is a combination of passive and active labour policy measures. It is not a system that merely concentrates on the provision of cash benefits to the unemployed. There is a wide range of programmes in EIS to enhance employment stabilization and the employment prospects of workers.

7.2 There are also built-in measures in EIS to prevent the abuse of unemployment benefits. For example, claimants are ineligible for unemployment benefits if they quit their jobs without good reasons or lose their jobs because of personal faults. (see paragraph 11.2) Also, there is a requirement that the insured period for a claimant should be at least of 12 months out of the 18 months base period preceding the day of unemployment. In addition, there are strict willingness-to-work criteria for unemployment benefits. A claimant has to register at the public employment office as a job seeker. If a claimant refuses to accept job placement services provided by the public employment office, his unemployment benefits will be suspended for two weeks (see paragraph 11.9).

7.3 There are elements in EIS providing incentives for early re-employment and job skill training. Recipients of unemployment benefits will receive an allowance if they can find stable jobs before their benefit payments reach half of the payment period (see paragraph 11.11).

8. Coverage

Coverage Extension

8.1 When EIS was launched in 1995, it only covered companies with 30 or more employees for Unemployment Benefits, and companies with 70 or more employees for ESP and JSDP. According to the Enforcement Decree of the Employment Insurance Act⁷, EIS was scheduled for extension in January 1998 to include companies with 10 or more employees for Unemployment Benefits, and companies with 50 or more employees for ESP and JSDP.

8.2 Owing to the problem of rapid increase in the number of unemployed persons after the 1997 financial crisis, the coverage of EIS was further extended in 1998. Starting from 1 October 1998, all companies, regardless of their size, are covered by all the programmes in EIS. (see Table 2) Both part-time⁸ and hourly workers are covered by EIS.

⁷ The Decree can be found at <http://152.99.129.51/English/English.html>.

⁸ Workers who work less than 80 hours in a month or work less than 18 hours are excluded from EIS.

Table 2 - Coverage of the Employment Insurance System

Date	Unemployment Benefits	Employment Stabilization Programme and Job Skill Development Programme
1 July 1995	30 or more employees	70 or more employees
1 January 1998	10 or more employees	50 or more employees
1 March 1998	5 or more employees	50 or more employees
1 July 1998	5 or more employees	5 or more employees
1 October 1998	1 or more employees	1 or more employees

Exclusion

8.3 Certain workers are excluded from EIS, they include:

- a) newly employed workers aged 60 or older;
- b) workers aged 65 or older;
- c) temporary part-time workers
- d) government and private school employees⁹;
- e) illegal foreign workers;
- f) other persons determined by Presidential Decree.

Enterprises with Preferential Treatment

8.4 Articles 16(3) and 21(2) of the Employment Insurance Act provide that the Ministry of Labour may give preferential treatment to certain enterprises in implementing ESP and JSDP. Under Article 15 of the Enforcement Decree of the Employment Insurance Act, priority is given to relatively small size-enterprises ("priority enterprises"), which means that they could receive higher level of subsidies¹⁰ when compared with non-priority enterprises. Under EIS, non-priority enterprises are called "larger enterprises".

⁹ They are protected by special pension plans in South Korea.

¹⁰ Subsidies provided for qualified employers in various schemes under ESP and JSDP.

8.5 Criteria for determining priority enterprises in each industry are as follows:

- Mining Industry: Less than 300 employees;
- Manufacturing Industry: Less than 500 employees;
- Construction Industry: Less than 300 employees;
- Transportation, Storage and Communication Industries: Less than 300 employees;
- Other Industries: Less than 100 employees.

9. Financing and Administration

9.1 EIS is a compulsory social insurance system. Both employers and employees are required to make contribution to the system. The Government is responsible for the administrative costs of EIS.

Rate of Contribution

9.2 Each programme of EIS has its own rate of contribution. When EIS was launched in 1995, the rate of contribution for the Unemployment Benefits was 0.6 percent of the total payroll, which was shared by employees and employers. At that time, the rate of contribution for ESP was 0.2 percent of the total payroll and the rate of contribution for JSDP varied between 0.1 percent and 0.5 percent of the total payroll depending on the size and nature of enterprise (see Table 3). Only employers are required to contribute to ESP and JSDP.

