

# Costs of Low Skilled Migrants in South Korea: The Case of Sri Lanka

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## I. Introduction

In 2017, 581 people departed per day from Sri Lanka for temporary employment abroad (Sri Lanka Bureau of Foreign Employment, 2018). While there are benefits from migration – both to the individual, immediate family and the economy at large – there are high costs associated with migration, and these costs can be a barrier to cross-border labor mobility, especially for low-skilled workers. Costs accrue to various stakeholders in the migration process, mainly to the migrant worker and a lesser extent to employers, recruitment agents, and the sending and receiving governments. The costs of migration are distributed among the stakeholders across the three phases of migration: 1) pre-migration, 2) migration and 3) post-migration.

This brief complements the study by Weeratne, Wijayasiri and Jayaratne (2018), which looked at the pre-migration costs to South Korea<sup>1</sup> (in

addition to Saudi Arabia and Malaysia). Weeratne et al (2018) find that pre-migration to Korea is a relatively more streamlined process with few players, which has contributed to keeping recruitment costs low (at approximately USD 1,389 in 2017). This brief focuses on identifying migration costs at the destination for low skilled migrants from Sri Lanka in the manufacturing sector in Korea and what measures can be implemented to further reduce the costs for migrants, based on key informant interviews (KIIs) and documentation. KIIs were conducted in October 2019 with one Sri Lankan government official based in Korea, one Korean social worker in a support center for foreign migrants and eight Sri Lankan low skilled workers in the manufacturing sector in Korea, of which one was a leader of a Sri Lankan welfare association.<sup>2</sup> These interviews were supplemented with published information and statistics obtained from respective governments of Sri Lanka and Korea, international organizations and academics.

Also the discussion is limited to monetary costs associated with migration though these jobs can impose severe physical and mental costs on workers as they are dirty, dangerous and difficult work.

1 Hereafter referred to as Korea.

2 Due to time constraints, the brief focuses on migrants in the manufacturing sector though Sri Lankans are allowed to work in other sectors of the Korean economy such as fisheries, and construction.

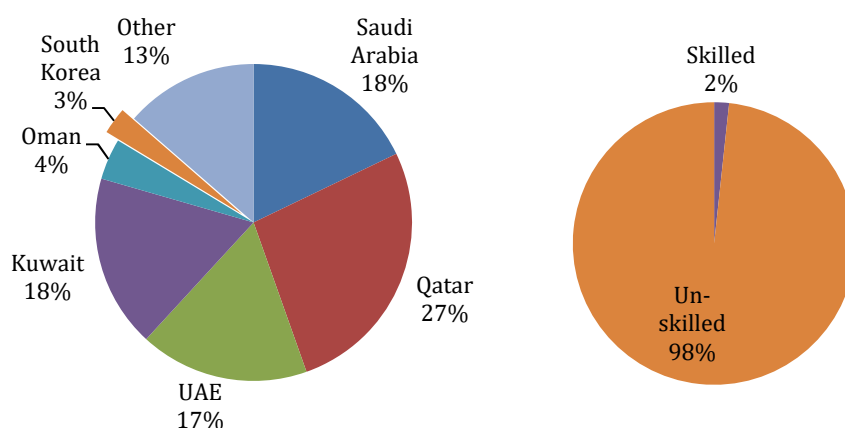
## II. Labor Migration from Sri Lanka

Total departures for foreign employment from Sri Lanka stood at 201,911 in 2017, of which 66 and 34 per cent were male and female, respectively (Sri Lanka Bureau of Foreign Employment, 2018). In the past decade, there has been a considerable decrease in the number of female departures, which has been accompanied by a significant change in the gender composition of departures from 2007 (male to female ratio was 47:52) due to various regulatory measures undertaken by the government to reduce the female migration.<sup>3</sup> In terms of skill levels, unskilled labor including housemaids accounted for 55 per cent of the total departures in 2017, followed by skilled (33 per cent), clerical (4.8 per cent), middle level (3.4 per cent), professional (3 per cent) and semi-skilled (1.5 per cent) categories. The Middle East has been the main market for Sri Lankan workers, making up of about 90 per cent of the total departures. Since the late 1990s, however there has been a diversification of destinations for Sri Lankan migrants away from traditional markets

in the Middle East to countries such as Cyprus, Israel and Korea.

