Lessons from Korea’s Employment Permit System (EPS)

Migration: Receiving Countries Session
November 6th, 2019

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The World Bank

Jobs, Labor & Migration Course
BLAs as a way to improve migrant worker and receiving country outcomes: Framework
What is the role of receiving countries in the migration process?

- **Sending country**
  - Needs: Better Employment Opportunities

- **Receiving country**
  - Employer needs
  - Migrant needs
  - Needs: Fill Labor Shortages
  - Policy goal: High and sustainable economic growth
Introduction

Korea’s Employment Permit System (EPS) can serve as an example of how a well-designed G2G contributes to the improvement of migration outcomes for both temporary migrant workers and receiving country’s labor market:

- **Improved governance** focused on temporary labor migration as a labor market as opposed to immigration issue
- **Transparent and monitored process of migration** that leads to reduction of migration costs
- **Increased access to insurance and social protection** leveling the playing field between local and foreign workers
What is Korea’s EPS?

- **Bilateral Labor Agreement (BLA)** between Korea and 16 Asian countries
BLAs promote institutionalized management of temporary labor mobility

- Pre determined number of workers
- For workers --- not about immigrants or refugees
- Formal labor treaty vs. MOUs
- G2G vs. private sector involvement

- Pre determined duration
- Employment terms
- Seasonal vs. non-seasonal
- Mutually beneficial economic gains
What is Korea’s EPS?

- Bilateral Labor Agreement (BLA) between Korea and 16 Asian countries
- Non-seasonal guest worker program
- Based on the Memorandum of Understanding (MOUs)
- Temporary worker program (without immigration/settlement)
- Currently addressing labor shortages in SMEs for a few select sectors (e.g., manufacturing, agriculture, fishery)

- Evolved from an “Industry Training System (ITS)” to an EPS in 2004
  - With recognition of issues such as worker protection
  - Migration costs due to middlemen
  - Overstay of workers
Common concerns re. migration ➔ EPS strategies

• Migration costs ➔ Limiting private recruitment agencies’ activities
• Labor competitiveness and protection ➔ Labor regulation, social insurance, social services
• Business competitiveness ➔ SMEs in viable and labor intensive sectors
• Matching quality between employers / workers ➔ PES matching
• Worker screening ➔ Korean language test, skills test (pilot stage), medical checkup
• Timely return ➔ Repatriation insurance + return support
Features of EPS

• Strong & elaborate institutional arrangement to manage the program and balance domestic political economy
  • Multi-stakeholder policy making, but a single agency led implementation
  • No private middlemen
  • Utilizing existing infrastructure for both domestic and foreign workers

Setting of quotas that takes into account labor market analysis, views of stakeholders, and country performance
Improved Governance: Use of Quotas

Based on combination of industry needs and EPS worker performance

Includes metrics such as # of overstays and # of undocumented migrants, etc.

Allows to punish corrupt sending country practices: e.g. Vietnam, Philippines

Source: Planning and Coordination Office, Foreign Workforce Division, Ministry of Employment and Labor (MEL), 2016
Features of EPS

• Strong & elaborate institutional arrangement to manage the program and balance domestic political economy
  • Multi-stakeholder policy making, but a single agency led implementation
  • No private middlemen
  • Utilizing existing infrastructure for both domestic and foreign workers

• Transparent process
  • Standardized migration system – all information publicly and widely available
  • Public information available including the migration costs

Setting of quotas that takes in account labor market analysis, views of stakeholders, and country performance
**EPS ENSURES:**
- Worker screening for good job matching quality
- Comprehensive and transparent information sharing

**Phase 01 Pre-Decision & Pre-Job Matching**
- Korean language test
- Medical checkups
- Job application

**EPS ENSURES:**
- Job matching reflecting both sides' preferences and addressing labor shortages
- Low costs of migration without paying recruitment fees
- Orientation providing key information about the destination to workers

**Phase 02 Job Matching & Pre-Departure**
- Public employment service
- Visa and contract issuance
- Pre-departure 45-hour training

**EPS ENSURES:**
- Workers' awareness of their rights
- Access to labor regulations, social insurance, and counseling services
- Change of employers (up to three times) and public job intermediation

**Phase 03 During Migration**
- Post-arrival 20-hour training
- Worker protection
- Worker support

**EPS ENSURES:**
- Full support for the timely return of workers
- Training to workers to increase employment opportunities in their home countries

**Phase 04 Post-Migration**
- Skills training for labor market reinsertion
- Linkage to returnees network
- Return cost insurance fund payout*

