

**Bilateral Arrangement of  
Temporary Labor Migration**

**Lessons from  
Korea's  
Employment  
Permit System**

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## Abbreviations and Acronyms

<b>BLA</b>	bilateral labor agreement
<b>CBO</b>	community-based organization
<b>CSO</b>	civil society organization
<b>CCVI</b>	Certificate for Confirmation of Visa Issuance
<b>EPS</b>	Employment Permit System
<b>EU</b>	European Union
<b>GCC</b>	Gulf Cooperation Council
<b>GDP</b>	gross domestic product
<b>G2G</b>	government to government
<b>HRD</b>	Human Resource Development Service
<b>ITS</b>	Industrial Trainee System
<b>KCTU</b>	Korea Confederation of Trade Unions
<b>KEIS</b>	Korea Employment Information System
<b>KIIP</b>	Korea Immigration and Integration Program
<b>KRW</b>	Korean won
<b>MoEL</b>	Ministry of Employment and Labor
<b>MoFA</b>	Ministry of Foreign Affairs
<b>MoJ</b>	Ministry of Justice
<b>MOU</b>	Memorandum of understanding
<b>MoSF</b>	Ministry of Strategy and Finance
<b>MoSS</b>	Ministry of SMEs and Startups
<b>MoTIE</b>	Ministry of Trade, Industry, and Energy
<b>NGO</b>	Non-governmental organization
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>SME</b>	small and medium enterprise
<b>TOPIK</b>	Test of Proficiency in Korean
<b>UAE</b>	United Arab Emirates





# Foreword

Globalization has rapidly changed the world through the increased trade of goods and services, but labor mobility is still limited by borders. Theory suggests that free labor mobility as well as trade could benefit both importing (labor receiving) and exporting (labor sending) economies. However, whether policies to facilitate labor mobility should be further promoted is as much a political and social question as it is an economic one. The perceived benefits and costs of labor mobility differ significantly depending on where you are and which aspects of labor mobility you focus on.

While the number of labor migrants in the world continues to rise, popular destinations such as North America and Europe are host to renewed debates and discussions on the topic of immigration, sparked by a resurgence in nationalistic rhetoric. Despite a moral argument for the need to embrace refugees and other migrants fleeing dire conditions of war, conflict, violence, oppression, and extreme poverty, large influxes of migrants tend to reinforce alarmists' calls against labor mobility.

In this context, the importance of policies to promote the mutual benefits of both sending and receiving nations (i.e., “co-development”) through labor mobility—facilitated by well-managed and controlled migration systems—is increasingly recognized. Policies that help workers from relatively poor economies gain employment opportunities in richer countries and benefit from the wage differentials between the two, and that are politically acceptable and contribute to the interest of receiving economies, could be further promoted. For example, bilateral arrangements (including labor agreements and memorandums of understanding) that link employers in richer economies with workers from less-developed economies have great potential to promote mutual benefits. These promise to be key policy instruments of the global development agenda.

The report recognizes this wide spectrum of migration-related issues, and sets them in a clear framework focused on three separate policy objectives: control, co-development, and co-existence. Policies that support control (e.g., building walls to prevent illegal entry into a country) should not be mixed with efforts to promote co-existence (e.g., measures to provide new migrants with pathways to becoming active members of society, with access to key benefits

that will further their productivity). Meanwhile, policies that focus on co-development and mutual benefits (e.g., temporary labor agreements) merit their own consideration, irrespective of policies that support control and co-existence. This policy brief highlights the opportunity for bilateral arrangements to support co-development, and describes a range of options.

The Employment Permit System (EPS) of the Republic of Korea is an exemplary case of a government action facilitating temporary labor migration for co-development. It balances the benefits of temporary migration for both the sending countries and the receiving country (i.e., Korea) and the political economy surrounding the issue. The report presents multiple features of the system that could be applied in other contexts, while underscoring Korea's efforts to strengthen the system and manage the political economy over time. I believe that the report will be extremely useful and informative for policy makers concerned with international labor mobility. It will help Korean policy makers continue to strengthen the system, inform receiving countries seeking to develop and strengthen similar arrangements, and also improve sending countries' understanding of their potential role in maximizing the benefits of labor migration.

**Michal Rutkowski**

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# Executive Summary

**Individuals cross borders for various reasons and in rapidly increasing numbers.** In 2017 alone, about 258 million people were living outside their countries of birth, a 60 percent increase from 1990. Among the different strands of migration—forced or voluntary, temporary or permanent—that contributed to this number, temporary labor migration stands out as potentially the most beneficial to development. In many countries, a significant share of the workforce seeks employment abroad for a finite period of time. The wage differentials that equally productive workers see between labor-sending and labor-receiving economies represent the single-most important driver of migration. For instance, a Nepalese farmer can earn some US\$1,500 per month from a farm job in Korea, as opposed to his monthly earnings of less than US\$300 at home. The resulting increase in income often allows migrants' families back home to access better educational opportunities and better health care, and engage in entrepreneurial activities. At the macroeconomic level, remittances sent by migrants can fuel domestic consumption, and thus support economic growth and poverty reduction. Moreover, as an important source of foreign exchange earnings, they support macroeconomic stability.

**Receiving countries benefit significantly from temporary labor migration.** Receiving countries often use temporary labor migration to address labor shortages in their domestic markets, which occur when certain sectors and occupations have difficulty in recruiting national workers. Many developed countries have implemented guest worker programs to address seasonal mismatches between labor demand and supply (for example, in the agricultural sector). Others, like the oil-rich countries of the Middle East, host temporary but non-seasonal migrant workers from various parts of the world, especially from the South and Southeast Asian regions, to meet their labor needs. Amid Asia's rapid economic growth and its efforts toward regional integration, including through the Association of Southeast Asian Nations (ASEAN), an increasing number of Asian countries, such as Thailand, Malaysia, Singapore, and Korea, are also becoming major destinations for migrants. Some receiving countries consider the skill development and technological transfers associated with temporary labor migration as part of their development assistance efforts.

**Bilateral labor agreements (BLAs) between sending and receiving countries are institutional tools designed to facilitate migratory flows and maximize the potential benefits of temporary international migration for all concerned.** As in other labor markets, the market for temporary international labor faces fundamental market failures, including asymmetry in access to information and in bargaining power. Borders, along with cultural and language barriers, exacerbate these. BLAs aim to address such market failures by promoting the transparency of the recruitment process, ensuring necessary levels of worker protection, and facilitating labor intermediation while managing flows of labor across specified borders. As the volume of temporary labor migrants has increased in recent years, various forms of BLAs have been used to ensure that their movement benefits both sending and receiving countries, while enforcing time limits on their stays. BLAs vary widely in terms of the maximum duration of stays allowed, the provider of intermediation (private, public, or mixed), level of worker protection, and institutional arrangements, among others.



**This study focuses on the Employment Permit System (EPS) in Korea, a temporary migration program for low-skilled workers considered a good global practice among efforts toward the goal of “co-development” – that is, the mutual benefit of both sending and receiving nations.** Introduced in 2004 in partnership with 6 Asian countries, the program has expanded to 16 countries since 2008, and has provided employment to more than 540,000 individuals. The EPS permits inflows of foreign workers from partner Asian countries that have signed a memorandum of understanding (MOU) with Korea. A key feature of the EPS is that the entire process, including worker recruitment and intermediation services, is managed as a government-to-government (G2G) arrangement. This distinguishes it from many other BLAs that involve more private recruiters and intermediaries. The transition from a private-sector-driven to a government-managed program took place when the EPS replaced its predecessor, the Industrial Trainee System (ITS). Based on lessons learned from the ITS, and through cooperation with several partner countries’ governments, Korea has made significant efforts to design the EPS in such a way as to ensure transparency and worker protection, reduce migration costs, promote business competitiveness, and ensure the return of foreign workers while managing the delicate political economy surrounding the foreign workforce.

**Korea’s EPS is implemented through a sophisticated and well-managed governance structure.** While multiple stakeholders are involved and their views are reflected in policy, the Ministry of Employment and Labor (MoEL) leads the management of the labor and human resources involved. This has helped the Korean government manage the sensitive political economy and public opinion surrounding Korea’s foreign workforce. The EPS has come to be recognized as a temporary worker program integral to Korea’s labor policy and separate from the immigration agenda and related social issues. And it has been clarified, over time, that the EPS workforce is largely a complement and not a substitute for the Korean workforce. Also, by utilizing the MoEL’s existing infrastructure for intermediation and job matching as well as worker counseling, the EPS has been able to tap into economies of scales and foreign workers are provided the same services available to Korean nationals. Supported by this robust governance system, the entire process—from a mandatory Korean language test during the pre-decision stage, to workers’ identification and recruitment, to the provision of job-matching services and worker protection and counseling, to assistance with returns and settlement—is managed by the Korean government in co-ordination with the sending countries’ governments and with limited involvement of private sector agencies.

**The EPS has accomplished several remarkable achievements, including a drastic reduction in migrants' cost burden, enhanced transparency, reduction in the share of workers overstaying, and improved access to worker protection.** Compared with its predecessor, the ITS, the costs paid by workers from most participating countries were slashed by almost three-fourths: from about US\$3,700 to less than US\$1,000. This makes Korea one of the lowest-cost destinations for migrants globally. One way the EPS achieved this was by widely publicizing the costs of participating in the EPS, both in total and by detailed category (e.g., costs for the Korean language test, medical check-ups, pre-departure and post-arrival training, social insurance, etc.). Knowing the costs ahead of time helps migrant workers manage limited resources, and discourages so-called middlemen from overcharging for services. It also contributes to another of the EPS's key achievements: the total number of migrant workers who overstayed their mandated time decreased from about 50 percent under the ITS period to less than 10 percent in 2014 under the EPS. This significant reduction is in part due to stronger co-operation with sending countries, and in part because workers are not driven to overstay to recoup an exorbitant initial investment. The EPS also strengthened the worker protection measures afforded to visiting workers, including (i) the application of the same regulations that govern Korean workers under Korean labor laws, (ii) access to social insurance, and (iii) support services such as counseling. To support the EPS's overall efficiency, processes are supported by information and communication technology (ICT), including a robust database and interoperable information systems (e.g., strong linkages between the MoEL's EPS database and the Ministry of Justice's [MoJ's] entry and exit records for foreign nationals).

**Nevertheless, multiple challenges remain and require policy attention.** At the policy level, there is pressure to include the EPS within the broader framework of Korea's immigration policy. However, given the political and social sensitivity surrounding immigration issues, including the integration of long-term residents and the cohesion of the communities where they settle, it is best to keep the temporary worker program focused on labor policy. That is, the EPS should primarily aim at addressing labor shortages while promoting co-development in line with the country's development assistance efforts. At the program level, the EPS, as a flagship G2G program for temporary labor migration, needs to further strengthen its worker support as well as economic efficiency. For instance, worker protections can be strengthened, in particular for workers in the agriculture, livestock, and fisheries sectors, which tend to be either exempt from labor regulations or under weak enforcement. Also, economic efficiency can be enhanced by ensuring effective job placement supporting labor-constrained but high-potential industries and firms instead of sustaining non-viable ones.

**The process used to match employers and temporary labor migrants also merits significant improvement.** The successes of the EPS to date—a reduction in migration costs, in the number of overstays, and in abuses of human rights—have depended to a large extent on the G2G labor intermediation. At the same time, the success rates of the system’s job-matching process remain low. First, a large share of jobs posted through the EPS are not successfully matched with migrant workers. Second, a significant share of those workers who are successfully matched with employers change jobs within a year due to various reasons. Challenges include information asymmetry and an employer-focused matching process with limited choices for workers. Also, the EPS’s pre-screening efforts may not focus on the kind of skills that employers most value. For example, they may appreciate soft skills, such as diligence, in addition to the language proficiency that the EPS focuses on. In sum, there is room for the current matching system to be further enhanced to bridge the information gap between employers and job seekers, and to ensure the selection of the best candidates from the firms’ perspectives.

**In terms of both achievements and challenges, the EPS offers important lessons for both receiving and sending countries to implement, either unilaterally or bilaterally.**

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## **LESSONS FOR RECEIVING COUNTRIES**

- Creating a system that is politically acceptable, and economically beneficial, is critical.
- A multi-stakeholder process for policy making with a single implementing agency can be an effective governance model.
- Bilateral labor agreements need to distinguish between seasonal and non-seasonal work.
- Lowering migration costs can reduce the number of cases of migrant workers overstaying.
- Reducing migration costs, however, may depend on the receiving country's ability to limit or oversee private sector intermediation.
- Irrespective of who provides intermediation and recruitment services, receiving countries can adopt a few EPS transparency measures to reduce migration costs.
- Worker screening (through measures such as language tests) can potentially improve the experiences of both employers and workers.
- Screening for traits (beyond language proficiency) that are valued by the employers can further improve worker placement outcomes.
- Worker protection can be provided through a combination of labor regulation, social insurance, and social support.

## LESSONS FOR SENDING COUNTRIES

- Bilateral agreements such as MOUs should be specific and actionable.
- Even within the same bilateral program, outcomes for migrants can vary widely depending on the proactiveness of the sending country.
- To the extent possible, sending countries should widely disseminate information on migration costs by key destinations, unbundled by line item.
- Pre-departure training of migrants should focus more on language and soft skills.
- Pre-departure orientation should be customized to the needs of migrant workers.





# 1 Introduction

## 1.1 Conceptual Framework

---

The number of individuals who have crossed borders has mushroomed over recent years. The United Nations' *International Migration Report 2017* estimates that more than 258 million people were living outside their countries of birth in 2017 (UN 2017), a significant rise from 173 million in 2000. Given this increase in the volume of mobility, which is amplified by a recent influx of refugees, the issue of international migration has been receiving increased policy attention globally.

The phenomenon of international migration, however, is heterogeneous in terms of the underlying motives and aspirations of migrants. A broad classification of international migrants sheds light on these underlying differences. First, international migrants can be classified by whether they are involuntary/forced or voluntary. Forced international migrants are involuntarily displaced refugees who flee conflict, violence, or persecution across an international border. Voluntary migrants can additionally be classified into two categories: (i) temporary labor migrants who migrate for economic reasons for a fixed duration of time and (ii) immigrants who move with the intention of changing their country of residence, due to factors such as wanting to reunite with family or to benefit economically (see [box 1.1](#)).<sup>1,2</sup>

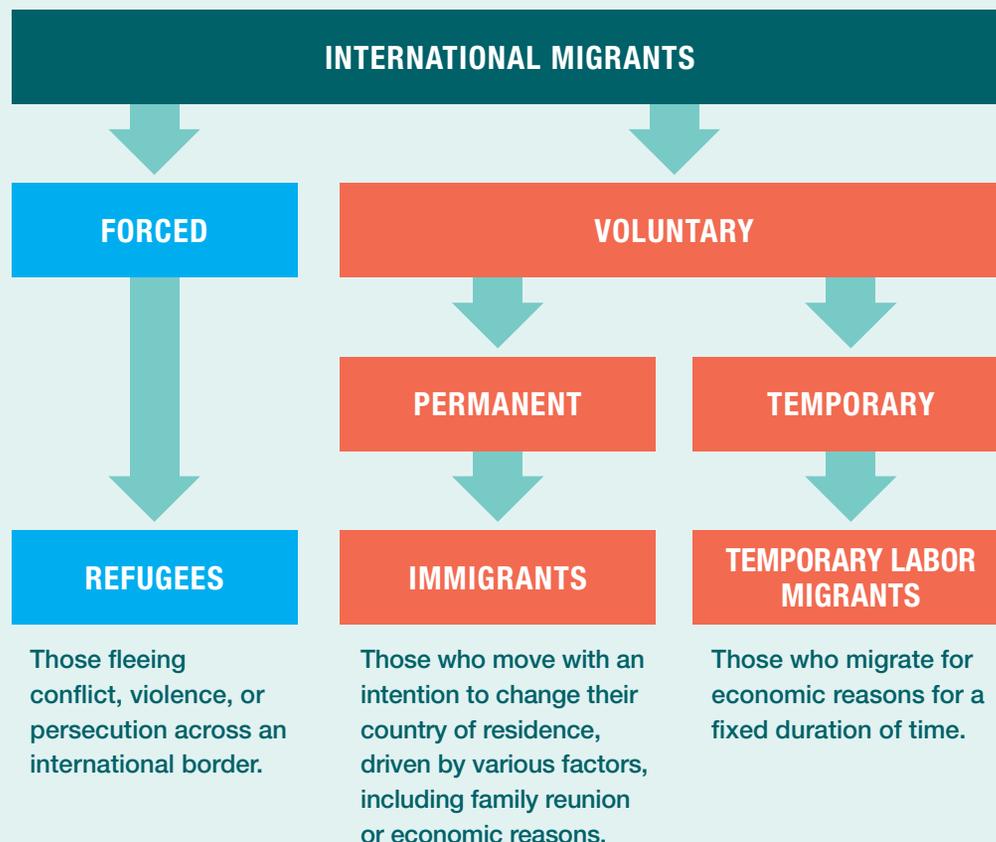
As different types of workers have different motivations for migrating, the specific challenges they face should be understood, also considering the specific context of their migration. Policy responses must be tailored accordingly. [Figure 1.1](#) presents an overall conceptual framework of migration policies from the perspective of the destination, or receiving, countries. All concern labor mobility to a degree.

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1 These individuals may move and stay in a country, either legally or illegally. Some international migrants have high levels of training and skills, in which case, the sending countries are often concerned about brain drain. Other migrants with a low- or semi-low level of skills typically seek opportunities in labor-intensive sectors that have difficulties finding laborers. Thus, legal status and skill level are subcategories of each type of migrant worker.

2 Although foreign students are included in a country's migration/immigration policies, this report limits the discussion to labor-related migration.

■ **Box 1.1 Terminology: Types of International Migrants**



Source: Authors' compilation.

To summarize **figure 1.1**, the three policy objectives underlying the migration policies and management practices commonly observed across receiving countries are: (i) control, (ii) co-development, and (iii) co-existence. *Control* is the main objective of policies that are designed to ensure security (including of borders), manage or curb inflows, and reduce the incidence of illegal activities (e.g., human rights violations such as human trafficking) while balancing human rights issues. *Co-development* is the maximizing of mutual gains from migration among both sending and receiving countries as well as workers and employers.<sup>3</sup> Through bilateral agreements, for example, receiving countries gain access to necessary labor while sending countries ensure their workers gain access to safe and gainful employment abroad. Finally, *co-existence* is concerned with policies designed to promote the integration of immigrants and their families

3 Throughout this document, the phrase receiving country is used interchangeably with country of destination. The phrase sending country is used interchangeably with country of origin and home country.

■ **Figure 1.1 Key Migration Policy Objectives in Receiving Countries**



Source: Authors' compilation.

in receiving countries, their access to benefits that help them become productive members of society, and the social cohesion of the communities where they settle. *Control*, *co-development*, and *co-existence* have been the dominant objectives guiding policies associated with refugees, temporary labor migrants, and immigrants, respectively. All three objectives must be achieved in balance to effectively manage international migration issues, yet each is distinct.

Many policies affecting international migrants fall in the realm of the domestic political economy in receiving countries. Such policies are often linked to issues of national security, social cohesion, and/or human rights, although economic considerations also strongly influence public views. A country's immigration policy determines whether refugees or temporary labor migrants who enter the country with or without the intention to live there permanently, can become immigrants pursuing long-term residence. Some countries, especially those with porous borders, may have difficulties in differentiating the three types of mobility, in which case the policy discourse is often focused on *control*. Other countries that have relatively stronger border security tend to differentiate their immigration agenda from refugee issues and from policies for temporary labor migration designed to promote economic development.

Policies to achieve *co-development*, unlike those aimed at control or *co-existence*, can be facilitated on both the sending and receiving ends of the migration journey.<sup>4</sup> They tend to focus on temporary labor migration, which has been largely overlooked in the economic literature on international migration (Dustmann and Görlach 2016). They are most relevant to temporary labor migrants, who are often low- or semi-skilled workers seeking earning opportunities in the sectors or economies where labor shortages exist. Given the gains temporary labor migration can bring to the sending country in terms of reducing poverty, helping households cope with risks, and boosting overall growth,<sup>5</sup> many unilateral interventions are in place to promote safe, productive, and inclusive migration. The objective is to maximize the economic benefits of temporary migration while also ensuring migrants' well-being. Bilateral labor agreements (BLAs) between sending and receiving countries also serve as an important policy instrument, to ensure mutual gains from temporary migration while enforcing the temporary status of migration. There are a few multilateral agreements that attempt to improve temporary labor migration outcomes in a number of sending and receiving countries simultaneously. However, they tend to be less beneficial and efficient than BLAs as they are unable to account for the interests of specific host and sending countries (Chilton and Posner 2017).