In 2017, 5,805 Sri Lankans have officially gone to work in Korea, of which more than 95 per cent were unskilled workers (Sri Lanka Bureau of Foreign Employment, 2018). Korea now accounts for about 2.7 per cent of departures from Sri Lanka (Chart 1), and ranks at 6th place as destination country after Qatar, Saudi Arabia, UAE, Kuwait, and Oman. Males dominated the departures to Korea, accounting for 99 per cent of workers, given the nature of occupations available in Korea. According to Wijesooriya (2017), the majority of those seeking work in Korea were in the age categories of 20-24 and 25-30. Low income/low wages in Sri Lanka and higher salaries in Korea were cited as the main reasons for seeking employment in Korea. Other reasons include: low pre-departure costs; no agency fees; no requirements in terms of specific educational qualifications, skills or professional tests other than proficiency in basic Korean language; time-bound legally accepted working visa (Don Hettige & Abeygunawardana, 2018).

**Chart 1: Top Departures for Foreign Employment by Country and Manpower Level to Korea, 2017**



Source: Sri Lanka Foreign Employment Bureau, 2018

<sup>3</sup> For example, the Family Background Report (FBR) was introduced in 2013 in an attempt to restrict labor migration of females with young children, with a

long-term objective of reducing adverse implications on children and family left behind.

Migration plays a key role in the economy of the country, in terms of reducing underemployment and unemployment especially among the youth and women. Moreover, worker remittance forms the largest source of foreign exchange, amounting to USD 7bn (Central Bank of Sri Lanka, 2019) and the contribution of foreign employment to GDP is estimated to be approximately 8 per cent in 2018.

The government of Sri Lanka is increasingly focusing on moving away from the Middle East, where a majority of Sri Lankan migrants are employed as housemaids and in low-skilled jobs, which are associated with low remuneration and harassment and abuse in the workplace, to Japan, Korea and Europe. The Government has placed particular emphasis on increasing the migration of skilled workers through better vocational training.

### III. Labor Migration to South Korea

Over the past two decades, Korea has emerged as a popular destination for migrants from Asia, largely driven by government policy (Oh, Hur, Kang, Kim, & Shin, 2013). Unskilled migrant workers have been allowed on a temporary and limited basis to meet the labor shortages of the short and medium scale enterprises (SMEs)<sup>4</sup> in Korea, as the local population turns away from the so-called 3D jobs – dirty, difficult and dangerous occupations in construction, manufacturing, agriculture and farming. With a looming

demographic challenge in Korea, caused by a decline in fertility rate which is well below the replacement rate, the population is rapidly ageing, with significant implications on economic growth. Reliance on foreign labor is one potential solution to Korea's demographic challenge. However, labor migration to Korea is currently dominated by unskilled workers. Factors such as income level, ageing population in Korea and sizable young population in origin countries, trade links with Korea and migration policy have largely contributed to unskilled migration flows to Korea (Oh & Jung, 2013).

The Employment Permit System (EPS), which was introduced in 2004 and gradually replaced the Industrial and Technical Training Program (ITTP) in 2007, governs the recruitment of foreign unskilled workers to Korea (Oh & Jung, 2013). EPS allows employers who have failed to recruit native Korean workers to legally hire an adequate number of foreign workers while effectively managing the complex political economy surrounding the migration issue in the country.

EPS is a government-to-government (G2G) agreement between the governments of Korea and selected migrant-sending countries.<sup>5</sup> Implementation of the EPS is led by the Human Resource Development Services under the Ministry of Employment and Labor (MOEL). The agreement stipulates the recruitment, selection, and placement of workers would be managed by entirely by government institutions in charge of labor migration.<sup>6</sup> Thus, the

4 In Korea, firms with less than 300 employees are considered to be SMEs (Choo, Denisova, Yi, & Khadka, 2018).

5 These include Bangladesh, Cambodia, China, Indonesia, Kyrgyzstan, Laos, Mongolia, Myanmar, Nepal, Pakistan, the Philippines, Sri Lanka, Thailand,

Timor-Leste, Vietnam and Uzbekistan.

6 EPS Implementing Agency in Sri Lanka is the Sri Lanka Bureau of Foreign Employment (SLBFE) under the Ministry of Foreign Employment.

system excludes the involvement of private recruitment agencies and intermediaries, which distinguishes it from many other bilateral labor agreements, thereby improving the transparency of the recruitment process and reducing the recruitment costs. Moreover, it has enhanced the rights of workers and provides protection against overdue wages and industrial accidents while workers are covered by national health insurance. The maximum permitted stay is two separate stints of four years and 10 months each. Those under the EPS are not allowed to change workplaces except when there are cases of assault, unpaid wages or bankruptcy. The workers also need the consent of their employers to change workplaces. Activists have long called for the abolishment of the EPS, and replacement by a Labor Permit System that would allow foreign workers to freely change their workplaces without the approval of their employers.