Table 3 - Contribution Rate of Each Programme

(in percent out of total payroll)

		1 July 1995 - 31 December 1998		1 January 1999 - Present	
		Employees	Employers	Employees	Employers
Unemployment Benefits		0.3	0.3	0.5	0.5
Employment Stabilization Programme		-	0.2	-	0.3
Job Skill Development Programme	Less than 150 employees	-	0.1	-	0.1
	150 or more employees (priority enterprises)*	-	0.3	-	0.3
	150-999 employees (larger enterprises)*	-	0.5	-	0.5
	1 000 or more employees	-	0.5	-	0.7

* For criteria for determining priority enterprises in each industry, see paragraph 8.5.

9.3 Because of the high unemployment rate and sharp increase in payment for Unemployment Benefits after the 1997 financial crisis, the rate of contributions for the three programmes have been increased since 1 January 1999 (See Table 3). The new rate of contribution for the Unemployment Benefits is 1.0 percent of the total payroll.

9.4 All contributions to EIS are deposited into the Employment Insurance Fund, which is a special account managed by the Minister of Labour. There are separate accounts for each of the programmes of EIS.

Administrative Procedures

9.5 The Minister of Labour is in charge of the management of the programmes in EIS. The Bureau of Employment Policy in the Ministry of Labour is responsible for the general policy and the implementation of EIS. There are hundreds of local centers, such as Employment Stabilization Centers and Manpower Banks, helping to implement the system.

9.6 Local labour offices are responsible for collecting EIS premiums. Employees' contributions are collected by way of wage deduction.

PART 3 - UNEMPLOYMENT-RELATED BENEFITS IN THE EMPLOYMENT INSURANCE SYSTEM

10.1 Not all the programmes in EIS are targeted towards unemployed persons. In this part, we discuss only those components that provide unemployment-related benefits.

11. Unemployment Benefits

11.1 Unemployment Benefits, in the form of cash benefits, are paid to insured unemployed persons so as to stabilize their livelihood and to facilitate their job searching activities. The Benefits are divided into Job-seeking Allowance and Employment Promotion Benefits.

Job-seeking Allowance

11.2 In order to receive Job-seeking Allowance (JSA), a claimant must satisfy certain eligibility requirements. They include:

- a) The aggregate period of being insured should be at least 12 months out of 18 months preceding the day of unemployment;
- b) The claimant must be engaged in job-seeking activity with the intention and ability to work;
- c) The unemployment should not be caused by personal serious faults or personal reasons without good cause.

"Good cause" implies that the reason for quitting a job is related to health conditions, working conditions, terms of employment, and managerial practices of a company.

11.3 As described above, the insured period for a claimant should be at least 12 months out of the 18 months base period preceding the day of unemployment. In order to provide interim support for those who have suffered from unemployment after the 1997 financial crisis, this requirement has been relaxed. From 1 March 1998 to 30 June 2000, the insured period has been temporarily shortened from 12 months to 6 months, and the base period from 18 months to 12 months.

11.4 Under EIS, the amount of JSA that a claimant receives is based on his or her previous wage. It equals to 50 percent of the claimant's average salary during the last three months preceding the day of unemployment. There is a ceiling (30,000 won) and a minimum (70 % of the minimum wage at the time of unemployment) for the daily amount of JSA.

11.5 The period in which JSA is paid to eligible claimants varies from 60 to 210 days, depending on their insured period and their age (see Table 4). The first two weeks from the date of unemployment being reported is considered as a waiting period, when no JSA would be provided within this period.

Table 4 - Duration of Job-seeking Allowance

Age	Insured Period				
	Less than 1 year	1-3 years	3-5 years	5-10 years	10 years or more
Less than 30	60 days	60 days	90 days	120 days	150 days
30-50	60 days	90 days	120 days	150 days	180 days
50 or older and disabled	90 days	120 days	150 days	180 days	210 days

11.6 There are provisions in EIS allowing JSA to be extended in cases when a claimant needs to participate in vocational training (Training Extended Benefits), or when a claimant is unlikely to find a job in a short period of time (Individual Extended Benefits), or when labour conditions become seriously deteriorating (Special Extended Benefits).

11.7 When the Minister of Labour designates a period of time for Special Extended Benefits, the duration of JSA for all claimants would be extended for 60 days within that period. Because of the 1997 financial crisis, the Special Extended Benefits programme was initiated in July 1998, to be effective until January 1999, but it was later extended to December 1999.