As more labor-sending countries embrace temporary labor migration as part of their employment, poverty reduction, and development strategies, and many receiving countries use temporary labor migrants to address domestic labor shortages, efforts to strengthen policies for *co-development* require greater policy attention. For instance, many South Asian countries are experiencing a youth bulge<sup>6</sup> and therefore trying to reap the demographic dividend by providing young workers with employment opportunities. However, where the domestic labor market cannot absorb all these market entrants, countries are forced to turn to the overseas labor market. In Bangladesh, about 10 percent of the active male workforce are estimated to be temporary labor migrants and their remittances are equivalent to almost 10 percent of the country's gross domestic product (GDP) in 2015 (see Farole and Cho 2017). This share is even higher for Nepal: an estimated 18 percent of the active male workforce work overseas as temporary labor migrants, with remittances equivalent to close to 30 percent of GDP. Meanwhile, large labor demand from the Middle East, and increasing demand from countries with aging workforces, suggest that overseas labor markets will continue to provide earnings opportunities.

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4 Policies under the co-development objective may not necessarily involve intentional development efforts or assistance. In the case of temporary labor migration, receiving countries may not be concerned with the effects of migration on the sending countries or their development. In fact, in many cases they are primarily concerned with their own needs of addressing labor shortages and the effects of the foreign workforce on the country's labor market or social cohesion. Nonetheless, institutional arrangements for temporary labor migration can be mutually beneficial and contribute to co-development.

5 See, for instance, Dos Santos and Postel-Vinay (2003); Pritchett (2006); Lokshin, Bontch-Osmolovski, and Glinkaya (2010); and Dustmann and Mestres (2010) for discussions of the impacts of migration on various issues, such as poverty reduction and human capital accumulation in developing countries.

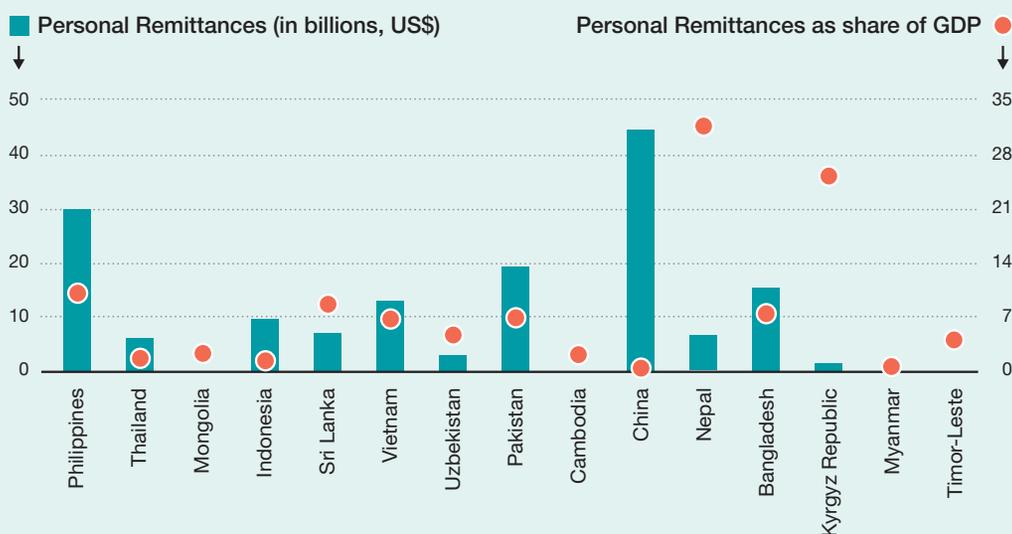
6 This is when the share of young people (between the ages of 15 and 24) increases at a rate faster than the growth of other age groups.

## 1.2 Temporary Labor Mobility for Co-development

A combination of push-and-pull factors, both internal and external, has contributed to large-scale labor migration. When the domestic labor market has limited ability to create quality jobs but demand for jobs significantly increases due to demographic pressure, the environment serves as a push factor for workers to seek outside options. The major pull factor comes from demand for low- and semi-skilled labor in the non-traded service sectors and from the earnings gains (or wage differentials) in receiving countries compared with that of sending countries' labor markets. Some studies that investigated the labor market outcomes of foreign workers in the United Arab Emirates suggest that the annual average wage of workers from India, Pakistan, Bangladesh, and the Philippines, in a sample of 10,954 people, was about US\$7,000 (see Al Awad 2010; Tong 2010), while GDP per capita measures of annual income in these nations were estimated to be US\$1,600, US\$1,400, US\$1,200, and US\$2,900, respectively.

Higher earnings in the overseas markets and the remittances of temporary labor migrants sent back home have important impacts on migrant workers and their household incomes, and thus on the economies of the sending countries. As shown in [figure 1.2](#), remittances<sup>7</sup>

**Figure 1.2 Remittances Received in 15 EPS Countries: Level and Share of GDP, 2015**



Source: World Development Indicators in 2015.

Note: EPS = Employment Permit System; GDP = gross domestic product.

<sup>7</sup> Looked at both in absolute terms and as a share of GDP.

form an important part of the sending countries' economies. This is also pertinent to the major remittance-receiving economies worldwide, such as the Philippines, China, Pakistan, Bangladesh, Vietnam, and Indonesia, that are also part of Korea's flagship temporary labor migration program, the Employment Permit System (EPS), a set of BLAs between Korea and 16 partner countries. In two of the smaller economies that are part of the EPS, Nepal and the Kyrgyz Republic, remittances represent over 25 percent of GDP, suggesting a heavy reliance on international migration and remittances.

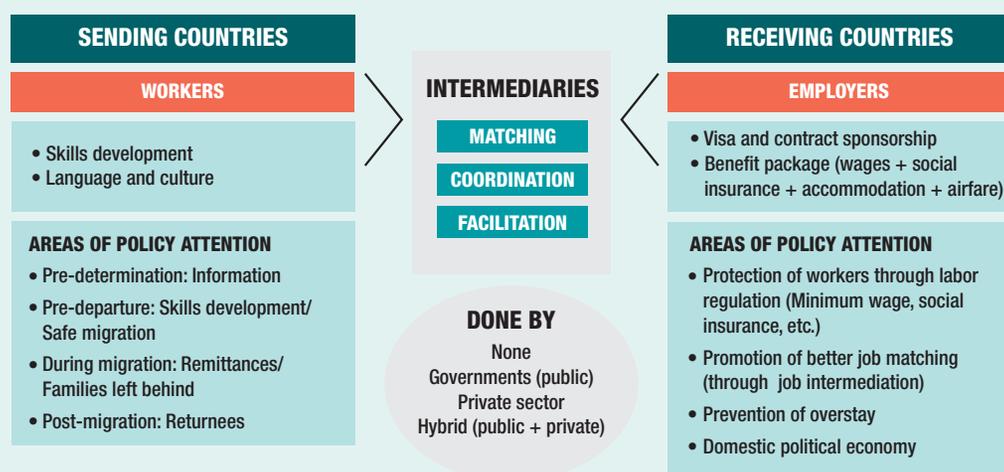
It is widely recognized that remittances from migrants have contributed to significant increases in incomes and reduction in poverty in sending countries: for instance, Indonesia (Adams and Cuecuecha 2010), the Philippines (Martinez and Yang 2006), and Nepal (Lokshin, Bontch-Osmolovski, and Glinkaya 2010). Remittances can also increase investment in the human capital of children and improve the health and educational outcomes in migrant households (Martinez and Yang 2006; Mansuri 2006). Migration can also change how households allocate their resources, both in terms of saving and spending (Clemens and Tiongson 2017). In addition to their impact on migrants' households, remittances have indirect benefits for the economy by increasing demand for local goods and services. It is often argued that remittances can spur the local economy, when used in a productive manner, and lead to job creation especially in sectors such as construction, real estate, and other non-tradable services. Furthermore, remittances can help maintain a strong balance of payments, contributing to the building of foreign exchange reserves.



Meanwhile, the greatest benefit of temporary labor migration from the perspective of the receiving country is that it provides a remedy to labor shortage issues. This is pertinent in the Gulf Cooperation Council (GCC) countries where the labor market is segregated, with nationals dominating the public sector and foreign workers the private sector. Foreign workers make up on average three-fourths of the workforce (75 percent in Bahrain in 2011; 79 percent in Kuwait in 2011; 78 percent in Oman in 2011; 93 percent in Qatar in 2012; 61 percent in Saudi Arabia in 2011; 93 percent in the United Arab Emirates in 2008) (Farole and Cho 2017). In addition, many aging societies with low fertility rates in East Asia, including Hong Kong SAR, China; Singapore; and Japan are increasingly relying on temporary labor migrants to address their labor shortage issues. Temporary labor migrants tend to provide care services not only for the growing elderly population, but also for persons with disabilities and young children, freeing those female household members who were once traditionally responsible for this work to participate in the labor market. Unlike some countries, where long-term immigrants compose the low- and semi-skilled work force, the GCC countries and the aging economies in East Asia tend to resort to temporary labor migration to address labor shortages.

Policy areas related to *co-development*, involving the international labor market, can be juxtaposed to the traditional labor supply and demand framework (figure 1.3). To maximize the impacts of temporary labor migration on the welfare of both workers on the sending end and employers on the receiving end—while benefiting the overall economies on both sides—concerted efforts are needed across many policy areas.

■ **Figure 1.3 Key Policy Areas in the International Labor Market**



Source: Authors' compilation.

In this model, workers are aspiring migrants, and employers would be the receiving countries' enterprises, which sponsor visas and contracts and provide benefits packages within the parameters defined in the labor laws and regulations applicable to foreign workers. As is common in labor markets, there are many potential market failures (**box 1.2**). Workers, particularly those who are unskilled and poor, may encounter several obstacles. They may not have sufficient information about potential overseas employment opportunities to take advantage of wage differentials. They may lack credit to pay for migration expenses or to invest in additional skills development, and they may have limited means to signal to prospective employers what their strengths and potential contributions would be. At the same time, employers also face market failures: they have limited means to screen foreign workers, a situation that is additionally complicated by distance and cultural and language barriers. Moreover, the most significant barrier to achieving efficient and transparent markets is the border between countries, which of course also limits labor mobility. Typically, private intermediaries exist to bridge the gap, facilitate labor mobility, and address the issue of information asymmetry, but they tend to create additional complications and their own failures by engaging in rent-seeking behaviors. These various market failures merit attention and, in some cases, policy intervention.

From the workers' perspective, multiple interventions can take place at various stages of the migration process: pre-decision, job matching and pre-departure, during migration (while working in the receiving country), and post-migration (for returnees).<sup>8</sup> Sending countries should

### ■ **Box 1.2 Key Failures that Require Policy Intervention to Further Co-development**

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**MOBILITY CONSTRAINTS.** Restricting international mobility is indeed a source of welfare loss because it limits the efficiency of human resource allocation.

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**INFORMATION ASYMMETRY.** Both workers and employers have limited information about each other.

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**BARGAINING POWER ASYMMETRY.** Employers often have outsized power over workers, and in the case of foreign workers, this is especially true.

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**INTERMEDIARIES' RENT-SEEKING BEHAVIOR.** Private sector players provide intermediation services to address the above-mentioned failures and charge fees for these services. In doing so, they may fail to provide the promised services or charge a greater amount than the services are worth.

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*Source: Authors' compilation.*

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<sup>8</sup> See the review by McKenzie and Yang (2015).

provide sufficient information on the costs and benefits of migration to their workers, and delineate the process and procedures involved (as done in Bangladesh's Safe Migration for Bangladeshi Workers Project, for instance).<sup>9</sup> In addition, sending countries should also consider skills training and certification as a way to increase worker productivity and remuneration; measures to facilitate the portability of financial resources and benefits; support for families left behind; and support for returnees to be integrated back into society. Receiving countries should sustain their support for workers, especially with respect to providing sufficient worker protection, identifying opportunities to pursue better-suited employment, managing financial resources and transferring remittances, providing counseling and socioemotional support for workers living apart from their families, and facilitating the return process.

From the employers' perspective, it is important to find the right worker for the job, and at the right cost. For this, reducing the asymmetry in information about workers would be an important policy objective. At the same time, it should be acknowledged that there is a large difference in the bargaining power of employers and migrant workers, and consequently there is large scope for exploitation and welfare loss. Thus, stipulating laws and regulations (e.g., a minimum length for work contracts, an adequately high level for wages and other benefits, good job matching and separation processes, safe working conditions), while taking employers' costs into consideration, are important policy actions on the receiving side.

Crossing information, border, and cultural barriers, intermediaries match workers with employers, coordinate with both parties throughout the employment process, and help them engage in mutually beneficial arrangements through the system. Skilled workers often contact employers directly. But low- or semi-skilled workers encounter significant information asymmetry and other barriers to directly pursuing foreign employment. Typically, private agencies and middlemen provide services with fees that are often a large financial burden for low- or semi-skilled workers and can make migration inaccessible to the poorest. Some migrant workers take out loans informally at high interest rates to finance the costs and become indebted, and attempt to stay longer than legally allowed in the hopes of eventually earn enough to pay off the debt. Recognizing the excessive financial and transaction costs imposed by middlemen and recruiting agencies, governments may not only introduce relevant regulations but also opt to assist migrants directly.

In addition, efforts to manage the political economy surrounding foreign workers are needed. It is important for receiving countries to provide migrant workers with adequate protection, meet employers' needs without impinging on nationals' labor market opportunities, and ensure the return of temporary migrant workers.

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9 The Safe Migration for Bangladeshi Workers Project aims to reduce the vulnerability of migrant workers and their families through a demonstration pilot that (i) provides better access to accurate and timely information and services for safe migration; and (ii) establishes and strengthens community-based organizations (CBOs) to reduce the dependency of migrants on middlemen.

## 1.3 Bilateral Labor Agreements

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BLAs between sending and receiving countries are policy instruments widely used to ensure *co-development* while considering policy issues associated with temporary labor migration. Receiving countries aim to address the labor and skills shortages of seasonal, low- and semi-skilled, or specialized workers, while an increasing number of sending countries choose BLAs to formalize and facilitate their outmigration flows. In fact, recent research has found that BLAs are significantly associated with higher migration flows between two countries (Chilton and Posner 2017). BLAs can take the form of either formal treaties that are legally binding or non-binding memorandums of understanding (MOUs). MOUs are used increasingly more often because of their flexibility.<sup>10</sup>

BLAs for temporary migration encompass (i) seasonal worker programs and (ii) non-seasonal worker programs (**box 1.3**). Almost all countries in the Organisation for Economic Co-operation and Development (OECD) have seasonal worker programs, most notably in agriculture and tourism.<sup>11</sup> The seasonal worker programs in New Zealand and Australia, which host Pacific Islanders, especially in the horticulture sector, are well-known examples. Canada has seasonal worker arrangements with Mexico and several Caribbean countries in agriculture. Countries in the European Union (EU) tend to establish BLAs with non-EU member countries as labor movements across EU member countries are already active. For instance, Germany has seasonal worker programs for a few sectors (e.g., agriculture, hospitality, and carnivals) through BLAs with Romania, Bulgaria, and Croatia.<sup>12</sup>

Another type of BLA for temporary labor migration is non-seasonal, and allows workers to stay for a longer time span than would a seasonal worker program. Such non-seasonal guest worker programs are becoming increasingly popular among receiving countries that tend to experience non-seasonal labor shortages but are reluctant to admit low-skilled workers on a long-term basis. Well-structured BLAs can help countries not only achieve the objectives of *co-development*, but also make significant gains toward *control*. They do this by involving the source country in actively screening potential workers' backgrounds as well as their skills

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10 The France-Tunisia agreement provides an example of a legally binding treaty between the two countries involved.

11 Some seasonal worker programs are well researched and demonstrated to be effective. See Gibson and McKenzie (2014) and Gibson, McKenzie and Rohorua (2014) for discussions of seasonal worker programs.

12 The seasonal worker programs began with signing bilateral co-operation agreements with many partner countries (Poland, the Czech Republic, Slovakia, Hungary, Romania, Slovenia, Bulgaria, and Croatia). However, as most of these partner countries have become members of the European Union (EU), the BLAs remain applicable to only a small number of non-EU countries.

### ■ **Box 1.3** Bilateral Arrangements for Temporary Labor Migrants

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#### **SEASONAL WORKER PROGRAMS**

- To address labor shortages due to the seasonality of labor demand in certain sectors (e.g., agriculture, tourism).
- Almost all OECD countries have seasonal worker programs, commonly with neighboring countries.
- Examples include New Zealand's seasonal worker program with Pacific Islanders.

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#### **NON-SEASONAL WORKER PROGRAMS**

- To address labor shortages for a longer time period than a seasonal worker program, while formalizing temporary labor migration and maintaining the temporariness of the contract.
  - Non-seasonal worker programs are increasingly common in the Middle East and South Asia, and some aging economies in East Asia and other neighboring countries, in addition to some OECD countries.
- 

*Source: Authors' compilation.*

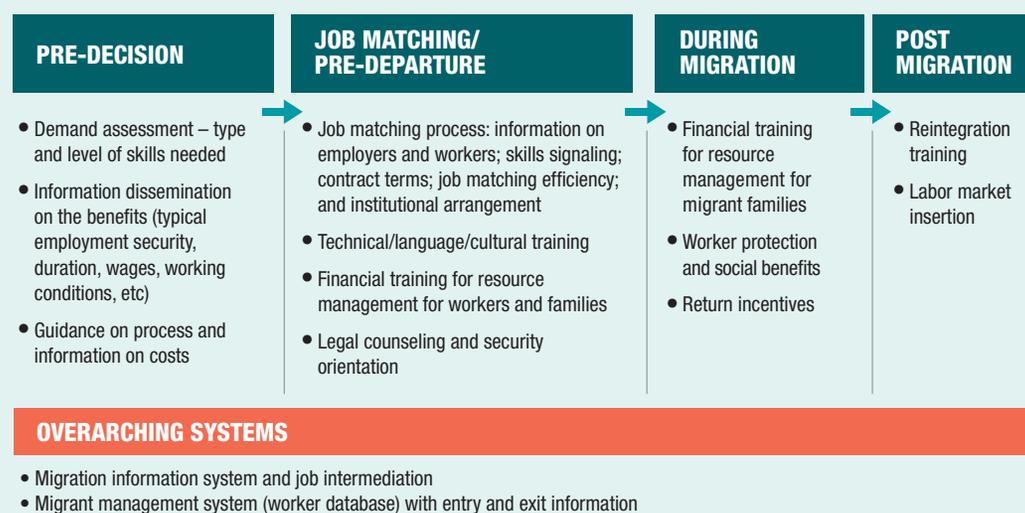
*Note: OECD = Organisation for Economic Co-operation and Development*

and experience, and by stipulating that workers undergo pre-departure training to orient them in the laws, culture, and language of the destination country to ease their transition into host communities and labor markets.

Apart from the temporary nature of contractual arrangements, BLAs allow flexibility. They also vary widely in form and content. First, governments' involvement in intermediation can be quite heterogeneous. For instance, the BLAs of the government of Bangladesh with Korea, Malaysia, and Saudi Arabia take slightly different forms. The arrangement with Korea is a government-to-government (G2G) arrangement with little private sector involvement. The BLA with Malaysia, signed in 2013, initially followed a similar G2G design for plantation sector workers, to bypass an existing network of intermediaries and reduce migration costs. However, in practice, the newly introduced G2G could not operate as intended in a recruitment market long dominated by private sector players. Learning from this experience, the BLA between Bangladesh and Saudi Arabia adopted a hybrid model that involved both public and private sector players, and the arrangement with Malaysia was also later modified to be a G2G-plus (hybrid) model.

The roles of sending and receiving entities along the continuum of the migration process also vary across BLAs (figure 1.4). While many sending countries take unilateral actions to support migrants at each stage (box 1.4), and receiving countries are more active in the migration and return phases, BLAs foster their cooperation in providing support measures for workers, and seek to align their interests.

■ **Figure 1.4 Policy Areas, by Phase of the Migration Process**



Source: Authors' compilation.