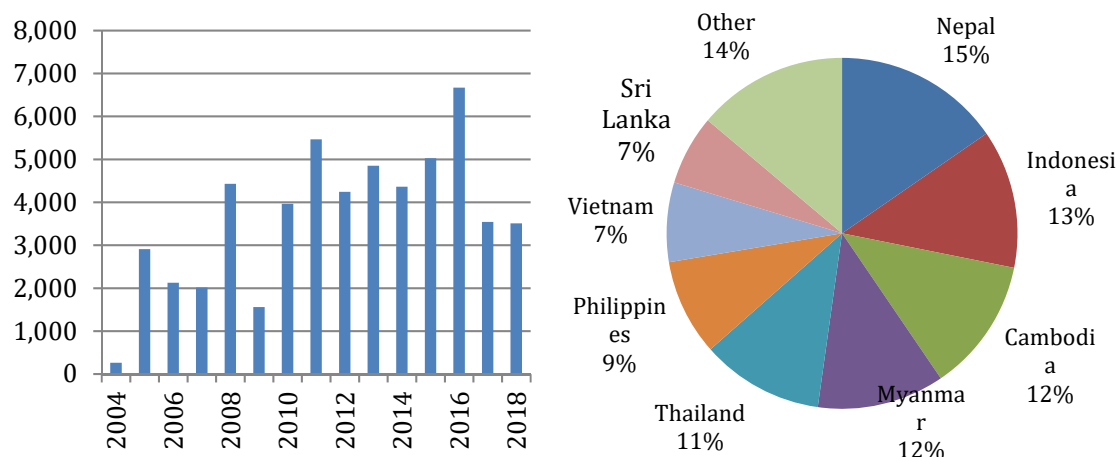
Annually the Korean government reviews and sets worker quotas for the selected labor sending countries based on labor shortages in specific sectors and the macroeconomic situation in the country including the unemployment rate (Oh & Jung, 2013). Quota distribution across countries is determined by employer preferences, foreign policy considerations, and the size of the illegal migration from a particular country. Between 2004 and 2015, more than 540,000 individuals had worked under the EPS, with the largest share of workers originating

from Vietnam (Choo, Denisova, Yi, & Khadka, 2018). In fact, EPS has emerged to become the largest temporary foreign worker program operating on a bilateral basis among OECD countries (OECD, 2019).

## IV. Profile of Sri Lankan Migrants in South Korea

Employment for Sri Lankan workers in Korea is governed by EPS. The first bilateral agreement (MOU) under EPS was signed between the Governments of Sri Lanka and Korea in 2004. EPS allows the three industry segments of manufacturing, fishery and construction to hire Sri Lankans. Since 2004, there has been an increase in unskilled labor migration from Sri Lanka to Korea, with the largest number of flows recorded in 2016 (6,669 migrants), after which the number has fallen to 3,542 and 3,500 by 2017 and 2018, respectively (Chart 2). Out of the total unskilled migrants incoming in 2018, 87 per cent work in the manufacturing sector, 14 per cent were employed in the fisheries sector, and less than 1 per cent in the construction and service sectors. Currently, Sri Lanka accounts for about 6-7 per cent of the total unskilled labor in Korea and ranks at 8th place as a source of unskilled migrants to Korea, after Nepal, Indonesia, Cambodia, Myanmar, Thailand, the Philippines and Vietnam in 2018.

**Chart 2: Number of Unskilled Sri Lankan workers in South Korea (2004-2018) and as a per cent of Total Unskilled Workers (2018)**



Source: Statistics Korea, International Migration Statistics

There are approximately 21,938 Sri Lankan unskilled workers in Korea as of end-August 2019 based on information provided by the Korean Ministry of Justice. Most of the migrant workers from Sri Lanka live in industrial suburbs of Gyeonggi-do, given the location of heavy industry (electronics, machine, heavy and chemical industry, steel), light industry (textile), and farm, livestock and fisheries industry in this locality.

Foreign workers including Sri Lankans are paid a minimum wage in line with the labor law of the country. However, the additional pay rate for overtime, night shift and holiday work are paid depending on the contract provided by each company (Ministry of Employment and Labor, 2015). They can earn starting from KRW 1,745,150 (basic) a month and upwards

(as much as KRW 3mn) depending on over-time/night shift and sector.<sup>7</sup>

## V. Costs of Migration in South Korea

There are various financial costs that a migrant incurs during his/her stay in Korea, these costs vary according to the migrants' consumption behavior and companies for which they work.