* i.e., a lump-sum payout upon departure
# Reduction of migration cost

**Migration Cost under ITS: $3,700**

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
<th>Korean Language Test</th>
<th>Health Check up</th>
<th>Job Application</th>
<th>Passport</th>
<th>Visa</th>
<th>Pre Departure Orientation</th>
<th>Airfare (Tax)</th>
<th>Others</th>
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<td>49.00</td>
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<td>50.00</td>
<td>40.00</td>
<td>350.00</td>
<td>268.19</td>
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</tbody>
</table>

Reduction of migration cost: advantages

- Reduces # of overstays
- Reduces illegal employment
- Allows to introduce financial instruments to cover migration costs

Note: “red line” refers to migration costs in one-month earning.
Worker Protection

• Labor regulations
  - Minimum wage, health & safety conditions at workplace, over time regulations, etc. equivalent to Korean workers.

• Social Insurance
  - National health insurance and workers compensation equivalent to Korean workers
  - Contribution to the national pension system (depending on the agreement between two countries)
  - Repatriation cost insurance, Delayed payment insurance

• Social services
  - Counseling services (government agencies/CSOs)
  - Employment services when changing jobs
Remaining Challenges

- Further reduction of migration costs
- Worker protection: esp. agriculture/fisheries
- Employer-worker matching quality

Increase potential for support of ineffective firms and of illegal overstays
Migration Cost: Remaining Challenges

Korean Language Training
- Costs vary from free to a few thousand USD
- Accreditation for Korean Language Training Institutions

Oversubscription
- Large # of applicants for a small quota
- e.g. ~60,000 for 3,000+ quota in Nepal in 2015

Sending Country Quota Selling
- Artificial exam registration quotas
- Sale of an opportunity to take a language test
Remaining Challenge: Increased Social Protection

Degree of coverage by various schemes in manufacturing sector

- Accident insurance: 95.6% insured, 4.4% uninsured
- Health care: 97.8% insured, 2.2% uninsured
- Employment insurance: 48.5% insured, 51.5% uninsured
- National pension: 59.3% insured, 40.7% uninsured
- Departure guarantee: 69.3% insured, 30.7% uninsured
- Wage guarantee insurance: 64.1% insured, 35.9% uninsured
- Return cost insurance: 63.7% insured, 36.3% uninsured
- Casualty insurance: 56.3% insured, 43.7% uninsured

Source: Chung (2013), p.91, Figure 3-13.

Lack of awareness
- Agreements with home country
- Sector, firm size exclusions

This effectively makes EPS employees cheaper than comparable low skill workers
Employer-worker matching quality

- A significant share of vacancies fail to be filled even if there are more workers than available jobs.
- Many workers leave or change jobs within a year.
  - Huge costs for employers who need to bring migrant workers up to speed for the required tasks
  - Huge costs for migrant workers who have a limited period of stay
Challenges of Job Matching

Despite oversupply of workers some country quotas remain unfilled

Only 73.3% of EPS firms find a match, and only 50% of EPS postings find a match

There is a relatively high level of turnover among EPS workers with close to 1/3 staying less than one year with the same employer

<table>
<thead>
<tr>
<th></th>
<th>Nepal</th>
<th>Cambodia</th>
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<tbody>
<tr>
<td># of TOPIK takers</td>
<td>65,000</td>
<td>55,000</td>
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<tr>
<td>Country quota for jobs</td>
<td>6,000</td>
<td>10,000</td>
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<tr>
<td>Successful matches</td>
<td>5,800</td>
<td>7,800</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>Vietnam</th>
<th>Cambodia</th>
<th>Nepal</th>
<th>Indonesia</th>
<th>Philippines</th>
<th>Sri Lanka</th>
<th>Thailand</th>
<th>Total</th>
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<tbody>
<tr>
<td>Less than 1 year</td>
<td>18.7</td>
<td>41.7</td>
<td>30.0</td>
<td>37.5</td>
<td>34.6</td>
<td>42.7</td>
<td>37.0</td>
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<tr>
<td>1-2 years</td>
<td>40</td>
<td>32.6</td>
<td>41.5</td>
<td>24.2</td>
<td>11.5</td>
<td>21.4</td>
<td>23.0</td>
<td>30.1</td>
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<tr>
<td>2-3 years</td>
<td>10.3</td>
<td>17.4</td>
<td>17.7</td>
<td>18.8</td>
<td>16.3</td>
<td>22.2</td>
<td>15.0</td>
<td>19.6</td>
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<tr>
<td>3 -4.10 years</td>
<td>8.1</td>
<td>2.8</td>
<td>5.4</td>
<td>5.4</td>
<td>24.0</td>
<td>6.0</td>
<td>17.0</td>
<td>9.1</td>
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<tr>
<td>Average employment duration (months)</td>
<td>24.1</td>
<td>17.3</td>
<td>19.5</td>
<td>20.9</td>
<td>32.5</td>
<td>20.3</td>
<td>23.7</td>
<td>22.6</td>
</tr>
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</table>