## ■ Box 1.4 Migration Stages and Policy Areas



### PRE-DECISION

The key objective of interventions at this stage is to aid potential migrants in making informed decisions regarding international migration. Pre-decision interventions include assistance in understanding the benefits and costs of migration depending on the country of destination, identifying the type and duration of jobs migrants can obtain, and providing information on subsequent actions such as processes, costs, and documentation. Many individuals obtain this type of information from informal sources, including friends and relatives (e.g., about 70 percent of Bangladeshi migrants have received information from informal sources). Social networks abroad significantly affect individuals' decision to migrate, but not everyone has equal access to such networks. Thus, accurate information based on systematic assessments should be made available through more accessible channels to reach a wider audience.



### JOB MATCHING AND PRE-DEPARTURE

During this stage, actual recruitment and job matching take place. In many countries, private recruiters bring job offers to potential migrants, and take responsibility for providing them with valid job contracts and necessary visas. However, many workers are exposed to fraud, pay significant fees, and find themselves in debt without employment or proper visa arrangements. Key objectives of interventions at this stage are to equip aspiring workers with the information necessary to discern adequate arrangements, and to help them signal their skills and experience so they can be better matched with suitable employers.

Common pre-departure policy actions during this stage include: skills training (e.g., industry specific, life skills, or basic language) to facilitate their transition to life abroad; training related to financial literacy and procedures and options for sending remittances; overview of workers' rights and actions available in the case of grievances; and introduction to support systems available to migrants while abroad, including legal counseling, security training, and resources for services (e.g., health-care services).

Some sending countries such as Bangladesh, Nepal, and Pakistan mandate that workers receive pre-departure training prior to going abroad for temporary employment. However, anecdotal evidence suggests that pre-departure training is avoided by most migrants, and those who take it assess it as ineffective in preparing migrants to manage challenges in the countries of destination.

*continued on the next page*



## DURING MIGRATION

Support during this stage is twofold: (i) assistance to migrant workers in the destination countries, particularly in safeguarding workplace conditions and (ii) support for migrants' families left behind in the sending countries, particularly in regard to sending and managing remittances. Migrants are often exposed to contractual infringements and rights violations, as their employers have greater bargaining power, given that the migrants' visas are tied to their employment. Many countries have labor attachés responsible for representing labor migrants and responding to emergency situations. However, the extent to which labor attachés are approachable and are able or willing to represent the migrants' best interests is not well assessed or documented. Some countries, including the Philippines and Sri Lanka, are known to have a solid support system, such as safe houses facilitated by the government, to help migrants share information and support one another. Other countries, such as Nepal, are still in the process of ensuring that labor attachés are adequately equipped to protect migrants' interests and have the resources and support needed.

Remittance management is another key area of support to migrants and their families. The key objectives are to inform migrants about cost-effective and secure ways to remit money and to ensure that the additional income is utilized beyond just non-durable consumption to sustain its positive impact. Sending countries such as Tonga and Nepal have assessed various remittance-sending providers and worked to identify knowledge gaps and areas of improvement. Both sending and receiving countries (e.g., Indonesia, Qatar, New Zealand) have also attempted various financial literacy interventions aimed at both migrants and their families.



## POST-MIGRATION

Given the finite horizon of temporary labor migration, many migrant workers return to their home countries every year. After migrants return, many re-migrate to the same country or try other destinations, while others try to reintegrate into their home country. The large volume of returnees underscores the need to support their reintegration. Labor market insertion and training are designed to help workers effectively channel their resources—both financial resources and new skills learned abroad—productively. In addition, returnee migrants can be an instrumental resource in informing new and aspiring migrants about life abroad.



## OVERARCHING SYSTEM

In addition, throughout the migration process, an information system that tracks workers' entry into and exit from the receiving country and their employment records can facilitate the systematic management of the workforce employed in the overseas market. Given the large information asymmetry between employers and workers, public institutions could play an intermediation role, similar to that of public employment service providers.

*Source: Authors' compilation.*

# Overview: Korea's Employment Permit System

## 2.1 Korea's Flagship Temporary Labor Migration Program

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The Employment Permit System (EPS) is the Republic of Korea's flagship temporary labor migration program for low-skilled workers. It can be classified as a non-seasonal guest worker program, involving a G2G arrangement with a number of Asian countries. Introduced in 2004 in partnership with just 6 countries, the program has expanded to 16 countries since 2008.<sup>13</sup> From the onset of the program up to 2015, more than 540,000 individuals had worked under the Korean EPS; the largest share of EPS workers came from Vietnam.

All three types of migrants discussed in the previous section of this report—immigrants, refugees, and temporary labor migrants—are entering Korea through a carefully governed migration system. Immigration is allowed mostly through marriage and family unification, and refugees, including North Korean defectors, are also received on a small scale. Temporary labor migrants who enter through the EPS represent the majority of the foreign-born population in Korea. These EPS workers hold one of two types of visas: an H-2 visa for those of Korean origin and an E-9 visa for those of foreign origin.<sup>14</sup> The report focuses on the EPS's E-9 visa program with G2G arrangements and quotas assigned for each partner country, whereas the H-2 visa program is a special category. While all foreigners are subject to the Immigration Act, the inflows of temporary labor migrants facilitated by the EPS are managed by the Foreign Employment Law under the purview of the Ministry of Employment and Labor (MoEL), whereas immigration and refugee issues are under the purview of the Ministry of Justice (MoJ).

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13 The Philippines, Thailand, Mongolia, Indonesia, Sri Lanka, and Vietnam were the original six countries. In 2006, Uzbekistan, Pakistan, and Cambodia joined; followed by China, Nepal, Bangladesh, the Kyrgyz Republic, and Myanmar in 2007; Timore-Leste in 2008; and Lao People's Democratic Republic in 2015. Since Lao PDR is a new addition for which there are limited data, the statistics and information provided in this document cover 15 countries.

14 Some Korean nationals were displaced to various parts of the world, especially to China and the former Soviet Union countries, during the Japanese colonization (1910–45), and their descendants are eligible for H-2 visas under the EPS.

## 2.2 The EPS from a Historical Perspective

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Many policy features in the EPS were introduced or strengthened based on the lessons learned from its predecessor, the Industrial Trainee System (ITS), and therefore, need to be understood from a historical perspective. Amid rapid economic development in the 1980s,<sup>15</sup> Korea began to emerge as a labor-receiving country with an increasing number of foreign workers entering the country. Democratization movements in the late 1980s spurred the widespread enactment and enforcement of labor laws protecting workers' rights. These in turn led to increases in labor costs, and firms began to turn to lower-cost foreign labor. Meanwhile, the increased educational attainment of the Korean workforce meant a reduction in labor supply, and thus labor shortages, particularly in the so-called 3D (dirty, difficult, dangerous) occupations. Low-skilled migrant workers especially from China and Southeast Asia increasingly filled this vacuum (Park and Kim 2016).

To manage the inflow of low-skilled migrant workers under a legal system, and with a broader policy objective of promoting cooperation in industrial technology transfer between developing countries, in 1991 the Korean government introduced the Overseas Investment Firm Industrial Technology Trainee System. Through this system, foreign workers who had been working at factories of Korean firms established in overseas markets, could work for the same firm as trainees in Korea for up to one year. Thus, the system offered low-skilled foreign workers formal, albeit limited, access to the Korean labor market.

In 1993, the Korean government broadened the range of firms eligible for the foreign worker trainee program, and renamed it the Industrial Trainee System (ITS). Under this new system, small and medium enterprises (SMEs) in the manufacturing sector, regardless of their linkages to overseas factories, could receive low-skilled foreign labor as trainees. In turn, foreign trainees could stay up to two years in Korea. To ensure transparency in the selection of beneficiary firms and workers, a non-profit SME association conducted the selection of eligible firms based on pre-defined criteria, while private recruitment agencies supplied foreign workers.

During the 10 years of ITS implementation, however, two areas emerged as major shortcomings of the system (as discussed more in chapter 3). First, recruitment of foreign trainees through private brokerage agencies was unregulated, and resulted in significant migration costs to trainees. High migration costs prompted many workers to stay in Korea beyond the stipulated

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15 Gross domestic product (GDP) per capita in Korea increased from US\$2,184 in 1980 to US\$7,519 in 1990, based on purchasing power parity.

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period to recoup the costs, and the issue of overstayers challenged the system's sustainability. Second, trainees were vulnerable to human rights violations and exploitation as they were registered as apprentices rather than employees and did not have protection under Korea's labor regulations. Despite frequent overtime work, onerous working conditions, payment delays, and sometimes physical and psychological abuse, trainees were not allowed to change employers because their legal status was tied to a particular workplace and employer. The SME associations did provide welfare support to ITS trainees but charged fees that were borne by the trainees themselves, and the efforts appeared to be ineffective (Yoo and Lee 2002).

After making a few more system adjustments, such as to sector restrictions, maximum length of stay, and the management of foreign workers of Korean origin, the government introduced the EPS in 2004. The EPS differed from ITS and its permutations in several important ways, including the government's direct recruitment and management of the foreign workforce, and the MoEL's ownership of the foreign workers' policy and its leadership in the implementation of the EPS using existing infrastructure.



Photo by Upasana Khadka

## 2.3 The EPS from a Global Perspective

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The EPS is classified as a non-seasonal guest worker program (not a seasonal worker program)<sup>16</sup> with a G2G arrangement for intermediation (in contrast to a private-sector-driven or hybrid model). To offer a better picture of the EPS among bilateral labor agreements (BLAs) in the global context, we examine the institutional arrangements of several BLAs and identify the similarities and differences across systems (**table 2.1**). Distinguishable features of the EPS compared with other guest worker programs include the government's direct management of the process, comprehensive coverage of policy interventions throughout the migration process, and treatment of the program as part of an employer-centered labor policy to resolve firms' labor shortage issues rather than as part of an immigration policy.<sup>17</sup>

- **Direct management.** The management of the entire process—from facilitating the mandatory Korean language test during the pre-decision stage, to identifying and recruiting workers, to providing job-matching services, to facilitating worker protection and counseling, to assisting with returns and settlement—is done by the Korean government with the minimal involvement of private sector agencies or governments of sending countries. This is in contrast to many BLAs in which, even though the government has the lead, private sector players are involved in the recruitment of workers or in matching them with jobs.
- **Comprehensiveness.** A wide scope of interventions at every stage of the migration process, from pre-departure to the return of migrants to their countries of origin, are implemented through the EPS. Other BLAs often require or recommend pre-departure training in language or culture (as in the Italy–North Africa corridor).<sup>18</sup> However, the level and scope of the EPS's interventions across the continuum of the migration process, especially its return support, are quite unique. Notably, the EPS includes provisions for both the return and reintegration of EPS workers into their origin countries (Wickramasekara 2015).

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16 In response to the seasonality of labor needs in some sectors, in 2015 Korea's Ministry of Justice started piloting a seasonal worker program facilitating the three-month employment of foreign workers in collaboration with sub-national-level governments. Initially it was limited to agriculture and food processing (e.g., cabbage harvesting or pickling), but was later expanded to fisheries. Migrants under this program are not allowed to change employers as in the seasonal worker programs of other countries. Also, the three-month period is far shorter than in other countries' seasonal guest worker programs (e.g., eight months in Canada, five to seven months in Australia, and nine months in New Zealand), and its effectiveness is unclear.

17 In this sense, Israel's temporary labor program is quite similar to Korea's EPS. It aims to admit low-skilled migrants to fill gaps in agriculture, construction, and elderly care. The purpose of the program is to reduce recruitment fees, to protect workers' rights, and to ensure workers' return, all while avoiding the malpractice of private recruitment companies. The Israeli government has managed the recruitment/job-matching process since 2013 (Kushnirovich and Rajiman 2014). Maximum costs and payment criteria are defined in the BLA and made publicly available to workers. The annual inflows to the agriculture and construction sectors are controlled by a quota. However, unlike the EPS, workers are selected and matched through a lottery system.

18 See Bratti and Conti 2014.

■ **Temporary migration as a labor policy, prioritizing the interests of firms.** The EPS's key objective is to support firms in select sectors in resolving their labor shortage issues, and thus employers' needs are its clear priority. Some worker permit systems, such as those in Japan or Singapore, allow workers to freely change workplaces (Choi and Lee 2015). These tend to prioritize the objective of attracting high-skilled workers and do not rely on BLAs. Other arrangements allow visa-free mobility, for example, arrangements in the Mexico-Guatemala/Belize and Russia–Central Asia (e.g., Kazakhstan and Tajikistan) corridors. Mexico uses a regional visitor card system that permits card holders to visit Mexico's southern border towns for business and tourist activities for a short period of time. Russia has a more elaborate system that allows free inflows of labor from the Central Asian countries based on a system whereby workers obtain a “patent” to work for up to one year from a migration center. Patent holders must pay monthly dues,<sup>19</sup> and may change employers as their legal status does not depend on the employers. Meanwhile, the EPS's objective is to help Korean firms in general, and SMEs in particular. This sets it apart from systems that prioritize economic cooperation with former colonial countries or instruments to curb irregular and circular migration (e.g., Spain's BLA with Ecuador; Italy's BLA with North African border countries).

Direct management, comprehensive coverage, and a focus on the needs of local firms do not in themselves ensure the successful implementation of a program. But the EPS's governance structure—legislation, BLAs, guiding principles, and institutional responsibilities—contributes to the transparency and efficiency of the system.<sup>20</sup> Direct management of the system through the government's existing agencies to support employers and workers in the domestic market, and a partnering agency in each country, enables the system to reduce coordination time and efforts while avoiding the involvement of intermediaries. By pursuing the comprehensive coverage of policies throughout the migration process, the system provides a platform for interventions at any stage, as needed to avoid potential bottlenecks and to ensure the maximum mutual benefits of migration. Finally, by clearly defining the system as a temporary worker program under the MoEL, differentiated from other issues on the social and immigration agendas, the EPS is able to navigate the sensitive political economy associated with international migrants in the country and to balance the objectives of *co-development* and *control*.

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19 Dues vary by region. Some municipalities charge annual fees equivalent to two-month salaries.

20 Testaverde et al. (2017) recognize that the breakdown and weakness of governance—including inconsistent and unclear legislation, bilateral agreements, and institutional responsibilities—lead to inefficient processes and poor management of a migration system.

■ **Table 2.1 Selected Guest Worker Programs for Low-skilled Labor Migration, by Region**

Corridors	Receiving	Southeast Asia		Middle East	EU Countries	OECD Countries	
	Sending	Southeast Asia		South Asia	Non-EU Countries	Others	
Example		Korea EPS with 16 Asian countries	Thailand–Myanmar, Cambodia, Lao PDR	Saudi Arabia–Bangladesh	Italy–North Africa (Tunisia, Libya, Egypt)	New Zealand with five Pacific countries (Recognised Seasonal Employer Scheme)	Canada–Mexico/Caribbean countries
Seasonal vs non-seasonal		Non-seasonal	Non-seasonal	Non-seasonal	Non-seasonal	Seasonal	Seasonal
Sectors		Pre-determined in manufacturing, agriculture, and fisheries	Not determined	Mainly construction, domestic work	Not determined	Pre-determined in agriculture (mostly horticulture)	Pre-determined in agriculture
Private sector involvement		G2G	Mixed (public and private)	Private recruitment	Private recruitment	Mixed (public and private)	Non-profit organization’s administration
<b>INTERVENTION THROUGHOUT THE PROCESS</b>							
Pre-departure	Yes—language test, pre-departure orientation	Limited		Yes—pre-departure orientation	Yes—language and vocational training	Yes—soft skills training	Limited
During workers’ stay in receiving country	Major regulations (e.g., minimum wage and working conditions) applicable	Major regulations (e.g., minimum wage and working conditions) applicable		Limited	Major regulations (e.g., minimum wage and working conditions) applicable	Major regulations (e.g., minimum wage and working conditions) applicable	Major regulations (e.g., minimum wage and working conditions) applicable
Return incentives/assistance	Yes	Limited		Limited	Limited	Yes	Limited
Employment terms	Typically 3 years	Typically 4 years		Typically 1 year	Typically 1 year	Typically 6 months	Typically 6 months
Change in employers	Yes, up to three times	Limited		Limited	Yes	Limited	Yes
Grace period until reapplication	3 months	3 years		0–2 years	Information not available	4 months	4 months

Source: Authors’ compilation.

Note: EPS = Employment Permit System; EU = European Union; G2G = government to government; OECD = Organisation for Economic Co-operation and Development.

# The Governance of Korea's Employment Permit System

## 3.1 Legal and Policy Framework

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The legal underpinning of the EPS comes from the Act of the Employment of Foreign Workers and its Decree (hereafter, the Act and Decree), while the Immigration Control Act provides general guidelines for all foreigners' arrival, stay, and departure. The Act and Decree define the EPS as a temporary migrant workers' program for low- and semi-skilled workers, allowing for a maximum period of stay of up to 4 years and 10 months with a limited renewal condition. Furthermore, it lays out the migration and employment process, major regulations, and the institutional arrangements and coordination mechanisms required to effectively implement the program.

## 3.2 Guiding Principles

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The five guiding principles established for the EPS, reflected in the Act and Decree, are drawn from the lessons learned from the Industrial Trainee System (ITS) and are designed to mitigate against common challenges associated with bilateral arrangements. Under the EPS, the principles for coordinating with various stakeholders and managing the domestic political economy are as follows:

- **Promoting transparency.** The rules and procedures involved in the entire process—starting from the application for a Korean language test; to job application and matching; to migration, training, and job assignment; to employment in Korea; to the return of workers—are clearly prescribed in the EPS operational manual and publicized through the EPS website. The implementing agency (to be discussed in detail below) keeps both workers and employers informed at each step, and is mandated to disclose relevant statistics and information. Furthermore, it offers an EPS mobile application in both Korean and the native languages of workers, and conducts regular surveys to ensure that the services provided are in line with market needs.

- **Contributing to business competitiveness.** The intention of facilitating the temporary migration of low- and semi-skilled foreign workers is to help businesses address labor shortages in occupations where it is challenging to fill vacancies locally. However, the availability of low-cost workers may impede creative destruction by delaying or preventing firms from innovating and adopting new technology or other cost-saving measures. To ensure that the EPS does not indirectly help incompetent firms to sustain themselves, the program is required to periodically review and carefully examine the selection of industries and enterprises eligible for the hiring of EPS workers, as well as the business performance of the selected firms. Labor-intensive sectors with limited possibility to adopt technology or upgrade workers' skills receive the highest priority.
- **Ensuring equal rights of workers.** A common criticism of temporary worker programs relates to the fact that migrant workers have been exposed to abuse and exploitation. Some high-profile incidents in various contexts have raised awareness of these issues, and in response more attention is being focused on ensuring workers' rights.<sup>21</sup> After concerns about exploitation were raised under the ITS, the EPS prioritized the principle of equal rights for both domestic and foreign workers. As a result, foreign workers are now subject to domestic labor regulations on the minimum wage, hiring and firing conditions, working conditions, opportunities for training, and job search assistance when needed. In addition, they are eligible for several social insurance schemes that are akin to those set up for Korean workers.
- **Supplementing domestic labor.** Theory predicts that an influx of low-cost labor may have implications for the domestic labor market. An influx may crowd out domestic workers' opportunities or lower the overall wage rate among low-skilled workers, which may discourage the employment of domestic workers with a higher reservation wage. On the other hand, improved business performance that arises from filling labor shortages may facilitate business growth and expansion, which will create more demand for labor and thus provide opportunities for domestic workers as well (Ozden, Wagner, and Packard 2017). To minimize the former's impacts and maximize opportunities for the latter, the EPS aims to provide supplementary foreign workers only for those jobs and sectors where competition between foreign and domestic workers is minimal.
- **Facilitating the return of workers.** Given that the entire system is established as a temporary worker program, which is kept separate from immigration policies, one of the key principles of the EPS is to facilitate migrant workers' return after the pre-determined period. Incentive schemes, such as departure guarantee insurance that only returnees can benefit from, are part of the overall system. Moreover, efforts to help returnee workers utilize their improved

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21 For instance, high-profile domestic worker abuses and construction sector accidents in the Gulf Cooperation Council (GCC) countries have been reported by the Human Rights Watch and other civil society organizations and have attracted global policy attention.