- *Accommodation*: is provided for migrant workers from Sri Lanka, and most of the time the cost is borne by employer depending on the company and its financial capability.<sup>8</sup> They are usually accommodated within company dormitories or rented

<sup>7</sup> At present, most foreign workers are mostly hired at minimum wage but due to overtime their monthly wage is above the Korean minimum. The minimum wage rate is KRW 8,350 per hour in 2017 and number of minimum hours is 209 hours according to contract. If they work 226 hours, they can earn KRW 1,887,100 a month. Overtime rate (above 8 hours a day) is KRW 12,525 while night rate is KRW 12,525

per hour. The wages in the fisheries sector is lower according to KIIs.

<sup>8</sup> In 2015, more than 90 percent of workers had housing provided by their employer; of these, two-thirds of employers paid their housing costs entirely (OECD, 2019).



premises close to the workplace, and utilities are also provided by the employers. However, companies are allowed to deduct the cost of accommodation and food up to 20 per cent of the worker's salary since 2017. Cost of accommodation could vary from free lodging (no cost) up to KRW 350,000 a month for shared rental according to KIIs.

- *Food:* Some employers also provide meals, sometimes up to three meals for their employees, depending on the company, and the working hours. These are often specified in the labor contracts. However, some migrants who were interviewed prefer to cook at least one meal (usually dinner) at their own cost. Often they pool money with their roommates (KRW 150,000-200,000 a month) and bulk purchase groceries and prepare their meals.
- *National Pension Service (NPS):* is a social security system implemented by the Korean government to ensure a stable livelihood by collecting contributions and paying pension benefits for the insured or their dependents, to provide income security in case of retirement, disability or loss of a breadwinner. Like Korean nationals, foreigners residing in Korea are subject to compulsory coverage of NPS. Workers must contribute 4.5 per cent of their monthly income, while an equal amount is contributed by the employer. Thus the amount varies depending on incomes; for example, the KIIs paid between KRW80,000-150,000 a month. Migrants enrolled in the NTS can obtain one-

time refund when they return home.

- *Insurance Schemes in Korea:* There are 4 mandatory insurances under EPS. These include: Departure Guarantee Insurance,<sup>9</sup> Guarantee Insurance,<sup>10</sup> Return Cost Insurance, and Casualty Insurance. Of the four schemes, two are purchased by the employee (Ministry of Employment and Labor, 2010):
  - *Return Cost Insurance:* The migrant has to obtain this insurance coverage to meet the expenses of his return journey. The total amount paid by Sri Lankan national is KRW 600,000 (Embassy of Sri Lanka - Republic of Korea, 2016). Total amount will be paid upon departure of foreign workers for home country.
  - *Casualty Insurance:* The foreign worker has to obtain this insurance coverage to claim compensation in the event of an accident, sickness, disability or death outside of the job.<sup>11</sup> They apply for this insurance for 3 years, which is to be renewed after completing the three-year contract period. The fee varies according to gender, age and period of stay. For example, the fee is KRW 9,100 per year for a 30 year old male.
- *National Health Insurance:* foreign migrants are enrolled under the NHI and they pay an insurance premium depending on their income (monthly income x 2.54 per

9 This is an insurance used for the purpose of disbursing severance pay to the foreign worker upon his departure.

10 An insurance that guarantees unpaid wages for

foreign workers

11 Employers have to purchase Industrial Accident Compensation Insurance, which provide security to injured workers and their families.

cent). KIIs reportedly paid between KRW 60-100,000 per month; they can claim up to 50 per cent of their medical expenses while the remainder has to be pocketed by the worker.

- *Taxes:* Korea has a progressive tax rate. Alternatively, foreign residents can choose to pay a flat tax at 19 per cent instead of the progressive tax. It appears from the stakeholder interviews, most migrants opted for progressive taxation paying between KRW100-180,000 a month.
- *SLBFE Registration:* Any Sri Lankan who leaves for employment overseas has to obtain SLBFE registration before leaving the country. After completing the 3-year contract period, they have to renew the registration for another 1 year and 10 months. Renewal registration fee is KRW21, 000.<sup>12</sup> In the event of a change of employer, they need to obtain a new registration for the remainder of their contract period, which is KRW100,000.
- *Miscellaneous expenditure (clothing, entertainment, mobile, transport, etc.):* These costs vary according to individual migrant's spending habits and his objectives for coming to Korea. Expenditure can include payments for mobile phone/connection, outings with friends, entertainment and clothing.<sup>13</sup> This expenditure varies depending on how much they work/have spare time as

stated by a migrant worker interviewed.