11.8 One of the eligibility for JSA is that claimants should have the ability to work. When claimants cannot work because of injury, sickness or pregnancy, they are not eligible for JSA even though they are unemployed. However, there is the Sickness Benefits programme providing cash allowance for them. The amount of allowance they receive is exactly the same as the amount that they may receive under JSA.

11.9 There are conditions under which JSA will be restricted. If a claimant refuses to accept job placement services provided by the public employment office, his JSA will be suspended for two weeks. Also, if a claimant refuses to participate in a job skill development programme recommended by the public employment office, his JSA will be suspended for four weeks.

Employment Promotion Benefits

11.10 Employment Promotion Benefits provide incentives to JSA recipients so as to promote their job searching efforts. The incentives are composed of Early Re-employment Allowance, Vocational Training Promotion Allowance, Nationwide Job-seeking Allowance and Moving Allowance.

11.11 The Early Re-employment Allowance provides lump-sum payments to JSA recipients who obtain stable jobs before their JSA payments reach half of the payment period. The amount of allowance is half of the JSA remaining payment that the recipient can receive.

11.12 The Vocational Training Promotion Allowance is a supplement to JSA. It is paid to those JSA recipients who undertake vocational training during the payment period of JSA. They have to be recommended by public employment office. The level of allowance is set by the Minister of Labour.

11.13 The Nationwide Job-seeking Allowance is provided to JSA recipients so as to support their job searching efforts in distant areas. The search must be initiated at the recommendation of the public employment office. This allowance offers subsidies to their transportation and lodging costs. The Moving Allowance subsidizes the moving costs incurred in cases where there are needs for relocation for new employment or vocational training.

Unemployment Benefits Payment

11.14 The amount of Unemployment Benefits payment and the number of recipients in 1997 and 1998 are shown in Table 5. As seen from the table, the amount of Unemployment Benefits payment sharply increased from 49 billion won in the second half of 1997 to 271 billion won in the first half of 1998. It was mainly due to the sudden increase of unemployment in South Korea at that time. In 1998, almost 98 percent of Unemployment Benefits payment went to JSA.

11.15 The total number of recipients of Unemployment Benefits also sharply increased from 30 273 in the second half of 1997 to 197 299 in the first half of 1998, and further increased to 236 900 in the second half of 1998.

Table 5 - Payment of Unemployment Benefits

(in million won, persons, percent)

	1997		1998	
	First Half	Second Half	First Half	Second Half
Amount of Benefits	30,036	48,696	270,867	522,080
Job-seeking Allowance	28,676	47,267	264,478	512,361
Sickness Benefits	100	112	318	676
Employment Promotion Allowance	1,260	1,317	6,071	9,043
Number of Recipients				
1) Total Number of Recipients	20,039	30,273	197,299	236,900
2) Average Monthly Recipients	7,961	12,553	73,818	152,976
3) Proportion of Monthly Recipients Out of the Covered Employees	0.2	0.3	1.7	3.2
4) Proportion of Monthly Recipients Out of the Unemployed	1.3	2.4	5.5	9.6

Source : Ministry of Labour of South Korea

11.16 However, even in the second half of 1998, the proportion of recipients of Unemployment Benefits out of the total number of unemployed persons was at a rather low level, which was less than 10 percent. One recent study¹¹ argues that the major reasons for such a small proportion of unemployed workers receiving unemployment benefits are as follows:

- 1) only workers who lose their jobs involuntarily and with justifiable causes are eligible for the benefits;
- 2) EIS has only been implemented for a short period of time;
- 3) many workers are still not covered by EIS¹².

¹¹ Yoo Kil-sang, *The Employment Insurance System in Korea*, South Korea: Korea Labor Institute, 1999, p. 81.

¹² When EIS was started in 1995, only companies with 30 or more employees were covered.

12. Other Unemployment-related Benefits in the Employment Insurance System

12.1 Unemployment benefits usually refer to cash benefits directly paid to unemployed persons so as to offer interim support for their livelihood. However, some subsidies in EIS are directly paid to employers who provide job opportunity to specific groups of unemployed persons. Also, some subsidies are provided to unemployed persons to receive vocational training. This report classifies these subsidies as unemployment-related benefits because the unemployed persons actually benefit from the subsidies.