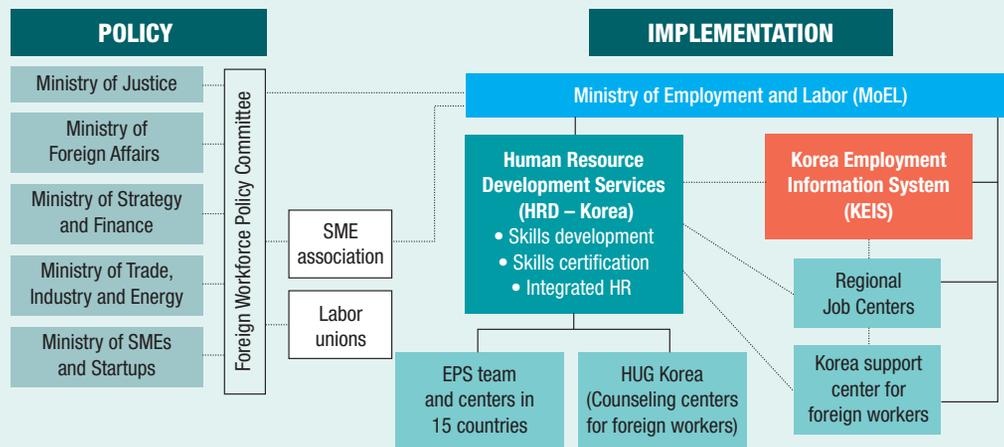
skills and financial resources for productive labor market activities in their home countries are underway. Examples of these efforts include skills training, business development support, and support in connecting with Korean companies in countries of origin.

### 3.3 Institutional arrangements

The EPS has elaborate institutional arrangements to manage the political economy and to ensure efficient implementation (figure 3.1). The Ministry of Employment and Labor (MoEL) leads both the policy on foreign workers and the implementation of the EPS. However, multiple ministries and relevant stakeholders are involved in the decision making at the policy level. This governance structure is part of efforts to effectively manage the complex political economy surrounding the migration issue in the country (see box 3.1).

The Foreign Workforce Policy Committee is responsible for deliberating and making policy decisions relevant to foreign workers' employment and protection. The committee consists of 20 representatives of relevant stakeholders, and is chaired by the head of the prime minister's

■ **Figure 3.1 Institutional Arrangement of EPS Policy and Implementation**



Source: Authors' compilation.

Note: The solid lines represent a hierarchical relationship; the dotted lines show a collaborative relationship. The entire scheme of the EPS is led by the MoEL. HRD Korea is the main implementing agency. The KEIS is responsible for the information system, including the database and matching algorithm for the regional job centers. The institutions in green represent those that have direct interactions with workers. EPS = Employment Permit System; SME = small and medium enterprise.

### ■ **Box 3.1 Political Economy of the Employment Permit System (EPS)**

Issues related to international labor mobility can be contentious on the receiving end, and managing the political economy is challenging. Some oppose hiring foreign workers due to the possibility of worker exploitation or concerns that nationals will be crowded out of jobs or that visiting workers will overstay. Others, especially small and medium enterprises (SMEs) in the sectors experiencing labor shortages, welcome the possibility of hiring foreign workers. In brief, economic ministries (e.g., the Ministry of Employment and Labor [MoEL] and Ministry of Strategy and Finance [MoSF]) tend to be more sympathetic to the issues of labor shortages in firms and their business concerns, while other ministries (e.g., the Ministry of Justice [MoJ] or Ministry of Foreign Affairs [MoFA]) tend to be more focused on the former concerns.

When the Industrial Trainee System (ITS) was in force (prior to the introduction of the EPS), different actors in these ministries and in civil society voiced concerns about the weaknesses of the system, but without a clear alternative. Because different ministries held different views, the design of relevant policy reforms was challenging. Then pro-enterprise economic arguments gained more support, in part due to the financial crisis of the late 1990s in Korea and the staggering economic growth afterward. The dynamics began to change and economic ministries, especially the MoEL, took the lead in establishing foreign worker policy as part of overall labor policy. In the transition from the ITS to the EPS and through various reforms, hosting foreign workers became explicitly recognized as a strategic labor market instrument to address labor shortages and improve SMEs' competitiveness. Some of the key differences in management between the ITS and EPS are summarized as follows:

- **POLITICAL LEADERSHIP.** The MoEL became the “lead” ministry on matters regarding foreign workers. This is because the temporary labor program falls under the category of economic and labor policies, and separate from immigration policies or development collaboration through apprenticeship. Although other relevant ministries are involved in the policy-making process, the MoEL is responsible for formulating foreign workers' policies and addressing implementation issues.
- **WIDE UTILIZATION OF MOEL INFRASTRUCTURE.** Once the MoEL became the lead ministry, the EPS could build upon the MoEL's agencies and infrastructure for domestic workers. The Human Resource Development Service (HRD Korea), the Korea Employment Information System (KEIS), and regional job centers all serve the Korean workforce in skills development, job search and matching and data management. Each of these agencies has extended their functions to foreign workers.
- **STRATEGIC PARTNERSHIP WITH THE PRIVATE SECTOR.** The transition from the ITS to the EPS took place over a three-year period, during which foreign trainees under the ITS completed their stay as originally determined without having to switch to the new EPS, while intermediation services were absorbed by the MoEL. The private sector players under the ITS who had brokered foreign trainees on behalf of SMEs continued to partner with the Korean government, but to a lesser extent and in a formal and regulated manner under the EPS. For instance, the EPS contracted the post-arrival training component to these private agencies so that they play a role in EPS implementation, utilizing their industry-specific knowledge, but their involvement in job matching and intermediation became limited.
- **CHECKS AND BALANCES.** While more responsibilities associated with the EPS have become concentrated in the MoEL, the Foreign Workforce Committee—which includes representatives of relevant ministries, SMEs, labor unions, academia, and civil society—provides necessary checks and balances in foreign workforce policy and EPS implementation.

*Source: Authors' compilation.*

office.<sup>22</sup> Members include the vice ministers of the MoEL and other relevant ministries, as well as the head of the small and medium enterprise (SME) association and the labor unions. Other relevant ministries are as follows: the Ministry of Justice (MoJ) is one of the key stakeholders in the committee, given that all individuals of foreign nationality, including foreign workers under the EPS, are governed by the Immigration Control Act, during their entrance, stay, and departure from the country. The Ministry of Foreign Affairs (MoFA) decides which countries should be added to the EPS, based on labor flows and diplomatic ties to Korea, and provides input to determine country quotas. The Ministry of Strategy and Finance (MoSF), through its Department of International Cooperation, is concerned with foreign worker policies as part of its development and aid efforts. The committee also includes two other economic ministries—the Ministry of Trade, Industry, and Energy (MoTIE) and the Ministry of SMEs and Startups (MoSS)—who consider matters related to trade and SME competitiveness.

The main issues the committee deliberates and decides include: establishing a basic plan for foreign worker policy; deciding the industries permitted to hire foreign workers, determining the annual size of foreign worker inflows by industry, deciding partner countries whose workers are permitted to compete for jobs, setting the annual quotas for workers from each partner country, and deliberating current issues related to protecting the rights of foreign workers (Park and Kim 2016). These decisions and deliberations are underpinned by analyses and consultations with employers, labor unions, and civil society and government bodies that are consolidated by the MoEL.

The implementation of the EPS is led by the Human Resources Development Services under the MoEL (hereafter, HRD Korea) as the main implementing agency. HRD Korea aims to maintain a politically neutral stance as it balances the views from the Foreign Workforce Committee and the MoEL as well as from migrant workers through its regional offices in sending countries and the worker support systems in Korea. In addition to HRD Korea, two other agencies under the MoEL provide support for EPS implementation: the Korea Employment Information System (KEIS) for EPS database management and matching of employers and employees; and regional job centers for job search and matching assistance as well as facilitation of training opportunities. In sum, HRD Korea, the KEIS, and the job centers that are key actors under the MoEL in promoting workforce development and management, manage both domestic and foreign workers:

- HRD Korea is mandated to provide skills development and certification as well as integrated human resources support. Many employers and training institutions are affiliated with HRD Korea and collaborate on workforce development.

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22 Using a committee to review various perspectives and to manage the political economy is not a new model in the Korean government, particularly in the MoEL. For a politically challenging issue, such as the possible revision of minimum wage levels, for instance, a tripartite committee facilitated by the MoEL, which includes representatives from employers and workers, along with academics, think tanks, and civil society, mediates the negotiation.

- The KEIS is mandated to research labor market trends and prospects, and to maintain multiple databases that inform labor market policies. For instance, the KEIS manages the employment insurance database,<sup>23</sup> which contains information on the majority of enterprises and workers who contribute to employment insurance over time. This is the most widely known, comprehensive database of information on both workers and firms in the country. In addition, the KEIS maintains the EPS workers' database, which tracks information about workers throughout the EPS process, and is linked with the records of the Korean language test (facilitated by HRD Korea) and records of workers' entry into and exit from the country (through the MoJ's system).
- Regional job centers—whose local offices implement the MoEL's public employment services and facilitate job search, matching, and training—also provide services to foreign workers. While the KEIS develops algorithms and programs for job matching, regional job centers feed information related to workers and employers to the algorithm, yield matching results, and communicate these results to employers and workers.

A few other agencies under HRD Korea and the MoEL also provide support for the EPS and its workers. EPS offices are located in 15 sending countries to oversee the initial steps of the process including administration of the Korean language test, facilitation of intermediation, and pre-departure orientation. HUG Korea's<sup>24</sup> counseling centers provide socioemotional counseling and support for foreign workers in Korea who often face difficulties related to cultural differences, work stress, and homesickness. Complementary to this, the Korea Support Center for Foreign Workers (under the MoEL) provides information on legal issues and workers' rights, programs and benefits for EPS workers, and other resource centers and organizations.

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23 All firms employing five or more paid employees are mandated to participate in the employment insurance scheme, which provides social security, health insurance, worker compensation, and related benefits.

24 HUG Korea is short for "Happy with U in Global Korea" and provides counseling services to both employers and workers.

# An Overview of the System's Process

The Employment Permit System (EPS) process can be broken down into four phases: (i) pre-job matching; (ii) during job matching and pre-departure; (iii) in-service in Korea; and (iv) upon return to the home country ([figure 4.1](#)). Migrant workers, firms, and EPS implementers undertake various actions at each stage. Each is facilitated by the Korea Employment Information System's (KEIS's) data on migrant workers.

## 4.1 Pre-job Matching

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### TOPIK Language Test

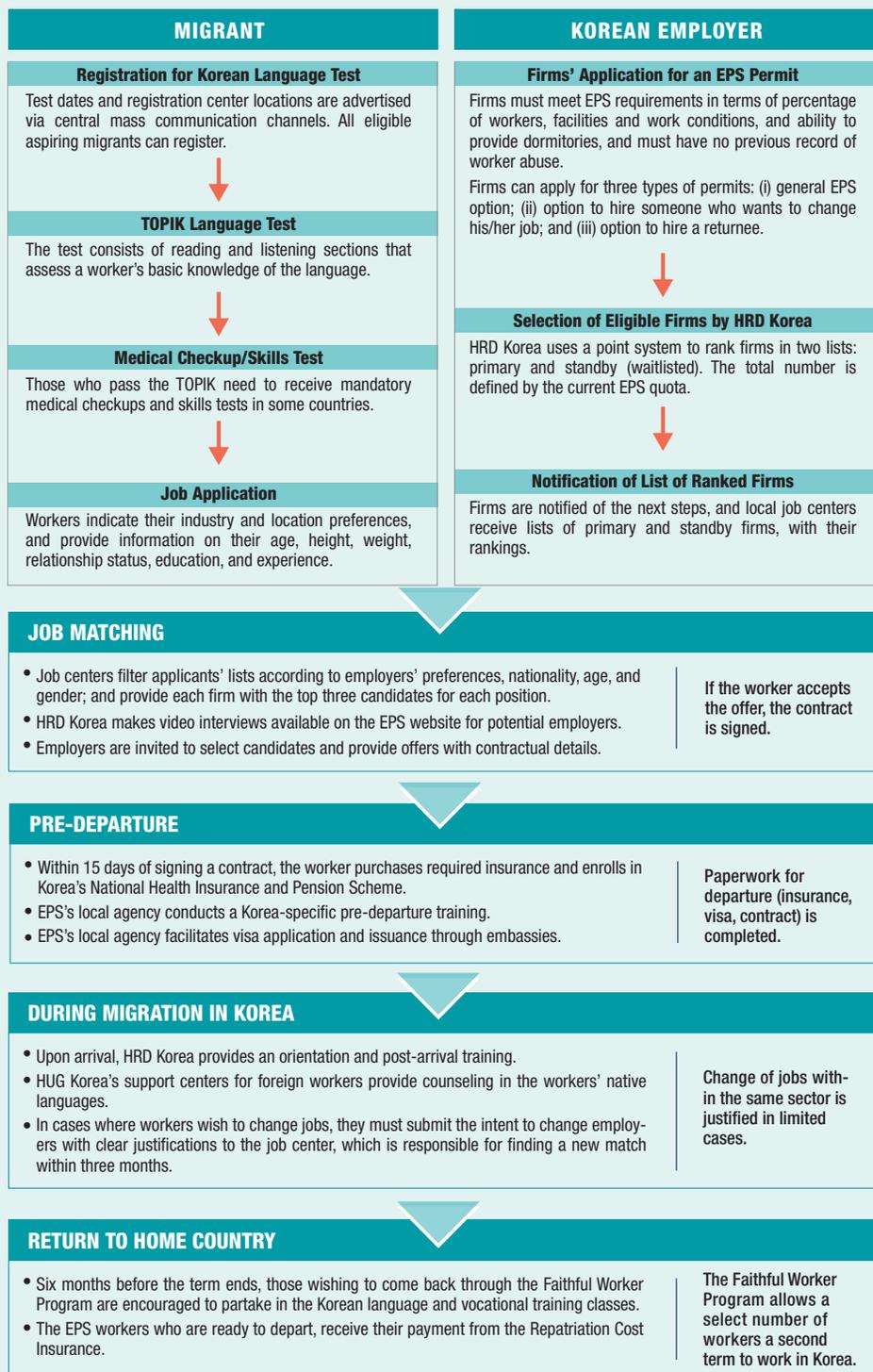
The first mandatory step from the workers' side is to register for the Korean language test, known as the Test of Proficiency in Korean (TOPIK). The test consists of reading and listening sections, and the objective is to screen workers to ensure that they understand basic work instructions, safety signs, and basic information needed to function well in Korea. The test is graded on a point system with a maximum of 200 points, and only those who get a minimum score can proceed to the subsequent phases of the EPS. Workers aged 18–39 with a minimum middle school education from the 16 EPS-approved countries can take the TOPIK.

The TOPIK exam is meticulously managed by the Human Resource Development Service (HRD Korea) in collaboration with each country's EPS institution,<sup>25</sup> to avoid fraud and corruption and to ensure transparency. Each country's institution advertises the language test registration dates and criteria via major mass communication channels (TV and newspapers) as well as through EPS websites. In-person registration center locations are advertised in areas where online technology is unavailable. Once the EPS country institution sends prospective test

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25 EPS representation in sending countries consists of: (i) an official EPS office with a representative from HRD Korea; and (ii) a local government institution that oversees migration to Korea through the EPS. The latter is responsible for organizing information campaigns to advertise test registration and also collects job applications.

■ **Figure 4.1** EPS Process at a Glance



Source: Authors' compilation.

Note: EPS = Employment Permit System; HRD = Human Resource Development Service; TOPIK = Test of Proficiency in Korean.

takers' applications along with possible test locations and their floor plans,<sup>26</sup> HRD Korea makes a final decision on the test location and creates a seating chart configured to prevent cheating. Ranked test scores can be checked online, and individuals can proceed only if they receive at least 90 out of 200 points and a ranking that is within three times the country quota. Based on this information, the sending country's EPS institution creates a roster of potential workers who are applying for jobs in Korea. HRD Korea administers the test annually for first-time applicants, and quarterly for workers who have worked in Korea through the EPS and then reapply through the Faithful Worker Program. Test results are valid for two years.

Although the EPS collaborates with the Ministry of Culture and Sports to set up a Korean language and culture institute (Sejong Hakdang) and links potential migrants to training opportunities, the EPS does not officially provide Korean language training. Language training providers of varying quality and price schemes offer Korean classes. They not only meet the demand for Korean language teaching, but also serve as a source for information on the culture, work environment, and migration process, as well as other training opportunities and costs to potential migrant workers. These institutions often hire EPS returnees as language instructors to teach Korean and to disseminate information.

There is no quota imposed by the EPS on the number of applicants who may take the test, but some sending countries (e.g., Bangladesh and Vietnam) do ration the number to avoid over-competition. When no restrictions are imposed, heavy oversubscriptions for the TOPIK test, far exceeding the potential employment opportunities, are quite common. For example, according to EPS Nepal officials, though more than 60,000 people registered for the test in 2015, only approximately 3,000 were admitted for employment.

## Medical Checkups and Skills Test

Those who pass the TOPIK test are required to receive medical checkups. In addition, as a new process in select countries,<sup>27</sup> aspirant migrants who have passed the language test and medical checkups are now invited to take a skills test. The test consists of: (i) simple tasks designed to assess a worker's basic motor skills and ability to name tools in Korean; (ii) a one-minute-long video interview that allows the employer to assess the worker's demeanor, attitude, and language ability; and (iii) a physical test. Individuals are classified into one of three placement statuses based on the score they receive; those with a higher status are given a higher priority in job matching.

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26 Each registration is assigned a unique identifier number. From this point forward, HRD Korea maintains all the records pertinent to the EPS applicants, and no data are maintained in the sending country.

27 Vietnam EPS conducted the skills test as a pilot case; in 2017, other countries, including Bangladesh, Indonesia, and the Philippines, began adopting the skills test.

## Job Application

Within two months of announcing the results of the skills test, HRD Korea compiles the roster of workers by the composite ranking of the TOPIK and skills test scores. Meanwhile, the sending-country EPS office provides eligible workers with job application forms. On this form, workers provide information on their age, height, weight, marital status, education, and choice of industry and location. Upon successful completion of these steps, each worker remains on the roster for a year.

## EPS Permit Application

Meanwhile in Korea, firms that want to hire EPS workers apply for an EPS permit. Firms can apply for three different types of EPS permits: (i) general EPS option, (ii) option to hire an individual who wants to change jobs, or (iii) option to hire a returnee. To be eligible for the EPS, firms must advertise the job positions actively for 14 days and then interview any interested Korean candidates before they submit the permit application. Additionally, firms must meet EPS requirements in terms of the percentage of foreign workers, facilities, working conditions, and their ability to provide dormitories, and they must have no prior record of worker abuse. Firms in the manufacturing sector have 14 days at the beginning of each quarter to apply for EPS permits, while firms in construction and agriculture can apply for a permit semi-annually. Using a point system, eligible firms are ranked and selected against the cutoff based on the current EPS quota, and those below the cutoff are waitlisted. Local job centers then receive both the main and standby waiting lists of firms from HRD Korea with their ranking, and award the firms with higher rankings the right to select their candidates first.



## 4.2 Job Matching and Pre-departure

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### Job Matching

Firms with EPS permits communicate their broad preferences to the job center regarding the characteristics of EPS workers they are looking to hire (e.g., age range, nationality). Individual firm's preferences are often influenced by prior experience or the identity of current foreign workers.<sup>28</sup> The job centers filter applicant lists by firms' preferences and provide each firm with a short list of three candidates for each position.

Despite the rich information about workers collected during the application process, employers are not granted full information prior to being invited to job centers to select their future workers. Detailed worker characteristics, such as nationality, age, gender, education, marital status, and returnee status that could potentially affect matching, is provided once employers are present in person in job centers. Case workers share full information only for the short-listed workers, and employers are requested to make the selection on the spot or within a short time frame. Finally, once the offer is made and the prospective EPS worker accepts it, the job-matching process is concluded with the signing of the contract.

### Visas and Insurance

Upon signing the contract, firms can apply for the worker's Certificate for Confirmation of Visa Issuance (CCVI), which the Ministry of Justice (MoJ) issues. Workers who receive the CCVI can apply for a Korean visa through the Korean embassy in the sending country. Within 15 days of the effective date of the contract, the worker is required to purchase major insurance schemes, which include the national pension scheme, national health insurance, industrial accident compensation (tailored to foreign workers), and repatriation cost insurance. This policy mirrors the four major insurance programs for Korean national workers ([table 4.1](#)). A key difference is that EPS workers and firms are not required to contribute to the employment insurance, but they must purchase repatriation cost insurance, a benefit that workers can collect once they return to their home country, as well as delayed payment insurance.<sup>29</sup>

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28 In addition, many firms prefer to employ men because the jobs demand physical strength. Firms tend to prefer married persons due to a perception that they may be more committed than those who are single. They also generally prefer first-time hires versus returnees.