- *Transaction costs of remittances:* Almost all of the migrants interviewed saved a bulk of their salaries (70 per cent upwards) given the temporary nature of migration to Korea and sent money back home almost every month, depending on their obligations in Sri Lanka – whether to support family back in Sri Lanka or pay back loans/leases taken out.<sup>14</sup> For example, the average cost of migration to Korea amounts to approximately KRW 1.65mn, and banks in Sri Lanka provide this amount in a loan to be paid back in monthly installments over a period of two years at a low interest rate (Weerartne, Wijayasiri, & Jayaratne, 2018). They remit money mostly through formal channels (for example, a local bank or money transfer app), for which there is a charge of about KRW 5,000 flat fee per transaction for an amount less than KRW3mn. Increasingly migrants including the key informants are using apps to send money rather than visiting banks, given the ease and lower fees of using an app. A handful send money through friends who are travelling to Sri Lanka or use other informal arrangements such as *Hundi*<sup>15</sup> money transfer. Migrants often keep a track of the exchange rate movements and remit money whenever they can obtain a good rate.

12 SLBFE uses the registration fees to support welfare measures related to Sri Lankan employees who work outside of Sri Lanka and their family members. In this regard, the SLBFE provides food and medical support, emergency repatriation expenses in case of illness/death, and repatriation of human remains.

13 Some companies do provide basic clothing for the workplace throughout the year including the winter. If the place of work is far away from where the

worker is accommodated, office transport is provided by the employer.

14 This corroborates with findings that unskilled migrants in Korea save about 70 percent of their income and more than 90 percent remit money (OECD, 2019).

15 A promissory note

## VI. Policy Recommendations

Taking into account the substantial savings remitted and compulsory payments each month – various insurances, pension, taxes – the scope to further reducing their expenditure in Korea may be limited for migrants. Nonetheless, temporary nature of migration in Korea necessitates that policymakers in both home and host countries pursue ways to help migrants in maximizing the accumulation of savings during their period of stay abroad. Helping migrants to work towards their financial goals reduces the likelihood of such individuals overstaying. Financial literacy programs can have a sizeable influence on migrant financial decision-making and practices as recommended by KIIs. Also, literature has shown that participation in a motivational workshop aimed at improving the financial habits of migrants raised the amount of savings and remittance amongst those with prior low savings levels (Seshan, 2019).

All workers from Sri Lanka before their departure to Korea for employment undergo a pre-departure training offered by the Sri Lanka Bureau of Foreign Employment. This training covers Korean language, understanding of Korean culture and EPS, industrial safety and special subjects of each industrial sector of employment and daily physical training. After their arrival in Korea, they participate in employment training sessions before their employment for three days. The training covers language, the EPS, labor laws and relevant information for daily life (OECD, 2019). Integration of financial education classes or motivational workshops into such training provides a means to increase migrant's savings behavior.

Other approaches could include a voluntary savings scheme whereby a portion of their income is automatically saved at a regular interval so that a reasonable level is accumulated by the time the migrant returns home for good as suggested by migrants interviewed.

As discussed above, there are various social schemes in Korea as well as Sri Lanka (for example, Casualty Insurance and the SLBFE registration fees which include insurance coverage, respectively). They provide similar benefits for which the migrant has to pay – before departure to Korea or after their arrival. These appear to be duplicative in their objectives, and could be rationalized to ensure that costs of migration are marginally reduced for Sri Lankan workers.

While trying to minimize costs, opportunities to increase the income capacity should be explored. Given the guaranteed number of hours in the manufacturing, over time payments, migrants in this sector earn marginally more than those in the fisheries. However, workers from Sri Lanka have chosen the fisheries sector due to the lower pass mark, without knowing much about the working conditions or considering their experience/skills (Choo, Denisova, Yi, & Khadka, 2018). Consequently, there have been a high number of high turnover-runaways, which has negative implications for quota allocations to the country and impression about Sri Lanka according to KIIs. Towards addressing the issue, SLBFE has taken steps including giving specific training for those selected for fisheries sector prior to departure. In this context, Sri Lanka should further focus on sending migrants to the manufacturing sector as opposed to fisheries given the higher remuneration and opportunity to earn more in Korea. **KIEP**



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