Grant to Promote Employment of Displaced Workers

12.2 The Grant to Promote Employment of Displaced Workers is one of the two subsidies under the Employment Adjustment Assistance in ESP. The Grant provides subsidies for employers to hire displaced workers. The subsidies are offered under either one of the following two conditions:

- a) an employer hires at least 5 displaced workers or displaced workers at a level of 5 percent or more of the average monthly workforce in a given quarter through the public employment office. The displaced workers must have been dismissed because of economic adjustment reasons such as company downsizing, shutdown or restructuring caused by economic transformation.
- b) an employer hires a displaced worker within 30 days from which his former employer has initiated a replacement effort in helping him to find new employment. The worker must have been dismissed because of economic adjustment reasons.

12.3 The subsidy amounts to one-half of the wages paid to new employees for six months for priority enterprises. It is one-third of the wages for larger enterprises.

12.4 If an employer hires displaced workers who are either unemployed for more than one year or aged 55 or older and unemployed for more than six months, the subsidy amounts to two-thirds of the wages for six months for priority enterprises. It is one-half of the wages for larger enterprises.

12.5 In 1998, 5 483 displaced workers benefited from the programme, involving 6,072 million won in expenditure.

Grant to Promote Re-employment of Aged Workers

12.6 The Grant to Promote Re-employment of Aged Workers is one of the subsidies under the Grants to Promote Employment of Aged Workers in ESP. The Grant provides subsidies to employers who re-employ workers aged between 45 and 55 within 2 years of their dismissal. The dismissal must be caused by economic reasons. The level of subsidy is equal to the number of re-employed workers multiplied by an amount set by the Minister of Labour based on the nature of industry and the size of the company. As of 1999, the amount was 1.6 million won per year for priority enterprises and 1.2 million won per year for larger enterprises in the manufacturing sector. For other sectors, the amount was 1.2 million won for priority enterprises and 800,000 won for larger enterprises. An employer could only receive subsidy once for each qualified re-employed worker.

Vocational Training Subsidies for Insured Employees

12.7 The Vocational Training Subsidies for Insured Employees is a training subsidy under the Assistance to Employee in Job Skill Development Programme (JSDP). An insured employee, who is (1) aged 50 or over or (2) about to be dismissed, may receive a subsidy if he or she undertakes vocational training for re-employment or starts a business at his or her own expenses. The level of subsidy is 100 percent of tuition fee with a ceiling of one million won per person.

Assistance for Training the Unemployed

12.8 There are two types of subsidies under the Assistance for Training for the Unemployed in JSDP. One is the Aid for Retraining Displaced Workers. Insured employees can obtain free vocational training when they get unemployed. Unemployed workers who are not eligible for unemployment benefits would receive training allowance during their training period. For those who are eligible, they would receive unemployment benefits. The maximum amount of allowance that a claimant can get is 350,000 won per month, but this may vary depending on the number of dependants that the claimant has and the type of training.

12.9 If unemployed workers enroll into a second training programme, they can receive only half the amount of the training allowance. No allowance would be provided for the third training programme.

12.10 Another is the Aid for Youth Training, which provides subsidies to training institutes to cover the costs of training unskilled youth.

PART 4 - OTHER MAJOR UNEMPLOYMENT-RELATED BENEFITS

13.1 Because of the rapid increase in the number of unemployed persons after the 1997 financial crisis, the South Korean Government has adopted a wide range of temporary measures to cope with the situation.¹³ It is not clear whether all these temporary measures will become part of the unemployment benefits system in South Korea. We will discuss some major unemployment-related benefits

14. Public Assistance Programme

14.1 South Korea's social safety protection is a three-tiered network. The first tier involves various social insurance systems, including the Medical Insurance System, National Pension System, Industrial Accidents Insurance System, and Employment Insurance System. The second tier includes public aid and social welfare services. The third tier is emergency aid, which provides support for a minimum standard of living and ensures medical and health services for those in need of urgent assistance. The Public Assistance Programme in South Korea, which was launched in 1965, belongs to the second tier. It is a means-tested programme providing benefits to low-income people.

14.2 Although the South Korean Government has made continuous efforts to extend the coverage of employment insurance, there is still a large number of low-income unemployed workers facing financial difficulties. In order to meet their basic livelihood needs, the South Korean Government has introduced a temporary livelihood protection scheme, which is a temporary public assistance programme.