29 Private entities, including the Samsung Fire Insurance Consortium and Seoul Guarantee Insurance Company, provide industrial accident compensation and repatriation cost insurance.

■ **Table 4.1 Four Major Insurance Schemes in Korea and Their Relevance to EPS Workers**

	Four Major Insurance Schemes	Relevance to EPS Workers
<b>Employment Insurance</b>	All companies hiring more than one regular employee are required to enroll except those with four or less employees in the agriculture, forestry, fishery, and housekeeping service sectors.	Covers training costs and unemployment benefits of Korean national workers but is not applicable to EPS workers.
<b>Industrial Accident Compensation</b>		Mandatory for the tailored scheme for EPS workers and firms.
<b>National Pension Scheme</b>		Applies only to those countries with a reciprocity policy; <sup>30</sup> workers and firms must purchase repatriation cost insurance and delayed payment insurance.
<b>National Health Insurance</b>	Mandatory for all residents (both national and foreign) pursuant to the National Health Insurance Act.	Mandatory for EPS workers and firms.

Source: Authors' compilation.

Note: EPS = Employment Permit System.

## Pre-departure Training

A prospective EPS worker should then attend Korea-specific pre-departure training provided by the sending country's EPS institutions, as recommended by the sending-country government and approved by HRD Korea. The institutions provide 45 hours of training to cover basic Korean language, culture, EPS rules and regulations, workplace safety, and other industry-specific requirements.

30 Countries that require mandatory pension enrollment include Indonesia, the Philippines, Sri Lanka, and Thailand. Countries that grant exemptions by allowing enrollment in the home country pension include China, Mongolia, and Uzbekistan. Countries that do not require pensions include Vietnam, Cambodia, Pakistan, Bangladesh, Nepal, and Myanmar.

## 4.3 During Migration

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### Post-arrival Orientation

Upon arrival in Korea, workers are transported to the training center and attend a mandatory 20-hour orientation over three days. Training includes workers' legal rights and obligations as well as information on Korean culture. HRD Korea outsources the post-arrival orientation to a contracted firm, but mandates that the firm submit process and trainee satisfaction reports.

### Worker Support Services and Process Compliance Checks

HRD Korea carries out a follow-up check-in with workers three months after they are employed to assess any adjustment difficulties and assist with problem solving. HRD Korea officials also determine whether the terms of employment as delineated in the contract match EPS standards as well as those described in the firm application. To ensure safe employment conditions, HRD Korea also trains EPS employers on workers' legal rights and relevant legislation as well as labor regulations. In some cases, HRD Korea performs third-party spot checks of firms' facilities and working conditions.

In the event of disputes or misunderstandings with the employer, EPS workers can contact HUG Korea and the Korea Support Center for Foreign Workers (under the Ministry of Employment and Labor, MoEL), which operate in multiple locations and provide counseling and dispute resolution services in 16 languages. When escalated, HRD Korea itself provides mediation and dispute resolution services. Furthermore, multiple non-governmental organizations (NGOs) provide support for workers, including recreation, training and cultural activities, and temporary shelter, if needed.

### Change of Employers

Employees are permitted to change employers up to three times within the same sector and under limited conditions, which would include delays in getting paid, verbal or physical abuse, or employer bankruptcy. To initiate the change process, EPS workers must obtain an approval from HRD Korea with justifications agreeable to both worker and employer. After terminating the initial contract, a worker has three months to find a new job before he or she will be asked to leave Korea. If the job center has not found a new job match within two months, the search will be escalated in an effort to meet the deadline. The matching process for a change of employer is similar to the initial job matching: in both cases employers are the ones provided with a list of potential workers instead of workers being given information on potential employers.

If the job center fails to find a new match after two months, it expands its search beyond the current location, and sometimes it reaches out to different sectors. Data show (table 4.2) that 98.5 percent of individuals who switch jobs do so within the same broad industry (manufacturing, livestock and fishing, construction, and services), although within manufacturing switches across subsectors are common.

■ **Table 4.2 Industry Transition while Switching Jobs**

The 1st job: industry	The 2nd Job: Industry					
	Light Manufacturing	Chemical Manufacturing	Other Manufacturing	Construction	Agriculture & Livestock	Fisheries
<b>Light manufacturing</b>	21.54	54.96	22.91	0.17	0.11	0.01
<b>Chemical manufacturing</b>	14.33	60.27	24.60	0.24	0.04	0.00
<b>Other manufacturing</b>	13.15	52.08	34.03	0.20	0.06	0.00
<b>Construction</b>	0.00	0.04	0.09	99.46	0.41	0.00
<b>Agriculture &amp; Livestock</b>	0.11	0.21	0.06	0.03	99.57	0.02
<b>Fisheries</b>	0.03	0.43	0.00	0.05	0.92	98.56

Source: EPS database 2011–15.

## 4.4 Post-migration

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A key responsibility of the EPS is to minimize the number of workers who overstay beyond their legally allotted time in Korea. The EPS achieves this objective by implementing a Happy Return Program, which prescribes various measures. For instance, while preparing for their return, EPS workers are encouraged to participate in vocational and self-employment training tailored to the jobs they might be looking for in their home country.<sup>31</sup> Workers can choose Korean language training to achieve higher proficiency and maximize their chances of returning for the second term via the Faithful Worker Program (box 4.1).

These measures can also vary depending on the workers' nationality; some EPS offices in the sending countries organize events featuring successful returnees or provide a service that helps match returnees to new jobs in their home countries. To ensure timely and legal departure of EPS workers, HRD Korea checks in with each worker six months prior to the departure date to ensure that he or she has all documents ready and has started working on necessary arrangements. Moreover, workers must wait until their departure to withdraw the benefits from the repatriation cost insurance.

### ■ Box 4.1 Faithful Worker Program

The Faithful Worker Program, also known as the “Sincere Worker Program” and “Re-entry Program for Committed Workers,” stipulates that EPS workers who stayed with the same employer during their first 4 years and 10 months can come back to the same employer for another 4 years and 10 months (conditional on leaving Korea for at least three months in between these two tours).

Workers who qualify for this program are exempt from the Employment Permit System (EPS) TOPIK and skills tests. Employers who hire through this program do not need to demonstrate inability to hire a domestic worker prior to renewing the employment of the continuing EPS worker.

Introduced in 2012, the program provides opportunities for migrant workers to extend their stay in a legitimate manner. However, this program can only be used on a limited basis to keep the “temporary” aspect of the EPS program intact. For instance, in 2014, new entrants through the E-9 visa numbered around 43,000, while less than 2,000 second-term entrants came in through the Faithful Worker Program.

*Source: Authors' compilation.*

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31 Some workers, however, have expressed concerns that these training sessions take place on Sundays, which is their only day off, or they occur during work days when they cannot attend.



# Profiles of Employment Permit System Workers and Firms

## 5

### 5.1 Trends in the Number of EPS Workers over Time

The EPS workers' database hosted by the Korea Employment Information System (KEIS) (**box 5.1**) includes information on: (i) workers, as given on their application form, and including their Test of Proficiency in Korean (TOPIK) score and job history; (ii) employers, as obtained through the WorkNet intermediation service; (iii) both workers and employers, by sector and location of employment; and (iv) workers' entry and exit, as provided by the immigration office.

#### ■ **Box 5.1** EPS Workers' Database Hosted by the Korea Employment Information System (KEIS)

Multiple services and databases make up the EPS database, which is managed by the KEIS and linked to other external databases.

- **JOB SEEKERS' LIST (FROM SENDING COUNTRIES).** The EPS provides a web-based tool to manage job seekers and applicants. This tool is called SPAS (Support for Agencies in Sending Countries), and it collects all information related to aspirant migrant workers during the application process. Information includes workers' age, education and skills, work experience, desired sector, and the test scores for the EPS Korean language test.
- **WORKNET (IN KOREA).** The WorkNet is a web-based tool for job intermediation and for providing matching services, developed by the KEIS and operated by the regional job centers. Because the WorkNet serves domestic workers and employers, it contains EPS-eligible and beneficiary firms' information provided during the application process for the EPS. This includes information on the age, sector, and size of firms, along with their EPS employment history.
- **MATCHING DATABASE.** Information on workers (from the job seekers' list) and employers (from WorkNet) is stored in the matching database when workers are assigned to employers. Each worker's contractual information, changes of employer, and receipt of education or job training, among other items, are tracked over time.
- **ENTRY/EXIT INFORMATION.** Immigration entry/exit information, collected at the airport under governance of the Ministry of Justice (MoJ), can be linked to the EPS data based on a unique foreign residents' registration number or passport number.

*Source: Authors' compilation.*

The total number of EPS workers rapidly increased from around 7,000 to more than 180,000 in 2008, at the program’s peak, declined during the global recession (2009–10), and rebounded afterward (figure 5.1). The same pattern was observed for workers with E-9 visas, with the number hovering around 50,000 since 2012. These numbers suggest that workers holding E-9 visas appear to be slightly less sensitive than H-2 visa holders to fluctuations in the economy. This may be attributable to the fact that the number of E-9 workers is strictly governed by each country’s quota, which tends to remain less volatile and less responsive to immediate market conditions than the outcomes of individual workers’ migration decisions.

■ **Figure 5.1 Annual Inflows of Foreign Workers by Visa Type, 2004–15**



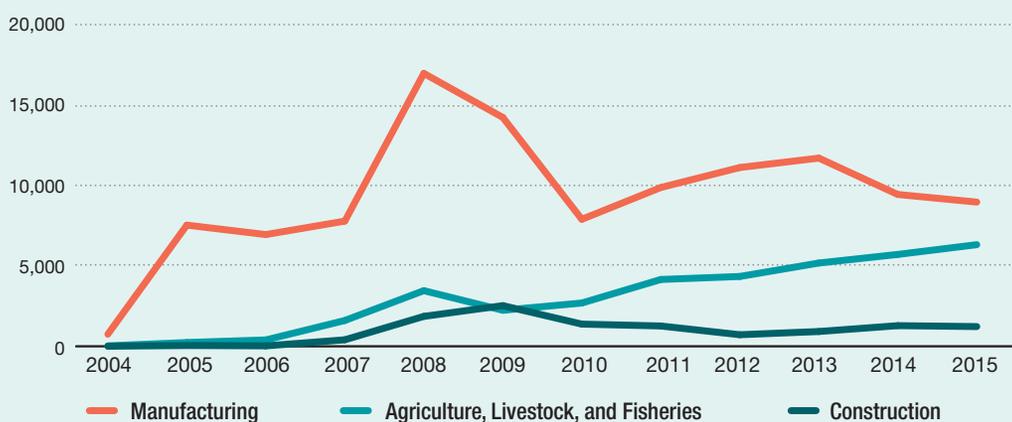
Source: Planning and Co-ordination Office, Foreign Workforce Division, MoEL, 2016.

To gauge the EPS’s quantitative importance in the Korean labor market, we calculate the number of E-9 migrant workers per 1 million Korean employees by industry (figure 5.2). Among the three sectors where E-9 workers are permitted,<sup>32</sup> the manufacturing sector has the largest share of E-9 workers.

32 E-9 workers are permitted in manufacturing, construction, and the primary sector (agriculture, livestock, and fishing), but they are excluded from the service sector, with the exception of a negligible number of special cases.

E-9 workers have never been represented in large numbers in the construction sector, whereas their share in agriculture, livestock, and fisheries industry, although small relative to manufacturing, has been increasing over time. Even in the manufacturing sector, where the presence of foreign workers is the largest, the share of E-9 workers did not exceed 1 percent except during 2008–09.

■ **Figure 5.2 Number of E-9 Workers per 1 Million Domestic Workers, by Sector, 2004–15**

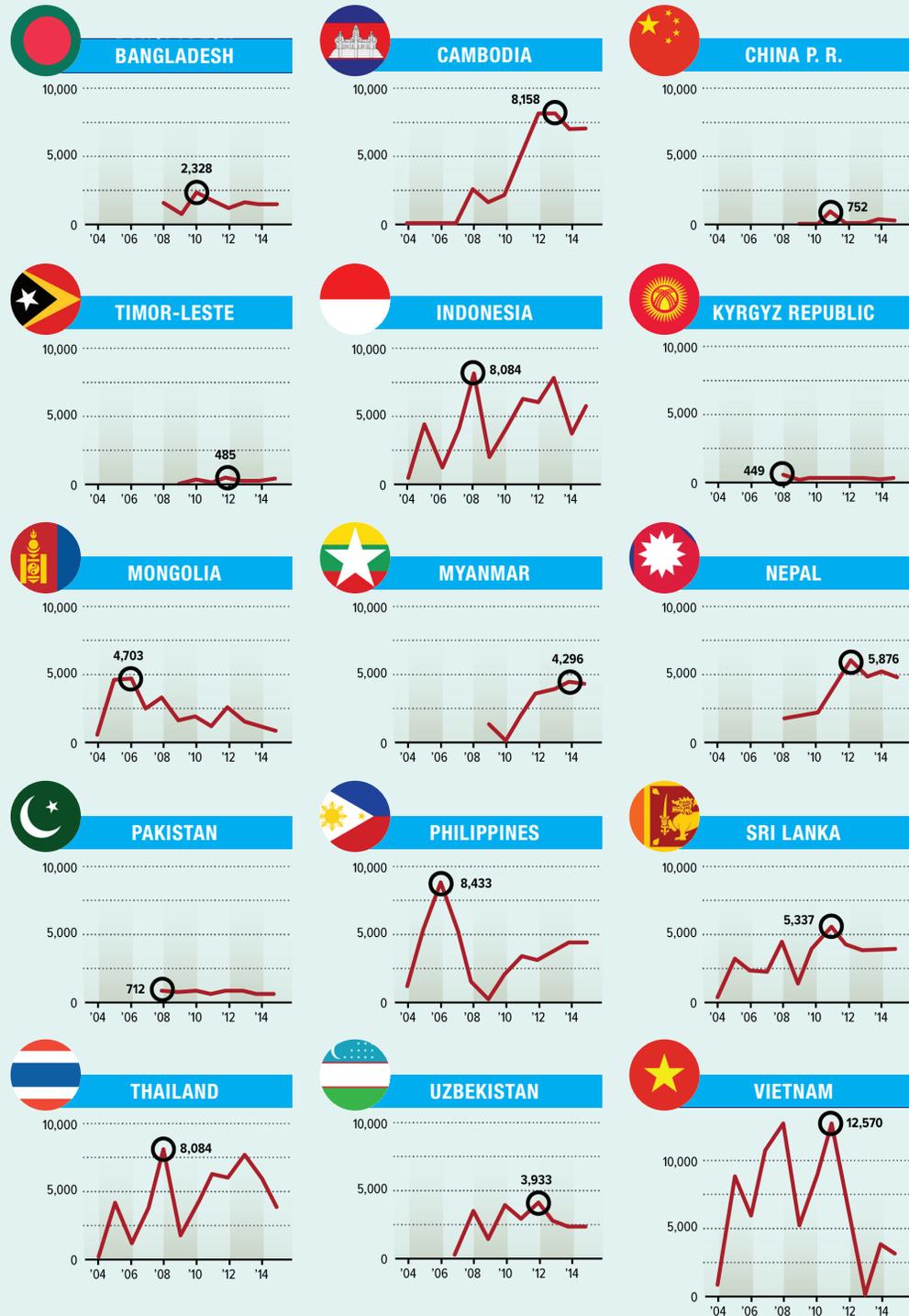


Source: Planning and Co-ordination Office, Foreign Workforce Division, MoEL, 2016.

The total volume of E-9 workers masks the fluctuations in the composition of workers by source country over the years (figure 5.3). Among all E-9 workers entering Korea from 2004 to 2015, four countries (Vietnam, Thailand, Indonesia, and the Philippines) accounted for more than 55 percent of the workforce. A noteworthy trend is the increase in the number of workers coming from Nepal and Cambodia, which are now among the top five countries of origin. This is likely associated with the high presence of workers from Nepal and Cambodia in agriculture,<sup>33</sup> and increasing demand for labor in this sector. The volume of workers from the Philippines and Vietnam, once among the highest, has not recovered since the suspension of migration from these countries in 2009 and 2013 for a year, respectively.

33 More than 33 percent of Cambodian workers and 15 percent of Nepalese workers are employed in the agricultural and livestock industries, whereas the average share of workers in these industries was only 3.8 percent, excluding these two countries.

■ **Figure 5.3 Annual Number of Workers by Country of Origin, 2004–15**



Source: Planning and Co-ordination Office, Foreign Workforce Division, MoEL, 2016.

Note: The number labeled is the maximum annual flow of workers from a given nation since it joined the EPS.

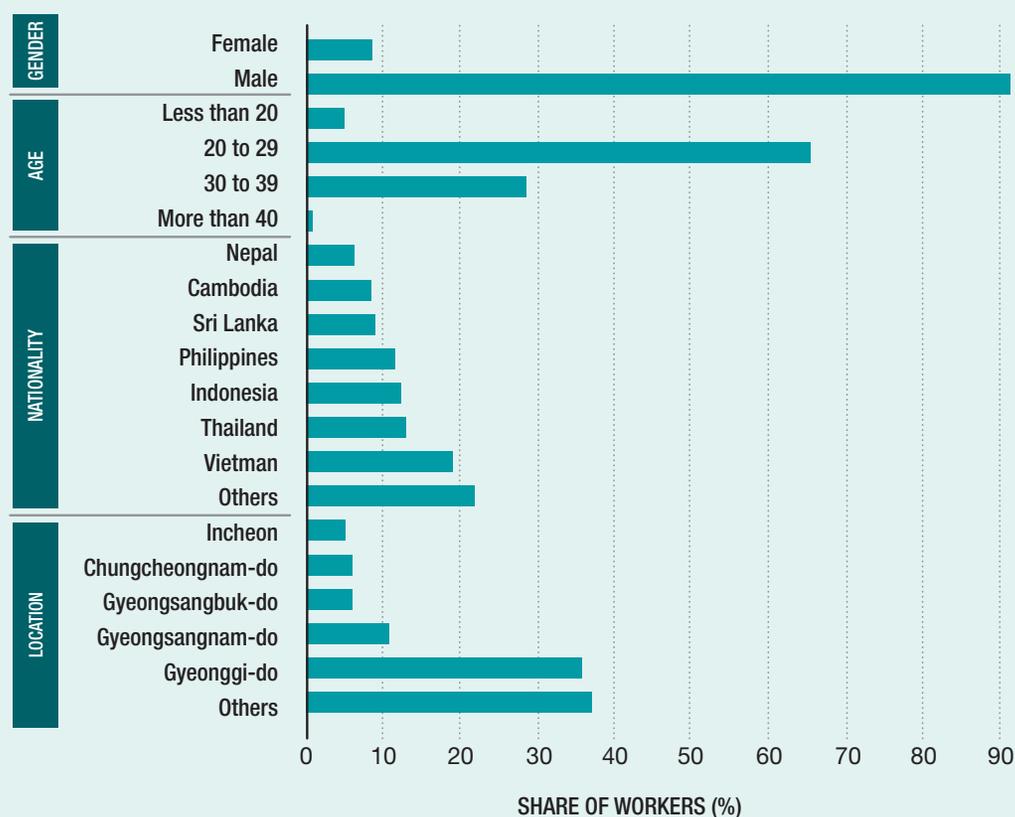
Multiple factors contribute to the fluctuations in the volume of workers annually admitted. First, the overall annual quota fluctuates, reflecting domestic labor demand. For instance, when the Korean economy struggled during the global recession between 2008 and 2010, the overall number of migrant workers decreased. Second, the initial quota of each country is determined by the overall demand from employers and diplomatic ties. As the composition of sectors eligible for EPS changes, and sectors such as agriculture, livestock and fisheries grow, workers from agrarian economies are on the rise. Moreover, the number of workers who overstay their legally allotted time is closely monitored by nationality and could penalize the country's quota in subsequent years.



## 5.2 Profile of EPS Workers

The EPS database shows key characteristics of E-9 workers by country of origin (figure 5.4). Most EPS workers are young males with an average age of 26; the share of female workers is less than 10 percent overall. About two-thirds of EPS workers are between the ages of 20 and 29, which is not surprising given the physically demanding nature of the jobs they occupy. The share of female workers varies by the country of origin: Cambodia and Thailand show a relatively high share at 20 and 15 percent, respectively, whereas that of Bangladesh is the lowest at less than 1 percent. Over a third of EPS workers are in Gyeonggi-do, which hosts many manufacturing enterprises, but apart from this, EPS workers tend to be widely distributed over the country.