Source: Chung et al 2013
Reasons for poor matches

- Signaling (language + skills)
- Limited employee pool
- Unrealistic expectations

EXACERBATED BY

- 80% of ranking placed on TOPIK score*
- Industry/location selection “strategy” on worker side
- Focus on recruitment

*Additionally only a small percentage of EPS employers indicate their preferences in regards to schooling, age, gender and nationality
Mismatch effects linger due to restrictions and inability of employers to recover costs

<table>
<thead>
<tr>
<th>The 1st job: Wage quintile</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q5</th>
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<tbody>
<tr>
<td>Q1</td>
<td>63.17</td>
<td>16.84</td>
<td>6.91</td>
<td>4.39</td>
<td>8.69</td>
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<td>Q2</td>
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<td>24.51</td>
<td>25.00</td>
<td>9.40</td>
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<td>Q3</td>
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<td>11.29</td>
<td>25.82</td>
<td>28.39</td>
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<td>Q4</td>
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<td>12.02</td>
<td>16.32</td>
<td>33.19</td>
<td>31.24</td>
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<td>Q5</td>
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<td>5.17</td>
<td>14.32</td>
<td>21.56</td>
<td>50.25</td>
</tr>
</tbody>
</table>

Workers tend to gain in terms of increased wages

BUT

Mobility between industries remains relatively small

<table>
<thead>
<tr>
<th>The 1st job: Industry</th>
<th>Manufacturing1</th>
<th>Manufacturing2</th>
<th>Manufacturing3</th>
<th>Construction</th>
<th>Agriculture&amp;Livestocks</th>
<th>Services</th>
<th>Fishing</th>
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</thead>
<tbody>
<tr>
<td>Manufacturing1</td>
<td>22.82</td>
<td>54.49</td>
<td>22.05</td>
<td>0.15</td>
<td>0.14</td>
<td>0.34</td>
<td>0.01</td>
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<td>Manufacturing2</td>
<td>14.77</td>
<td>60.85</td>
<td>23.61</td>
<td>0.26</td>
<td>0.05</td>
<td>0.47</td>
<td>0.00</td>
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<td>Manufacturing3</td>
<td>13.41</td>
<td>52.36</td>
<td>33.52</td>
<td>0.18</td>
<td>0.07</td>
<td>0.46</td>
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<tr>
<td>Construction</td>
<td>0.05</td>
<td>0.11</td>
<td>0.05</td>
<td><strong>99.47</strong></td>
<td>0.32</td>
<td>0.00</td>
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<td>Agriculture*Livestocks</td>
<td>0.09</td>
<td>0.24</td>
<td>0.07</td>
<td>0.03</td>
<td><strong>99.53</strong></td>
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<td>Services</td>
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<td>44.96</td>
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<td>Fishing</td>
<td>0.03</td>
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<td>0.03</td>
<td>0.83</td>
<td>0.00</td>
<td><strong>98.81</strong></td>
</tr>
</tbody>
</table>
Mismatch effects linger due to restrictions and inability of employers to recover costs

Employers cannot recover costs* once worker leaves

Potential underinvestment in training
Willingness to break the match

↑ Likelihood of abuse
↑ Likelihood of worker becoming illegal

*Costs include procurement of the EPS permit, training, lodging, food, any SP, reduced productivity while worker’s productivity is catching up with his/her Korean counterparts
Employer-worker matching quality

Potential solutions

- Understand better employers’ demand and needs for skills, and reflect in worker screening and selection
- Provide more/better information to workers about potential employers/jobs
- Improve matching service and mechanism
Conclusion

• International migration is a multifaceted phenomenon, and as much a political and social issue as an economic one.

• Korea’s EPS, though not perfect, is a good example of managing such a challenging issue in a politically acceptable and economically beneficial manner.

• Ability to implement a similar system will rely on country’s ability to:
  - Oversee migration process (to eliminate or regulate intermediaries)
  - Provide in country screening
  - Have strong system for identification of critical occupations

• EPS has gone through many changes and policy innovations over time, and continues to strive for improvement.