

# The Role of Exports in the Korean Labor Market



WHANG Un Jung

Ph.D., Associate Research Fellow, Regional Trade Agreement Team

Korea Institute for International Economic Policy 

Recently, concerns are rising in Korea regarding the continuous slump in the manufacturing labor market, including a high youth unemployment rate. Contrary to people's expectations, there is no sign of recovery in the labor market despite the recent upswing in exports. The Korea's past export strategy, which mainly focused on labor-intensive industries to drive successful industrialization and economic growth during the 1970s-90s, cannot keep its effect of creating jobs enough. For the past 20 years since 1990, Korea's exports have grown at an annual average rate of 7.8 percent, while employment has declined at an average rate of 0.2 percent.<sup>1</sup>

The fact that exports do not create sufficient jobs is a grave issue for the manufacturing-based export-driven economy like Korea. Therefore, it is an important policy question to identify main reasons why the virtuous circle between exports and employment has weakened considerably.

<sup>1</sup> Over the 20 years since 1970, manufacturing exports and employment have grown at an annual average rate of 12.4 and 7.4 percent, respectively. These figures were calculated using the Mining and Manufacturing Survey provided by the Statistics Korea and Korea International Trade Association.

With the struggling Korean labor market, devising good employment policies for effective job creation has become a top priority for many economists and policy makers.

In light of the importance of exports in the Korean labor market, this article attempts to primarily reasons why export growth does not lead to sufficient job creation, and then explain the relationship between exports and employment based on a recent KIEP study. This study looks into the effect of exports on employment, using the industry-level data of the Korean manufacturing sector in order to show how changes in the composition of export products lead to changes in the employment effect of exports. The main purpose of this study was to provide useful information that can shed light on why the employment effect of exports has weakened, and then to suggest some policy implications which could possibly strengthen the virtuous cycle between exports and employment.

The main findings of the study by KIEP can be summarized as follows. First, the reduction in the employment effect of exports is highly correlated with the changes in the composition of the export products. In other words, the employment effect of exports has weakened as the composition of exports has shifted toward less labor-intensive products. A closer look into the changes in the composition of export products shows that the share of the top five labor-saving industries (petroleum, primary metals, transportation equipment, chemicals, electricity and electronics) in total exports has increased significantly from 36 percent in 1980 to nearly 84 percent in 2010, whereas the share of the top five labor-intensive industries in total exports has decreased by 48 percent for the last 30 years. It is worth to note that the employment effect induced by exports may be weaker than that by domestic demand.<sup>2</sup>

Second, the increase in exports leads to an increase in manufacturing jobs, and the export elasticity of employment decreases as the capital-intensity of industry increases. This implies that the reason why exports do not create sufficient jobs is closely related to the capital intensity of export industries. Third, the export elasticity of employment tends to be higher when the export proportion of Small and Medium Enterprises (SMEs) is larger. In other words, the employment effect of exports is relatively low in an industry that is highly related to SMEs. The export elasticity of employment also depends on a product's main end-use (i.e., intermediates, capital, final consumption), which differs across industries. To be more specific, the

<sup>2</sup> In 2010, the five major labor-saving industries accounted for 58 percent of total domestic demand, which is very low compared to 84 percent of total exports. In 1980, the share of these industries in the total domestic demand was similar to that in total exports.

greater the proportion of intermediate inputs in an industry, the lower the export elasticity of employment. In contrast, the employment effect of exports is positively associated with the export share of final consumption goods. These empirical findings imply that, other things being equal, the exports of final consumption goods produced by SMEs are relatively more effective in creating jobs than other types of goods. This result supports why the Korean government emphasizes policies to encourage participation and promotion of exports led by SMEs.

Above all, it is important to understand that the main reason for the weakening of the employment effect of exports is the natural consequence of efficient resource allocation among industries. As the decline in manufacturing jobs that happens in the process of efficient allocation of resources is considered a positive aspect of economics growth, we should be cautious when it comes to implementing policies for employment promotion through changes in the industrial structure. The empirical findings of this study also emphasize the importance of government policies to foster SMEs as new growth engines because it is difficult to expect further job creation through the increase in exports concentrated in labor-saving large-sized firms.<sup>3</sup>

To this end, it is important to implement some policies for SMEs' continuous growth, such as promoting business cooperation between large- and small-sized firms, regulatory reform. Second, it is necessary to actively support startups and SMEs that can adapt quickly amidst dramatic changes stemming from the fourth industrial revolution. Third, it is important to provide government support for securing overseas distribution channels in order to expand the export penetration of SMEs. For example, it could be possible to promote participation and expansion of SMEs utilizing the local distribution of large-sized firms (e.g., E-Mart, Lottemart, etc.) or global open markets (e.g., Amazon, eBay, Taobao, etc.). Finally, it is recommended to increase the participation of SMEs in GVCs through government policies that enable foreign multinational companies to utilize domestic production facilities more actively. **KIEP**

<sup>3</sup> In fact, SMEs account for a large portion of the total workforce, while the share of SMEs in exports is steadily decreasing. In 2014, the export share of Korean firms with 250 or more employees was about 80 percent, which was the highest level among OECD countries. Meanwhile, the share of SMEs in total employment was nearly 80% in 2014, indicating the recent increase in manufacturing employment can be explained by SMEs.