■ **Figure 5.4 Characteristics of EPS Workers, 2011–15**

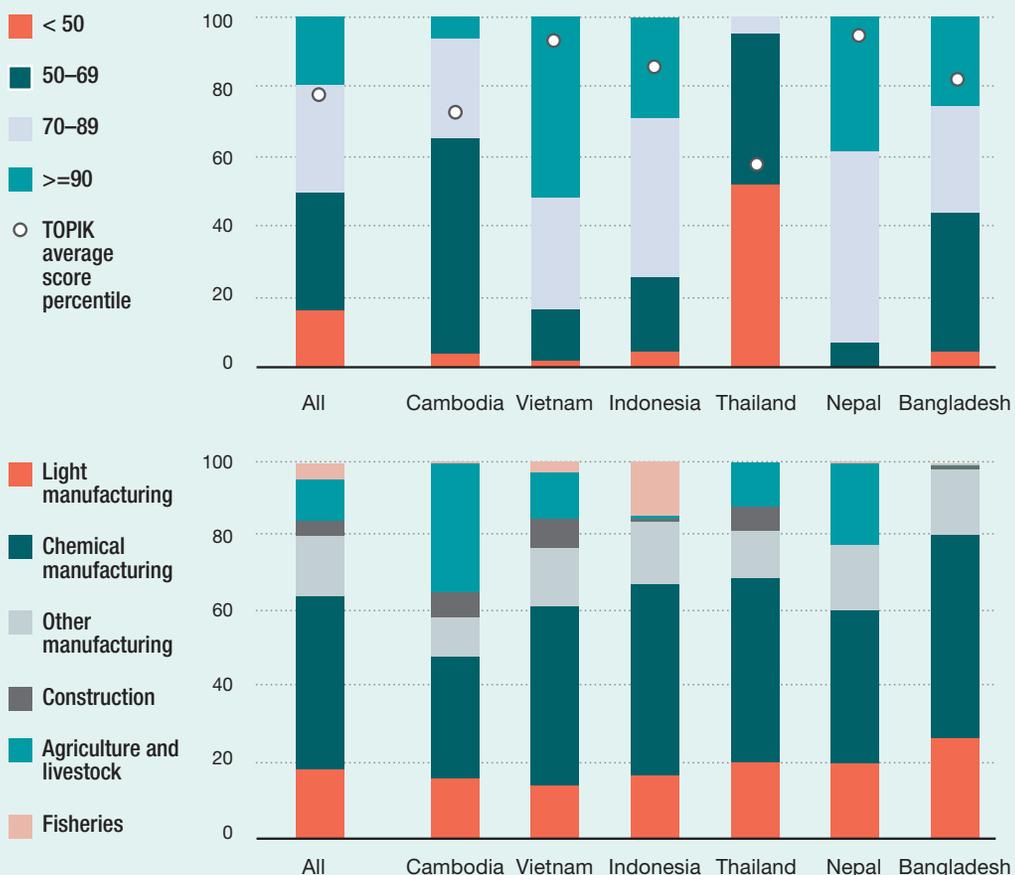


Source: EPS database 2011–15.

Note: EPS = Employment Permit System.

While the educational attainment of EPS workers by country of origin is difficult to compare due to differences in educational systems and missing information, the TOPIK scores suggest that Korean language proficiency varies greatly by nationality (figure 5.5). Workers from Vietnam and Nepal are more proficient than, say, those from Thailand and Cambodia. Relative to wide variations in Korean language proficiency, EPS workers' sectors of employment does not vary much by nationality. Over 80 percent of workers are involved in the manufacturing sectors, with a higher proportion involved in the manufacture of metallic and non-metallic products, electronics, chemicals, and machinery. The share of workers in agriculture, livestock, and fisheries has been increasing in the last few years, whereas the proportion of workers in construction and the services sectors is negligible across all countries. The low representation of workers in services (retail, wholesale, hotels, and restaurants) is because H-2 visa holders (ethnic Korean descendants) are allowed in these sectors, with a few case-by-case exceptions of regular EPS workers (E-9 visa holders).

**Figure 5.5 Distribution of TOPIK Score and Sector of Employment, 2011–15**



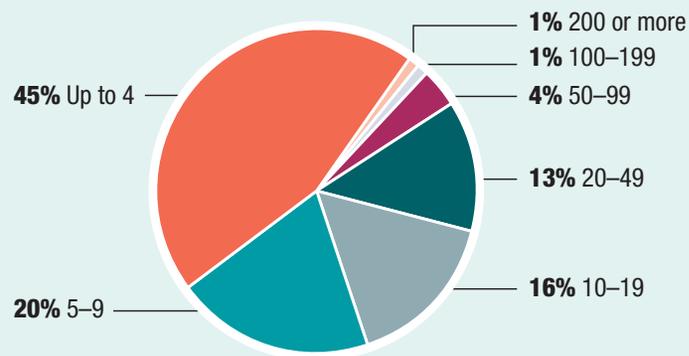
Source: EPS database 2011–15.

Note: TOPIK = Test of Proficiency in Korean.

### 5.3 Profile of EPS Firms

Firms with less than 300 employees are considered to be small and medium enterprises (SMEs) in Korea. All EPS employers fall in this category, but a further breakdown of the firms by their size shows that close to 45 percent of EPS firms are small enterprises with less than five employees (figure 5.6). Employers with more than 50 workers account for only a little above 5 percent. The average size of the EPS firms is 9.5 employees, with 8.0 native workers and 1.5 foreign workers.

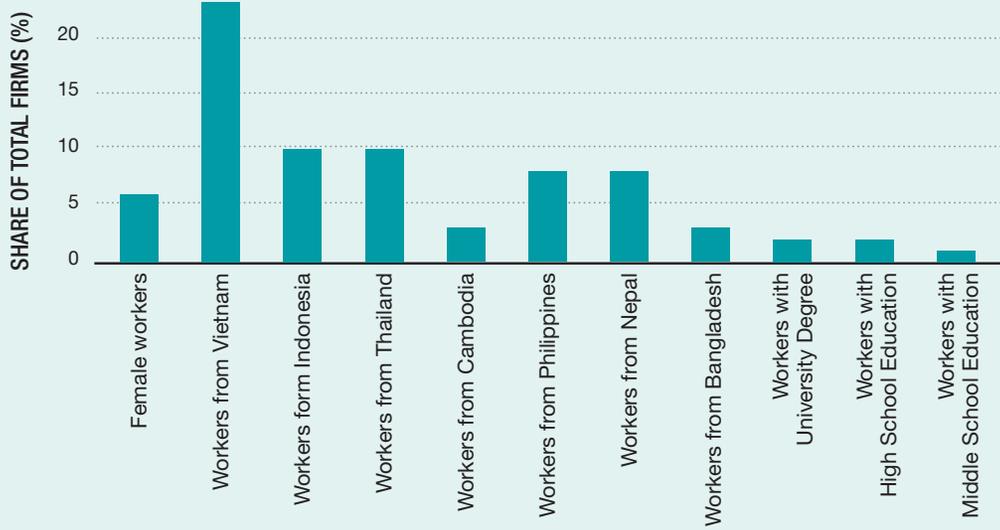
■ **Figure 5.6 Distribution of Firms by Size, 2011–15**



Source: EPS database 2011–15.

During the job-matching process, as mentioned above, firms can express their broad preference for certain worker characteristics (e.g., age, nationality, gender, language proficiency), although not all employers choose to do so. In general, most firms express their preference only for workers' nationality (figure 5.7). Between the years 2011 and 2015, about 23 percent of EPS firms expressed a preference for Vietnamese workers, by far the largest share of any stated preference. This was followed by a preference for workers from Indonesia and Thailand, at 10 percent, and the Philippines and Nepal, at 8 percent. Education did not feature prominently among the preference criteria. Also, only around 14 percent of employers expressed preference for good Korean language skills, which is surprising given the EPS's emphasis on language proficiency.

■ **Figure 5.7 Preference for Various Worker Characteristics, by Share of Total Firms, 2011–15**



Source: EPS database 2011–15.



# The Employment Permit System's Approaches to Common Challenges in Temporary Labor Migration

6

Several common challenges are associated with temporary labor migration across borders. This section discusses the mechanisms the EPS has devised to address these issues while implementing a government-to-government (G2G) arrangement, and links them to the five pillars on which the EPS architecture rests.<sup>34</sup> These issues include migration costs and worker protection (important from the workers' perspective), firms' competitiveness and matching efficiency (critical to the labor market), and the return of workers (necessary for the system's sustainability).



Photo by Upasana Khadka

34 Please see chapter 3, section 3.2 of this report for a detailed description of each of the key pillars.

## 6.1 Migration Costs

The EPS greatly reduced the role of private recruiters in the job-matching process in both sending countries and in Korea. One effect was a drastic reduction in the migration costs borne by workers. Memorandums of understanding (MOUs) signed with the sending countries indeed mandate that sending governments monitor and publish migration costs (with a breakdown by cost item) to ensure transparency in worker-paid migration costs. The institutions and agencies working with sending governments for the EPS (for health checkups or pre-departure orientations) are subject to the Human Resource Development Service's (HRD Korea's) supervision with respect to price setting. Subsequently, the Korean government compiles and publishes the worker-paid migration costs of all EPS partner countries, as shown in [table 6.1](#).

■ **Table 6.1 Worker-Paid Recruitment Fees under the EPS, by Country of Origin (October 2013, US\$)**

Country	Total	Language Test	Health Checkup	Job Application	Passport	Visa	PDO	Airfare (tax)	Others
Bangladesh	907.70	24.00	29.95	0.00	36.68	50.00	14.00	546.58	206.46
Cambodia	991.00	24.00	67.00	5.00	30.00	50.00	120.00	477.00	218.00
China	787.80	24.00	55.12	0.00	31.49	63.00	315.00	236.23	62.98
Indonesia	932.00	24.00	52.00	0.00	13.00	51.00	129.00	551.00	112.00
Kyrgyz Rep.	730.00	24.00	14.00	0.00	20.00	70.00	32.00	530.00	40.00
Mongolia	674.00	24.00	35.00	10.00	17.00	50.00	49.00	366.00	259.00
Myanmar	889.00	24.00	50.00	5.00	0.00	50.00	60.00	470.00	230.00
Nepal	930.70	24.00	55.64	5.00	79.49	63.59	63.00	541.00	98.95
Pakistan	1,739.70	24.00	27.30	10.92	27.30	54.60	70.98	841.03	683.61
Philippines	551.80	24.00	37.50	0.00	28.60	59.30	17.30	285.70	101.20
Sri Lanka	1,108.00	24.00	25.80	0.00	19.10	42.10	114.80	370.20	512.00
Thailand	685.00	24.00	50.00	0.00	37.00	0.00	150.00	407.00	17.00
Timor-Leste	810.00	24.00	35.00	10.00	17.00	50.00	49.00	366.00	259.00
Uzbekistan	904.00	24.00	30.00	0.00	0.00	70.00	167.00	430.00	183.00

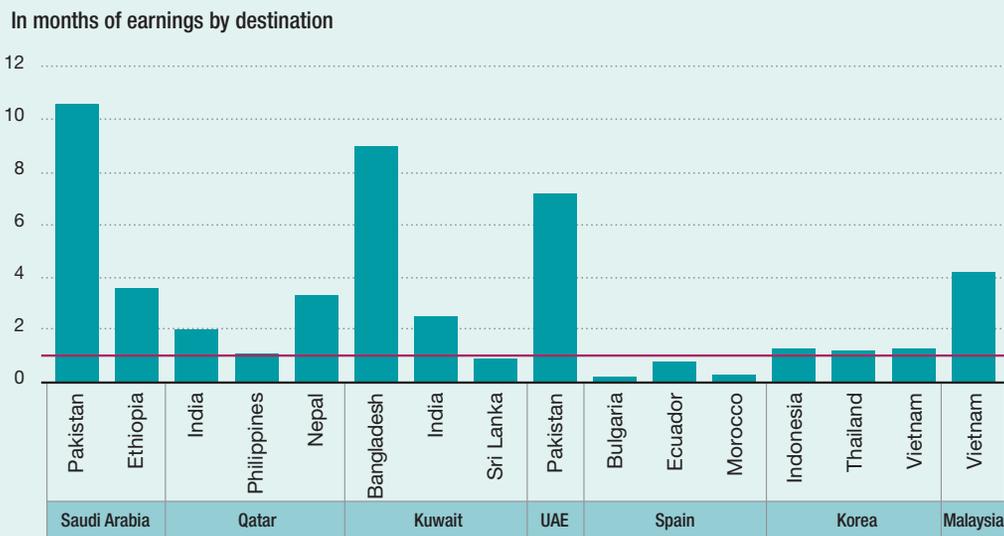
Source: Korea MoEL data submitted to the National Assembly for Audits of the Government Offices, 2014.

Note: PDO = Pre-departure orientation.

The EPS has managed to significantly reduce worker-paid migration costs both in absolute dollar amounts and relative to their incomes in the receiving economy. Compared to its predecessor, the Industrial Trainee System (ITS), the worker-paid costs were slashed by almost three-quarters: from about US\$3,700 to less than US\$1,000 for most countries (MoEL 2015).<sup>35</sup> Most elements of the process, such as the Korean language test, health checkups, job application, and passport and visas, cost about the same for all countries. Variations occur in the costs of airfare, pre-departure orientation, and other elements specific to the sending country, such as mandatory payments into foreign employment funds (e.g., the Wage Earners Welfare Fund in Bangladesh, the Overseas Pakistanis Foundation Welfare Fund in Pakistan).

A review of migration costs relative to migrants' earnings sheds light on how long it would potentially take migrants to recoup their costs. By legally increasing the wages of EPS workers above the minimum wage, the share of costs relative to monthly earnings dropped from seven months of earnings under the ITS to around one month under the EPS. An international comparison of migration costs relative to destination earnings suggest the costs to get to Korea via the EPS are lower and do not vary much by country of origin (**figure 6.1**).

**Figure 6.1 Recruitment Costs by Migration Corridor**



Source: World Bank Global Knowledge Partnership on Migration and Development (KNOMAD) migration cost survey data set.

Note: The red line marks one month's earnings.

35 Exceptions include Pakistan and Sri Lanka, where airfare is relatively expensive and "other" costs (such as foreign employment insurance fund payments) are higher than those for the other countries.

Furthermore, transparent migration costs offer valuable information to sending governments, enabling them to set policies aimed at reducing workers' financial burden. Some sending governments (e.g., Indonesia and the Philippines) provide loan-interest subsidies to prospective migrants to help address financing constraints. This is particularly important for low-skilled migrant workers, who tend to have limited access to the formal financing system. However, establishing policies related to loan-interest subsidies or loans with a concessional rate for migrants poses challenges in practice, as it requires setting ceilings on loan amounts, subsidy levels or interest rates, and the amount of collateral required, if any. In most cases, since migration costs vary widely, many poor workers cannot afford to provide collateral for loans, and financial institutions have few means to assess the potential risks associated with loans for migrant workers. By providing disaggregated information on migration costs, the EPS helps sending governments set clear targets for loan amounts and subsidy levels. The Philippine government, for instance, has recently signed an agreement with Landbank to provide loan assistance to EPS migrants to help finance their pre-departure fees by up to 52,000 pesos, which can cover the total migration costs and are repayable in 12 equal monthly amortization payments at a 10 percent annual interest rate.<sup>36</sup> Moreover, such transparent information can help migrants plan their finances better and anticipate the duration of stay required to recoup the up-front costs. This is an important feature for low-skilled temporary labor migration, which is in most cases an economically driven choice.

EPS contracts are standardized and applicable for all firms, and contract substitution seldom takes place.<sup>37</sup> The predictability of the level and stream of earnings helps workers plan their finances, thus allowing them to pay back loans on time. This is in stark contrast to many other corridors, such as the Gulf Cooperation Council (GCC) and Malaysia, where contract substitution and deviation from agreed contracts (with lower wages and overtime provisions) hamper the ability of migrants to pay back loans as expected. This can take a toll on the migrant experience as interest rates on informal migration loans in some countries are as high as 36 percent per year (World Bank 2009).

Despite these achievements, some challenges in the monitoring and reduction of migration costs persist. First, the cost of learning the Korean language for the Test of Proficiency in Korean (TOPIK) exam is not included in the current calculations. The cost of learning Korean falls in a wide range between ten dollars and a few thousand dollars, depending on the provider

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36 [http://www.dole.gov.ph/ro\\_polo\\_updates/view/1260](http://www.dole.gov.ph/ro_polo_updates/view/1260).

37 Low incidence of contract substitution is indeed a strong feature of the EPS, and this may be associated with the MOU requirement that the sending agency should go over the contract with the worker. Paragraph 9 of the MOU states, "The [sending agency] shall explain the content of the labor contract to each worker so that he/she can fully understand it and shall decide whether or not to sign the labor contract at his/her own will."

chosen by the aspiring migrant (Martin 2017). Since there is a lack of certified language training institutions in many of their origin countries, EPS migrants are vulnerable to misinformation. Institutions may falsely promise faster placement or may be run by returnee EPS migrants with only limited command of the language. A continuously updated list of EPS-approved training providers, available online, would be very useful in further reducing EPS costs.<sup>38</sup>

Second, tight quotas coupled with an oversupply of migrants aspiring to go to Korea (and thus registering for the TOPIK exam) result in the loss of accumulated human capital and money spent on learning the Korean language for many aspirant migrants who fail to go. For example, about 60,000 people registered for a TOPIK exam in Nepal in 2015 for a quota of about 3,000. If all applicants paid US\$10 to prepare, the cost is more than half a million U.S. dollars spent without any return—and this is without accounting for an opportunity cost of time spent learning Korean (and the average cost of test preparation was likely higher than US\$10).



38 The downside of this regulation is that the institutions that do get approved might then charge higher prices.

## 6.2 Worker Protection

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Compared with the ITS, the EPS represents a remarkable improvement in terms of foreign worker protection. The EPS's worker protection measures are indeed regarded global good practices, and include (i) being subject to labor regulations, (ii) access to insurance products, and (iii) support services such as counseling.

One of the major labor regulations for worker protection is the country's minimum wage policy. Korea's minimum wage is set at Korean won (₩) 6,470 per hour, which is equivalent to US\$5.70 per hour.<sup>39</sup> In 2017, the minimum wage increased by 7.3 percent from the previous year. Minimum wage workers in 2017 would therefore earn about US\$11,400, assuming they work around 2,000 hours per year. Regardless of the size of the firm, all employers are mandated to pay wages equal to or greater than the minimum wage in Korea, and this is applicable for both native and foreign workers. In addition, if employees work more than eight hours a day, they can claim overtime payment, which is 50 percent higher than the regular wage rate.

However, enforcing a minimum wage as well as overtime payments (for both Korean nationals and foreign workers) has been challenging, particularly in certain sectors such as agriculture and livestock. This is because in these sectors (i) working hours are disputable, (ii) wages are set as a lump-sum monthly amount regardless of actual hours worked, and (iii) work schedules are irregular. Indeed, the agriculture and livestock industries are exempt from some labor regulations under the Labor Standards Act, which addresses requirements for working hours, paid weekly rest days, and daily breaks. Although the exclusion applies to both domestic and foreign workers, this has become an issue particularly for EPS workers who are the predominant workforce in physically demanding agriculture and livestock jobs.

In case labor regulations are not abided by and workers are exposed to potential exploitation or unfair treatment, EPS workers can file for a workplace change.<sup>40</sup> EPS workers can change their jobs within the same sector up to three times during their stay, conditional upon obtaining a release letter from the employer or providing proof of the abuse.<sup>41</sup> However, receiving a release letter from employers or providing proof of abusive practice is not easy for workers,

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39 The exchange rate of ₩1,128 to US\$1 is applied.

40 Typical justifications for workplace changes include: (i) end (cancellation) of contract, (ii) business closure, and (iii) physical injury.

41 The release letter delineates the faults of employers (e.g., bankruptcy, violations of labor conditions/rights, or mistreatment of EPS workers). Job changes that are attributed to the employer do not count toward the three-time limit.

especially when they have limited bargaining power against their employers. Since worker separation could not only interrupt firms' business activities but also lower the employers' EPS points, which reduces the chances of the firm continuing to be eligible for hiring EPS workers, employers are often reluctant to provide the release letter let alone agree to the proof of abuse. In light of these issues, civil society organizations (CSOs) and activists argue for the removal of limits on the number of job changes and requirements for release letters. The counterargument is that these requirements help ensure that employers invest in workers' skills without fear of worker turnover or poaching by other employers.