14.3 Under the scheme, more low-income unemployed workers have been placed under the Public Assistance Programme. Families with less than 44 million won's (about HK\$30,136) worth of property and with an average individual income less than 230,000 won (about HK\$1,575) per month are entitled to receive financial subsidies of between 79,000 won to 320,000 won (about HK\$540 to HK\$2,190) a month, depending on the number of dependents.

14.4 The number of people receiving subsidies under the temporary livelihood protection programme nearly doubled from 333 000 in 1998 to 640 000 in 1999.

¹³ Those measures are summarized in various policy statements, including the "Comprehensive Unemployment Policy -- 1999", "Reinforced Policy Measures for Job Creation and Protection for the Unemployed -- March, 1999" and "2000 Unemployment Countermeasures". All these documents can be found at the Ministry of Labour web site, <http://152.99.129.51/English/English.html>

14.5 On 7 September 1999, the National Assembly of South Korea passed the National Basic Livelihood Security Act, to be effective on 1 October 2000. Under the new system, poor families, whose monthly incomes fall below a minimum cost-of-living level, will be entitled to livelihood assistance, regardless of the age of their family members and their ability of work. However, the assistance will only be paid to those who continue to seek or train for jobs.

15. Loans to the Unemployed Persons

15.1 In April 1988, the South Korean Government started a special loan programme for the unemployed workers. When it was started, unemployed workers who had registered as job seekers at government job placement centers for at least one month were eligible to apply for loans to cover living expenses, medical expenses, funeral expenses, housing expenses and household business operating expenses.

15.2 The loan programme was modified in April 1999. Under the modified system, low interest loans are only provided to cover living expenses. The eligibility for the loans has also been tightened to include only those unemployed workers with heavy family burdens. The programme is mainly financed through issuing employment stabilization bonds. In the 1999 financial year, a total of 640 billion won (about HK\$4.38 billion) has been budgeted for the loan programme, with an estimate that 70 000 persons will benefit.

PART 5 - ANALYSIS

16. Analysis

16.1 The South Korean Employment Insurance System introduced in 1995 not only provides traditional unemployment benefits, but also incorporates active labour policy measures designed to reduce the adverse effects of the benefit system on work incentives. These measures include job placement services and vocational training for the unemployed persons.

16.2 For a long period of time until 1998, South Korea's unemployment rate had stayed at a rather low level. In 1997, South Korea experienced an unprecedented financial crisis after decades of dramatic economic growth. The extent of the crisis has severely shaken the social protection system of South Korea.¹⁴

16.3 In order to provide immediate relief for those who are from unemployed, the coverage of EIS was extended rapidly after the crisis. The amount of unemployment benefits has also been increased. There are plans to further extend the Unemployment Benefits coverage. The duration of Job-seeking Allowance will be extended by 30 days from 60-210 days to 90-240 days, and the minimum level of JSA will be increased from 70% of minimum wages to 90%.

16.4 The number of unemployment benefit recipients as a proportion of the number of unemployed person is likely to rise as a result of all these improvements made to the system. However, the percentage of recipients will remain at a low level. For an insurance system to provide significant help to its members, it will need a certain period of time to accumulate funds. However, South Korea's EIS has only been operating for two years during the financial crisis. Also, there are certain limitations of an insurance system. It does not provide assistance for first-time job-seekers, self-employed persons, migrant workers and workers who do not have stable jobs.

16.5 One way to overcome these limitations is to develop a system of social assistance to serve as a general safety net. South Korean Government is trying to establish a national livelihood security system through the enactment of the National Basic Livelihood Security Act. (see paragraph 14.5)

16.6 The crisis experienced by South Korea in 1997 was very serious and there were a large number of South Koreans losing their jobs in a very short period of time. It is difficult to evaluate whether EIS is an effective programme in dealing with recent unemployment problem in South Korea. However, the South Korean EIS shows how a traditional unemployment benefits programme can be integrated with active labour policy programmes to prevent unemployment. This is why South Koreans call their system as "employment insurance" rather than "unemployment insurance".

¹⁴ For a discussion how the financial crisis affects the social security systems in some Asian countries, see Eddy Lee, *The Asian Financial Crisis: the Challenge for Social Policy*, Geneva: International Labour Office, 1998.

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Web sites

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4. Korea International Labour Foundation: <http://www.koilaf.org/>