With respect to insurance, as discussed in chapter 3, EPS workers have access to several national social insurance schemes (e.g., national health insurance and occupational accident insurance) as well as to additional insurance for migrant workers (delayed payment insurance and repatriation cost insurance). While coverage of mandatory social insurance schemes for both nationals and foreign workers is almost universal, the coverage of additional insurance relevant only to foreign workers is more limited. For instance, in 2013 more than 95 percent of EPS firms reported that their workers were enrolled in the national health insurance and occupational accident insurance schemes. However, only about 64 percent of firms provided delayed payment insurance and repatriation cost insurance for their workers.<sup>42</sup>

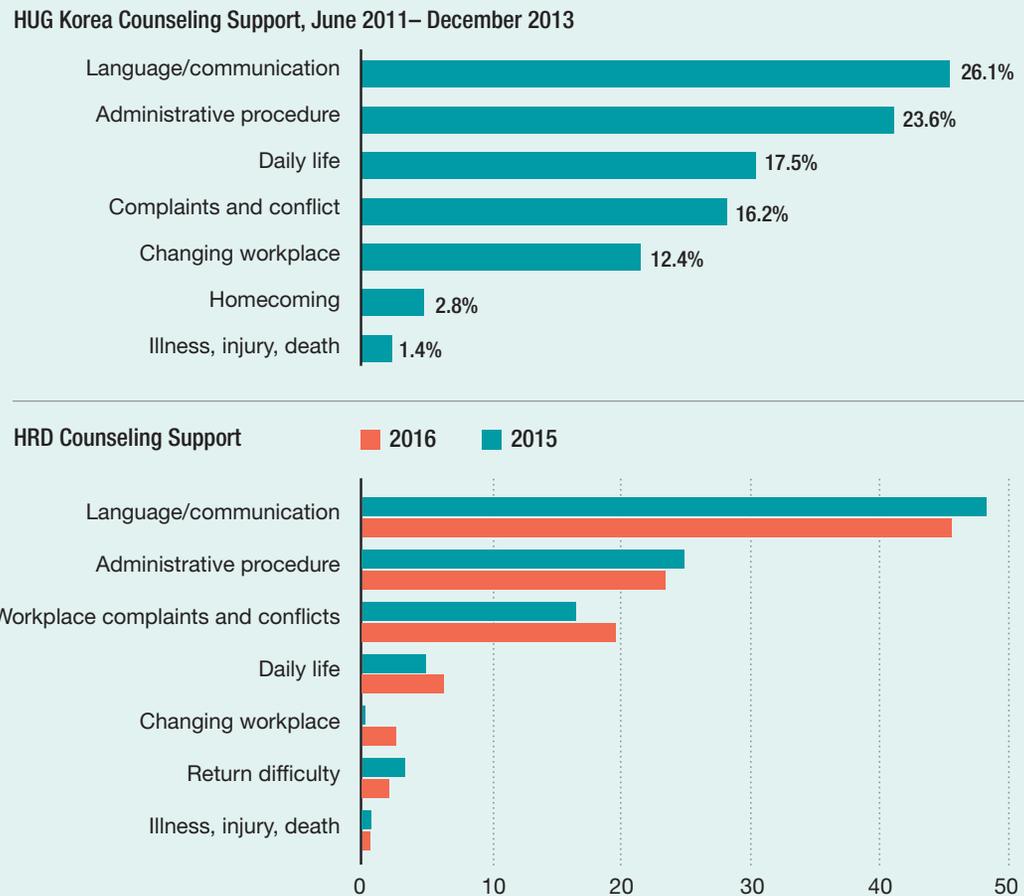
Support and counseling for migrant workers during their stay in Korea is provided by the above-mentioned government agencies along with CSOs. HUG Korea's counseling centers for foreign workers, originated from CSOs supporting labor rights, are financed by the Ministry of Employment and Labor (MoEL). The centers are located nationwide, with a geographical focus on areas with high concentrations of low-skilled migrant workers. In addition to guidance and counseling in migrants' native languages, they provide a platform for migrant workers to discuss difficulties associated with living and working in Korea. HUG Korea along with CSOs host regular cultural activities in public spaces for both natives and foreigners and also use social media to broadcast the services they provide. For example, HUG Korea centers in Ansan hosted an event in 2012 for Indonesian guest workers and longer-term Indonesian immigrants to facilitate their social networking and informal support systems.

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42 Chung 2013: 91, figure 3-13.

Annual reports prepared by both HUG Korea and HRD Korea shed light on the extent of EPS enforcement and migrant protection in practice (figure 6.2). These reports suggest that challenges associated with language and communication and EPS-related administration are the main topics of counseling. Despite EPS’s requirement that workers invest in learning the Korean language, communication issues still appear to be the most challenging aspect of living and working in Korea. The challenges associated with administrative procedures relate to the paperwork required for employment, social insurance, and banking, among others.

■ **Figure 6.2 Counseling Services Provided to Foreign Workers**



Source: HUG Korea counseling centers for foreign workers (left); HRD Korea’s counseling support (right).

Note: HRD = Human Resource Development Service.

Counseling support, especially for resolving workplace disputes, is a positive feature of the EPS. Conflict and dispute resolution for EPS workers is subject to the same domestic labor laws as for Korean national workers. This is different from other bilateral labor agreements (BLAs), which themselves serve as a mechanism for dispute and conflict resolution for migrant workers—instead of the domestic labor laws of the receiving country. For instance, the United Arab Emirates’ MOUs with Indonesia and Sri Lanka include a dispute resolution clause that says, “to present the complaint to the competent body of the host country for an amicable settlement and if such action is not reached, to refer to judicial authorities in the country.” In such cases, however, dispute resolutions are not easily accessible unless the conflicts are serious and have legal implications.

Despite all these worker protection efforts through labor regulation, social insurance, and worker support, problems remain.<sup>43</sup> Given their high profile and sensitive nature, incidents related to worker protection could significantly tarnish the many good features and achievements of the EPS. As discussed in previous sections, sectors including agriculture, livestock, and fisheries tend to be either exempt from labor regulations or under weak enforcement. Also, the work sites of these sectors tend to be remote, and this geographical isolation weakens migrants’ access to migrant counseling centers, job centers, and migrants’ networks.

In recognition of these challenges, HRD Korea has taken steps to provide customized support for workers in those sectors, including mobile support services. At the same time, CSOs and trade unions have improved the process of raising migrant workers’ awareness about their rights. For instance, the Korea Confederation of Trade Unions (KCTU) has developed a mobile application that provides detailed information on migrant workers’ rights in the migrants’ native languages. Such efforts were particularly enhanced after the Migrants Trade Union was legally authorized in Korea and able to join the KCTU in 2015, after a long controversy and court disputes on its legitimacy based on the Trade Union Act.

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43 See, for instance, Kim and Kim (2014) and Amnesty International’s Bitter Harvest: <http://www.koreatimesus.com/s-korean-govt-responds-to-amnesty-international-migrant-worker-report/>.

## 6.3 Business Competitiveness

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There are concerns that inflows of low-cost foreign labor may undermine firms' efforts in innovation and research and development (R&D), substitute for capital investment, and sustain the business of non-viable firms, which can consequently weaken industry competitiveness (Park and Kim 2016). Indeed, other policies intended to support small and medium enterprises (SMEs) in Korea—such as technical, financing, and legal-cost support specifically designed for low-capacity small firms—have faced similar criticism. Studies have indicated that the impacts of such support on SME's profits and performance are unclear, while the overall dynamism of the market—with the active entry and exit of firms—may decline with extended support (Kang and Jeong 2006; Park 2013). With respect to SME support through the EPS, it is unclear whether the availability of foreign workers has reduced firms' investment or efforts toward innovation, as studies' findings are inconclusive.<sup>44</sup>

To reduce overreliance on foreign labor, some governments such as those of Singapore and Taiwan impose levies on foreign labor to increase its price. In theory, the levy would force firms to find an alternative mechanism to survive by investing in innovation and capital or by switching back to employing nationals. Singaporean firms, in response to an increase in this type of levy, reportedly increased automation or upgraded their operations with technology (Kang and Jeong 2006; Park 2013). Similarly, in Taiwan, in addition to the levy, employers were required to submit their plans for upgrading production and automating facilities when they applied for foreigner employment permits (Abella 2011).<sup>45</sup> Korea also attempted to impose a levy in 2009, but the initiative did not receive sufficient endorsement for implementation, mainly due to opposition from businesses. Labor regulations and the social insurance required of EPS firms already function like the levy by increasing the price of foreign labor (Noh 2016). Also, the difference between the type of temporary work prevalent in Korea, focused on unskilled jobs, from that of the skilled professions more common in Singapore and Taiwan should be noted.

Instead, the EPS implements a few positive measures to promote firms' competitiveness while enhancing foreign workers' productivity. To incentivize migrant workers to invest in skills development, the Korean government introduced a policy that allows an experienced EPS worker to change status from a low- to semi-skilled worker (i.e., transition from the E-9 to E-7 visa for specialized activities) upon passing necessary skills testing albeit on a limited

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44 Using panel data on foreign workers under the EPS during 2005–10, Nam, Jun, and Kim (2015) examined the effect of an increase in foreign workers on firms' research and development expenditures, but the results were mixed depending on the statistical specifications.

45 However, this undertaking was later abandoned as the Council of Labor Affairs had limited capacity to assess the merits of the plans.

scale.<sup>46, 47</sup> Another measure to incentivize workers to invest in job-specific skills and prove diligence is the Faithful Worker Program, which is discussed above. Although the number of E-9 workers who converted to E-7 visa status and those who return to Korea through the Faithful Worker Program is still small,<sup>48</sup> these opportunities could potentially help enhance workers' productivity and thus contribute to firms' competitiveness.

## 6.4 Matching Efficiency between Employers and Workers

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The quality of job matching between employers and workers is an important policy issue, and the efficiency of intermediation services is a key determinant of this quality. This is even more pertinent because workers' mobility is limited once matched to an employer. A major difference of EPS's job-matching mechanism from that of traditional labor markets is the asymmetry of options: larger sets of choices are granted to employers, whereas workers' choices of employer are limited. Furthermore, due to restrictions on switching employers and the non-recoverable costs an employer faces should a worker quit or not perform well on the job, it is critical that the system match workers and firms as efficiently as possible in the first attempt.

A few stylized facts suggest potential matching inefficiency both in the selection of worker pools and in labor intermediation. Currently there are fewer successful worker/employer matches than the assigned quota despite an oversupply of aspiring workers and a relatively high turnover rate among EPS workers in Korea. For instance, data show that 65,000 Nepalese and 55,000 Cambodian workers took the Korean language test for some 6,000 and 10,000 jobs in 2015, among which 5,800 and 7,800 jobs were matched. Thus, the number of EPS workers entering Korea in the past few years was below the overall quota, and only about 50 percent of the posted vacancies for EPS workers were successfully filled.<sup>49</sup>

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46 The transition system applies a set of qualification criteria, as follows: (i) an E-9 worker who was employed in one of the selected EPS industries for the past four years, (ii) is 35 years old or younger (40 years for those employed in the primary industry), (iii) has a college or other tertiary-education degree (a high school degree for those in the primary industry), (iv) achieved a TOPIK Level 3 (or Level 2 for those in the primary industry) or completion of the Korea Immigration and Integration Program (KIIP), and (v) holds a National Technical Qualification Certificate, or evidence of earning monthly wages over the past year that were higher than an average Korean's wages in the same field. See Chung, Choi, and Lee 2015.

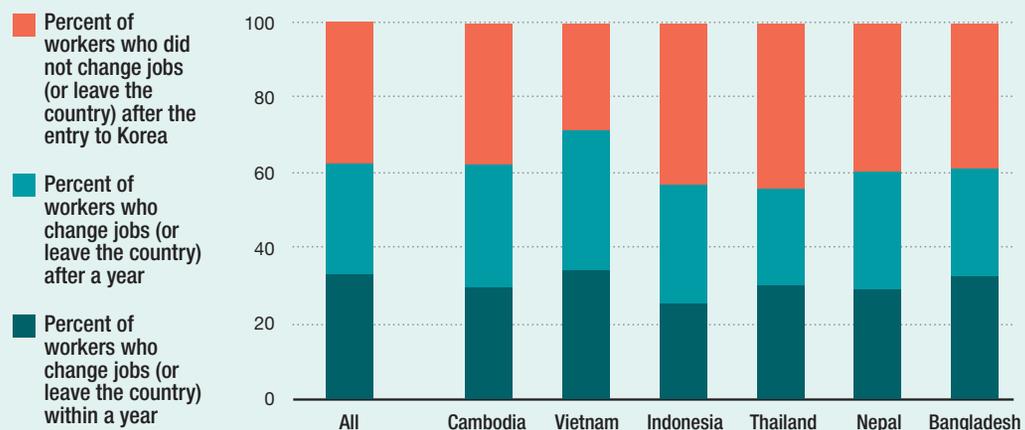
47 Unlike the EPS worker, the E-7 visa holder is subject to the immigration policies under the MoJ and can stay in Korea as long as he or she has a valid labor contract.

48 As of 2015, these workers represent less than 10 percent of E-9 visa holders, among which high school graduates account for roughly 36 percent and college graduates represent 30 percent.

49 EPS firms often look to fill more than one vacancy; therefore, matching success is presented as a percentage of vacancies. In terms of the percentage of EPS firms that were able to hire at least one worker, the success rate is around 70 percent based on KEIS data.

Furthermore, although a change of employer is allowed on a limited basis, job turnover among EPS workers is quite common ([figure 6.3](#)). Overall, over 60 percent of workers change jobs and about half of them do so within a year of entering the country. As a result, the average number of job applications that workers submit for new jobs in Korea after their first job is about 1.5. Frequencies of job turnover and new job applications vary slightly by workers' nationality. For example, Vietnamese workers are more likely than others to leave their first jobs and actively seek work opportunities in Korea. This may be due to a long-standing inflow of Vietnamese labor and thus strong social networks in Korea, a higher language proficiency, and greater demand for Vietnamese workers among employers.

■ **Figure 6.3 Incidence of Job Change by Country of Origin, 2011–15**



Source: EPS database 2011–15.

Key reasons for job changes include the prospect of a wage increase ([table 6.2](#), left). Indeed, about a third of workers who changed jobs moved up to the upper wage quintile, whereas 39 percent remained in the same wage quintile and 27 percent moved downward ([table 6.2](#), right). Other common reasons for job changes include employers' bankruptcy (about 22 percent) and late payment of wages (about 13 percent), suggesting the vulnerability of the SME sector. This also highlights the importance of the EPS targeting economically viable and potentially competitive enterprises that experience labor shortages, rather than serving as the last resort of dwindling businesses.

Given current inefficiencies, several areas can be explored where modifications of recruitment practices or the introduction of extra measures could potentially improve the quality of job matching.

■ **Table 6.2 Key Reasons for Job Changes, and Resulting Wage Changes**

Reasons for Changing Jobs	Percent
Low wages	53.1
Employer bankruptcy	21.9
Physically demanding work	15.6
Deterioration of labor conditions	15.6
Late payment of wages	12.5
Unfair treatment	12.5
Personal reasons	12.5
Non-renewal of contracts	9.4
Injury	6.3
Other	3.1

Wage Quintile of 2nd Job					
Wage Quintile of 1st job	Q1	Q2	Q3	Q4	Q5
Q1	63.17	16.84	6.91	4.39	8.69
Q2	25.84	24.51	25.00	9.40	15.24
Q3	11.80	11.29	25.82	28.39	22.70
Q4	7.23	12.02	16.32	33.19	31.24
Q5	8.71	5.17	14.32	21.56	50.25

*Source: Korea Technical Education University, 2007 (left); EPS database 2011–15 (right).*

*Note: Monthly wages from various years are deflated at the Consumer Price Index (2015).*

**Employers’ needs assessment.** Based on interviews and anecdotal evidence, it was widely agreed that employers strongly prefer workers proficient in the Korean language. This was the basis for the TOPIK-based worker pool selection. Indeed, job turnover rates are lower for workers with better TOPIK scores when other characteristics are controlled for. In addition, it is believed that employers prefer relatively better-skilled workers who have had relevant work experience, in response to which the EPS introduced skills tests for extra points. However, during the job intermediation stage, employers have expressed preferences for workers with soft skills (e.g., work ethic, diligence, reliability)—in addition to language or technical skills—as most of the work they have to offer is menial. In this context, a more systematic assessment and better understanding of employers’ needs and preference for workers would be warranted, to ensure that the system responds to demand-side requirements.

**Selection of the pool of workers.** Currently, the initial screening of workers to be included in the pool entirely relies on the TOPIK test. A required minimum TOPIK score was anticipated to serve as an important mechanism to select those workers who have the intellectual ability to learn the language and who are more keen on migrating to Korea compared with other destinations. However, employers’ expectations of worker’s skills and abilities, as signaled by TOPIK scores, may not be in line with the worker’s actual ability to communicate and undertake tasks at work. Not all qualified job seekers who passed the TOPIK demonstrate the anticipated skill sets. Moreover, TOPIK results may not be the best mechanism to screen workers for their soft skills. There is room for improvement in the initial screening and subsequent refining of

the pool of workers. This can be achieved, for example, through redesigning the TOPIK test to better assess workers' practical language skills and/or by combining the TOPIK with other screening tools such as psychometric tests to reflect workers' soft skills.

**Mechanism for identifying workers' skills and experience.** Once in the pool, workers have limited means to signal their skills and experience.<sup>50</sup> Meanwhile, much new literature suggests the positive impacts that mechanisms signaling workers' preferences have on the quality of subsequent job matches (e.g., Coles, Kushnir, and Niederle 2013; Lee and Niederle 2015). A newly introduced skills test is anticipated to serve as a signaling mechanism for workers' technical skills. Yet its effectiveness may be limited, as the test is not occupation specific. As a result, employers often use stereotypes based on information such as workers' nationality to assess workers' skills and experience.<sup>51</sup>

**Post-entry training.** While post-entry training offered by the government may not be able to improve the quality of job matches, it provides opportunities for workers to upgrade their skills to meet employers' needs. However, most firms do not take the opportunity to train their EPS workers due to resource constraints. According to Lee (2014), of 385 surveyed firms, only 68 responded that their EPS workers had received this training, and about half of these said that the training yielded positive effects in terms of workers' capacity, performance, and work ethics. A key reason for not utilizing the opportunity to train EPS workers—even if cost-free—is that firms cannot afford to take the time to release their EPS workers from work sites for training, and workers use weekends for rest and social activities.

Moreover, firms tend to believe that workers should receive skills training in their home countries prior to migration. In this context, as Clemens (2013) asserts, a receiving country, such as Korea, can play a more active role in incentivizing sending-country institutions to foster Korea-specific skills development. Korea has already supported selected sending governments in establishing technical training centers, as part of its overseas development assistance. Evaluation of these centers' impacts on job matches and the quality of EPS outcomes could provide further information on the effectiveness of such measures for the receiving country.

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50 Skills in this context refer to both cognitive and non-cognitive.

51 Stereotypes based on nationality and marital status are also often used as a proxy for worker's diligence.

**Workers' information level.** Another potential source of matching inefficiency is that job seekers have insufficient information to make informed decisions. For instance, job seekers who made the cutoff to be on the EPS roster must indicate their preference for a sector and location, but they often do not have information on the exact conditions of employment in sectors, on individual firms within the sector, or on firms' preferences or the skills sought after.<sup>52</sup> Workers' choices are often made on the basis of imperfect information. For instance, workers may choose agriculture or fishery due to the sectors' lower TOPIK cutoff score, without knowing much about the working conditions or considering their own experience and skills.

Furthermore, with the exception of sector selection, the matching process is practically one-sided: workers have little information on prospective employers and few mechanisms to express their preference for specific employers, whereas employers receive quite a lot of information and choices regarding prospective workers. Allowing for workers to have information on firms and providing them mechanisms to express preferences can improve the outcomes of the matching process.

**Workers' expectations.** While the EPS is explicit that the types of occupations offered are physically and psychologically challenging and not necessarily intellectually rewarding (given that the EPS is designed to fill positions mostly known as 3D),<sup>53</sup> aspiring migrant workers overlook the true nature of the jobs. Given that employment through the EPS requires passing an exam, it attracts slightly higher-skilled and better-off workers than some other temporary labor migration corridors. A remuneration level that is higher than in many alternative destinations and the greater safety of the process also contribute to the creation of a false sense that other attributes will be attached to the job. Biased information from successful returnees to Korea may provide false expectations or unrealistic anticipations. Thus, introducing mechanisms to provide sufficient information to aspiring workers from day-to-day experiences in typical jobs across all potential sectors and locations—as well as common risks—could potentially improve not only matching quality but also workers' welfare.

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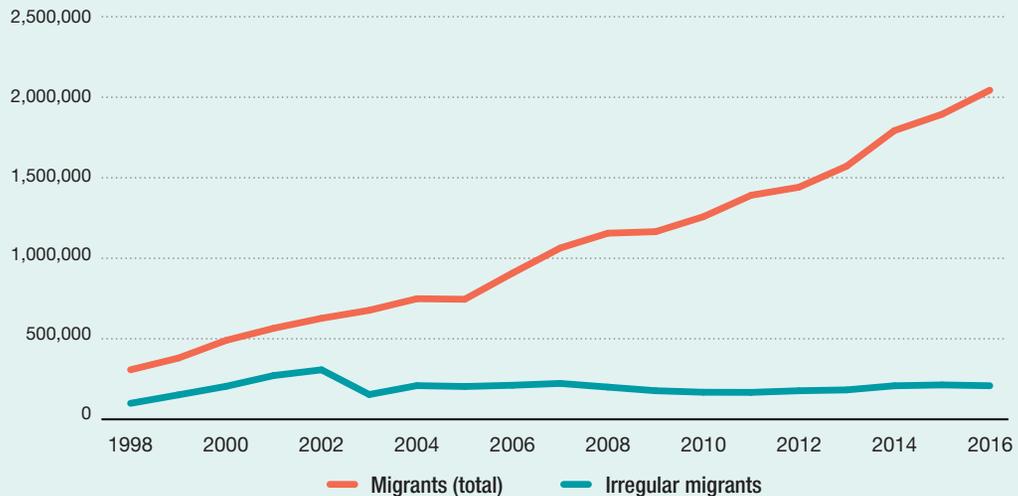
52 Focus group discussions with prospective EPS workers in Nepal revealed that, typically, the source of information on the most sought-after industries is usually either a language instructor or current or former EPS workers in prospective migrants' social network.

53 3D, as mentioned earlier, stands for "dirty, difficult, and dangerous."

## 6.5 Return to the Home Country

The EPS is designed to fulfill temporary labor needs first and foremost, and is not considered a legal route to permanent residency. Thus, ensuring the temporariness of the worker program is an important policy objective, and the EPS limits workers from bringing family members, allows returnees only on an exceptional basis, and restricts workers' total duration in the country. Since the implementation of the EPS, the share of overstays has significantly declined while the number of migrant workers has substantially increased over time (figure 6.4).

■ **Figure 6.4 Overall Number of Migrant Workers and Irregular Migrants, 1997–2016**



Source: Statistics Korea, Index Korea based on data from the MoJ.

In addition, the EPS adopts a few policy measures to reduce the number of irregular migrants. First, employers purchase departure guarantee insurance, while EPS workers subscribe to a return cost insurance, which is paid upon their return to their home countries. To motivate workers' timely return, HRD Korea has been proactive in identifying and delivering unclaimed insurance payments to returned workers.<sup>54</sup> The EPS also implements voluntary departure programs to encourage undocumented workers to leave without consequences. To incentivize

54 These are individuals who forgot about or were unaware of the option to claim either or both types of insurance.

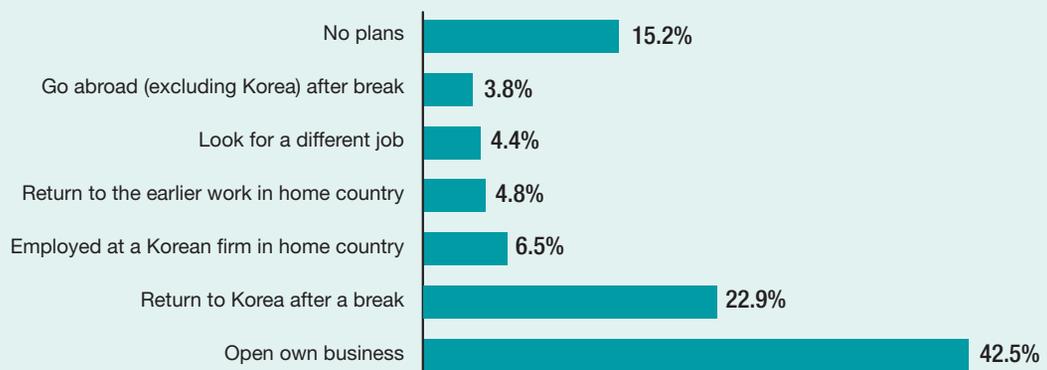
such returns, the government exempts the re-entry ban on undocumented workers without criminal records and removes the detention requirements and penalty fee associated with overstays. For example, the most recent amnesty program, set between July 7, 2017, and October 10, 2017, exempted undocumented workers who were leaving voluntarily from the five-year ban generally imposed on undocumented foreigners. Under this campaign, those who overstayed for less than five years can re-enter without a ban, whereas those who overstayed for more than five years are banned for one year only. In addition, under this voluntary scheme, employers are also waived from the hefty penalties they are subject to for hiring illegal workers.

More punitive measures are taken by the Ministry of Justice (MoJ), which carries out regular raids of job sites with warrants. The employers of undocumented migrant workers are charged with fines, are ineligible to hire foreign workers, and subject to criminal charges, which then leads to HRD Korea's employer inspections. Those employers who are found to violate the labor laws and EPS-related rules will no longer be eligible to apply for an EPS permit to hire foreign workers.

Labor-sending countries also encourage EPS workers to return in a timely manner, as stipulated by the contract and MOU they have signed with Korea. The share of workers following the rules is a major factor in ensuring that sending countries' quotas stay the same or even increase in the years to come. For instance, overstays of Vietnamese workers increased over time, and in response, Korea suspended the annual quota allocation to Vietnam from 2012 to 2016. Some sending governments have devised mechanisms to facilitate the timely returns of EPS workers. For example, a new MOU signed between the governments of Korea and Vietnam in 2016 stipulates, among other things, that workers from towns where previous overstayers originated will not be eligible to apply for EPS jobs (Jayaram 2016). Vietnam now also requires EPS workers to purchase a bond, which is refundable to the workers upon their return. (The regressive nature of this intervention, which disproportionately affects the poor who will not be able to pay this amount, needs to be considered.) The Nepalese government has undertaken various measures to bring back irregular workers from Korea. For example, the government follows up with families of EPS workers and makes public the names of irregular Nepali workers. In the Philippines, the Philippines Overseas Employment Administration has made public appeals to irregular foreigners in Korea to return, while also instructing labor attachés to play a more active role in ensuring their timely return.

As discussed above, the EPS includes provisions for both the return and reintegration of EPS workers in their origin countries through the Happy Return Program. Going forward, service provisions for returnees in partnership with home countries could be considered because there may be disparities between migrants' aspirations and the jobs available and the business environment in their home country. For example, as shown in [figure 6.5](#), migrant surveys indicate that many returnees aspire to run their own business. A survey of returnee workers in Nepal shows that 80 percent of the 951 EPS returnees are self-employed. EPS returnees believe that much can be done in this area to channel their skills and savings productively (World Bank 2009).

■ **Figure 6.5 EPS Workers' Aspirations for Labor Market Activities after Return (percentage of survey respondents from 15 EPS partner countries)**



Source: Chung 2013: 363, Table 5-102.

# Policy Recommendations

Growing numbers of developing countries are adopting temporary labor migration as part of their employment and poverty reduction strategies. Although this approach itself is not new—many now-developed countries have been sending their workers to places like Western Europe for decades—there are renewed efforts by governments to manage the large volume of labor flow through institutional arrangements such as government-to-government (G2G) arrangements. Assessing these can help inform policy interventions that both sending and receiving countries can undertake to maximize the shared benefits of migration.

## 7.1 Areas of Further Development in the Employment Permit System (EPS)

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**The EPS, introduced by the government of Korea in 2004 as a substitute for its predecessor, the Industrial Trainee System (ITS), is now a well-established G2G process for temporary labor migration.** The system, though not perfect, is commended for its clear guiding principles, institutional arrangements, and constant efforts to strengthen its implementation. In the course of the EPS's implementation over more than a decade, the system has managed to lower recruitment costs, reduce irregular migration, ensure worker protection and higher pay, and increase transparency. Measures introduced to the EPS (such as social insurance schemes, information disclosure and sharing mechanisms, and the application of domestic labor regulations) to ensure these outcomes have been recognized in global forums (e.g., the EPS received the 2011 UN Public Service Award) for their role in combating public service corruption in Asia and the Pacific.

**However, a few significant challenges remain that require further policy innovation and effort.** Despite multiple measures, worker protection remains a challenging area, particularly in the small but growing sectors of agriculture, livestock, and fisheries. A few cases highlighting challenges to workers' labor rights, even if they are not representative of EPS firms' practices, could pose significant risks to the sustainability of the system, considering the sensitive political economy that surrounds it. Another area of significant challenge is the process of matching workers to jobs. A high turnover rate despite the oversupply of

workers and elaborate matching mechanisms highlights the need to improve the quality of the job matching process. One way to do this is to provide workers with more information on potential employers and jobs during the process.

**Considering the EPS's advantages over less-managed migration systems, and the robust architecture on which it rests, the matching process could be vastly improved.** Multiple options could be piloted and tested. For instance, the information and preferences collected by both employers and workers could be better utilized in the matching process. Job centers' matching services, which rely on case workers' subjective judgements and level of effort, can be further systemized by improving the matching algorithm. Considering worker characteristics beyond Korean language test scores, education, gender, and nationality, to refine the pool of migrant workers, could potentially improve job-matching quality. This, coupled with a better understanding of the specific skills<sup>55</sup> employers look for (and employees can signal), could not only improve EPS matching outcomes but also inform matching mechanisms for low-skilled workers in the labor markets in general. Lastly, identifying ways to better align the matching mechanism with the two-sided job market—by allowing workers to get information on employers and signal their preferences (without necessarily changing the other aspects of the matching process)—can lead to significant improvements in the quality of the matches.

**In addition to these possible measures to strengthen the EPS, the system offers valuable lessons in good practices for both sending and receiving country governments wanting to improve their migration management systems, either unilaterally or bilaterally.** While drawing lessons from the EPS, it is important to consider the relatively small size of the program compared with those seen in many other migrant corridors. Important features of the EPS—including close oversight and monitoring, the absence of private intermediation, and enhanced transparency—all need to be considered through the lens of scalability.

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55 Including socioemotional skills.

## 7.2 Lessons for Other Receiving Countries

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### **Creating a system that is politically acceptable, and economically beneficial, is critical.**

Despite the potential gains of having migrant workers fill in labor shortages, misconceptions surrounding the issue of international migration in a domestic economy could hinder efforts toward co-development. Some common concerns are that foreign workers may displace domestic workers from jobs, lower market wages, weaken social cohesion, or be underpaid and exploited. Any negative experiences of either domestic or foreign workers—even if they do not represent the labor market as a whole—may stoke these concerns and disturb the sensitive political economy surrounding the issue.

It is therefore useful for receiving-country governments to incorporate many stakeholders' perspectives in policy making as well as widely disseminate labor market and social analyses to dispute common myths and ungrounded concerns about migrants. Public perceptions are also likely to be more positive if it becomes clearer that enforcement measures are in place to ensure that labor migration is temporary.

### **A multistakeholder process for policy making with a single implementing agency can be an effective governance model.**

The issue of international migration is complex and requires the integration of many stakeholders' perspectives. The EPS builds on policies determined through an elaborate process and structure. A committee led by the Ministry of Employment and Labor (MoEL), with the participation of key ministries,<sup>56</sup> as well as small and medium enterprise (SME) associations, trade unions, civil society organizations (CSOs), and academics, formulates balanced policies associated with the temporary labor migration agenda. However, with respect to implementation, the Human Resource Development Service (HRD Korea) under the MoEL takes the lead and provides a single window for various services.

### **Bilateral labor agreements need to distinguish between seasonal and non-seasonal work.**

As seen in the study, workers in sectors such as agriculture are exposed to higher incidences of labor code violations and, consequently, are more vulnerable. This partly stems from the fact that the EPS is designed primarily for non-seasonal sectors such as manufacturing, while the share of workers in agriculture and fisheries has been rising only recently. Bilateral labor agreements (BLAs) should distinguish between seasonal and non-seasonal work. For example, seasonal worker programs like the Recognised Seasonal Employer (RSE) in New Zealand have been highly successful because they are designed to address labor shortages in the seasonal horticulture sector.

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56 Participating ministries include but are not limited to the Ministry of Strategy and Finance, Ministry of Foreign Affairs, Ministry of Justice, and Ministry of Small and Medium Enterprises.

**Lowering migration costs can reduce the number of cases of migrant workers overstaying.** When migration costs are lowered, it benefits not only migrants and sending countries, but also receiving countries. The EPS achieved significant reductions in migration costs by limiting the involvement of private intermediaries in the recruitment process. This, in turn, lifted an indirect incentive for migrants to overstay in order to recoup high costs.

**Reducing migration costs may depend on the receiving country's ability to limit or oversee private sector intermediation.** When the size of migrant inflows is large, government-led recruitment does not automatically lead to better outcomes. Also, it might not be practical to curb the involvement of private sector players with long-standing connections to employers and agencies in sending countries.<sup>57</sup> In this case, the role of government would be to provide strong oversight of private recruitment practices. Through regulations, the government should be able to prevent private recruitment agencies from charging exorbitant costs and from selling job offers to their counterparts in sending countries. This should be coupled with the regular monitoring of recruitment agencies and the collection of feedback from employers (as done in Singapore, for example).

The success of the EPS relies on its utilization of public labor intermediation services that, in the case of Korea, are well developed. If the public sector in the receiving country is unable to effectively undertake the private sector's functions of mobilizing workers at scale and providing intermediation services, curbing middleman activities will be even more difficult.

**Irrespective of who provides intermediation and recruitment services, receiving countries can adopt a few EPS measures to reduce migration costs.** First, widely disseminating clear information on the migration process can help migrants reduce their reliance on middlemen. Information should include the actions prospective migrants need to take, legitimate actors, and resources for additional support. Second, presenting the standardized costs, disaggregated by item, can significantly enhance transparency and reduce costs. Third, requiring sending countries to reduce migration costs and worker overstays, and providing these countries with incentives (e.g., quota adjustments) to do this, is likely to be effective.

**Worker screening (through measures such as language tests) can potentially improve the experiences of both employers and workers.** The requirement that workers have a certain level of proficiency in the Korean language is one of EPS's hallmark traits. Testing serves multiple purposes. As a screening tool, it helps employers select workers with greater aspirations and intellectual capabilities, given the significant time and effort that applicants must invest in preparing for the test. This preparation helps workers learn not only the language,

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57 As seen in the implementation of an MOU between Bangladesh and Malaysia attempting to set up G2G recruitment.

but also the culture and social norms of the receiving country. Ultimately, it will correlate to higher productivity levels, since successful applicants will have proven they can understand and respond to instructions.<sup>58</sup>

**Screening for traits (beyond language proficiency) that are valued by employers can further improve worker placement outcomes.** Anecdotal evidence suggests that EPS employers find workers' language proficiency generally insufficient for understanding tasks and a poor measure of the soft skills and traits they value, such as diligence. Thus, it is important to design a worker-screening mechanism (e.g., psychometric measurement) that can assess additional skills and traits that employers look for.

**Worker protection can be provided through a combination of labor regulations, social insurance, and social support.** Labor regulations regarding minimum wage, working hours, and safety conditions should be applicable to all workers. To further help workers manage risk, the private insurance market or contributory funds can be utilized to provide specific health or repatriation insurance to migrant workers. In cases where there is a large volume of workers, this type of insurance can be provided at low cost. Moreover, measures to facilitate the provision of counseling and social support through sending countries' embassies or diaspora networks could be considered.

These protections can help increase worker productivity and reduce instances of disputes, job separation, or contract violations. In addition, giving foreign workers the ability to switch jobs under certain conditions can reduce the number of migrants falling outside of contracts, as may happen in cases of job mismatch or employer abuse.

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58 The language test TOPIK has been in place since 1997, and HRD Korea implements a modified test for EPS workers, EPS-TOPIK, in parallel. While the regular TOPIK measures an individual's general language proficiency, and is used typically for higher education, the EPS-TOPIK tests an individual's basic command of language for daily living and performing tasks on the job. However, even when workers can demonstrate proficiency on the EPS-TOPIK, they find the language to be a major challenge while living and working in Korea.

## 7.3 Lessons for Sending Countries

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**Bilateral agreements such as memorandums of understanding (MOUs) should be specific and actionable.** Existing MOUs between countries tend to be generic, encompassing overall migration flows with multiple objectives and weak enforcement. The EPS is limited to a few sectors in which Korea faces labor shortages. This allows for workers to make more informed choices in terms of skill development and other investments needed to pursue work opportunities. Based on this experience, sending countries can push for more manageable, sector-specific bilateral agreements (for example, in elderly care, domestic work, or hospitality) to address labor shortages in receiving countries.<sup>59</sup>

**Even within the same bilateral program, migrants' outcomes can vary widely depending on the proactiveness of the sending country.** The EPS has been implementing very consistent MOUs with 16 sending countries, but levels of involvement vary by country. Pakistan, for example, has not succeeded in mobilizing workers to reach its assigned quota, whereas other countries such as Nepal and Cambodia are seeing increases in the number of EPS workers. Some countries use unilateral interventions to facilitate employment under the EPS. For instance, the Government of the Philippines worked out an MOU with Landbank to provide subsidized loans for EPS workers, thus providing individuals from lower-income households more access to EPS opportunities. This in turn increases the developmental impact of temporary international labor migration.

**To the extent possible, sending countries should widely disseminate information on migration costs by key destination, unbundled by line item.** HRD Korea spends considerable resources to widely disseminate information related to EPS processes and costs via newspapers and online, translating all information into native languages. Each step of the process is clearly described, and the costs of migration are broken down by line item (e.g., health insurance, passport and visa, recruitment fees, etc.). Thus, even when the costs of recruitment are high, aspiring EPS workers are aware of them and are assured that the charges will not vary arbitrarily from migrant to migrant. This prevents the financial exploitation of aspiring migrants and allows them to better plan for their migration.

Similarly, the governments of sending countries could disseminate such information or mandate that recruitment agencies publicly disclose information on service fees and costs, by line item and by country of destination.

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59 A merit of occupation-specific BLAs is that they offer opportunities for workers to invest in building specific skills for specific destinations. This in turn allows both sending and receiving countries to develop further up-skilling opportunities for these workers.

All of these steps can help migrants better plan their finances as well as gain better access to credit. In many countries, international migration is an option utilized not by the poorest but by those slightly better-off. Migration costs are high, but financial institutions have difficulty in developing loan products customized for migrants due to limited information on costs and risks. Thus, clearly delineated migration costs can facilitate financial institutions' development of loan products tailored to migrants' specific contexts, and extend access to credit to even the most vulnerable segments of their population.

**Pre-departure training of migrants should focus more on language and soft skills.**

Many sending countries invest in skills training for migrant workers to increase their earning potential. This training tends to focus on technical skills (and most often for the construction or manufacturing sectors). However, given the changing migration landscape, which is characterized by a rising demand for workers in service sectors and diversifying occupations, language and soft skills are becoming more vital. Unless language proficiency is required, as in the case of the EPS, language skills are often overlooked. However, as interviews with EPS employers have suggested, better language and soft skills are greatly appreciated, and can be further fostered through worker training. Given the volume of workers going to the Gulf Cooperation Council (GCC) countries, investment in English or Arabic language skills is especially important.

**Pre-departure orientation should be customized to the needs of migrant workers.**

In the case of the EPS, workers' participation in pre-departure and post-arrival orientations is mandatory. Many sending countries offer their own pre-departure orientations to promote safe and productive migration. However, these orientations are often too general and are not deemed useful. Similarly, interviews with EPS workers reveal that pre-departure orientation courses are not as useful as they could be. EPS workers prefer the post-arrival orientation, which covers language, cultural, and legal issues relevant to life and work in Korea.

In addition to relevance, workers expressed the need for the pedagogy to be more accessible. Different ways to impart complex information (including videos and interactive games) could be further experimented with and introduced.





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