

# *Trade and Worker Vulnerability in Korea*

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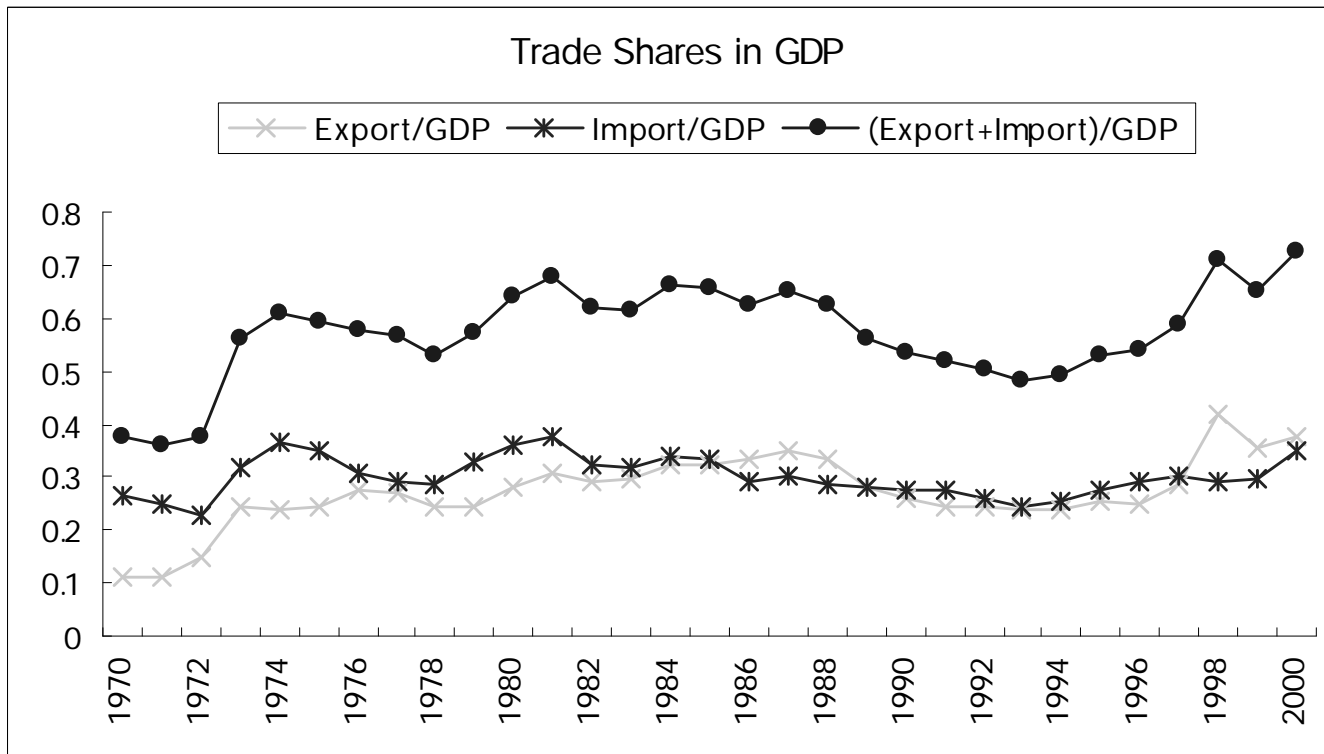
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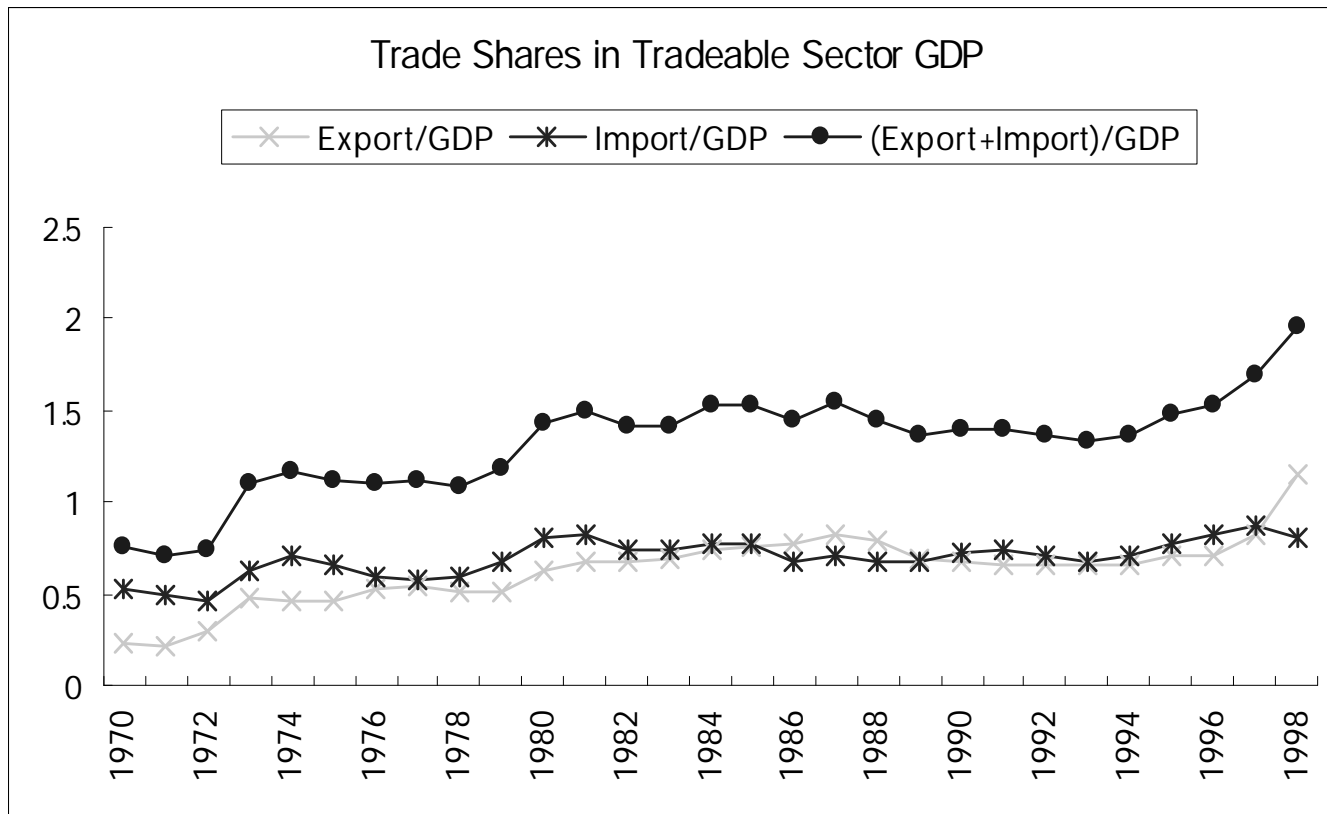
# I. Changes in Trade

## (1) Relatively Stable Trade/GDP Ratio

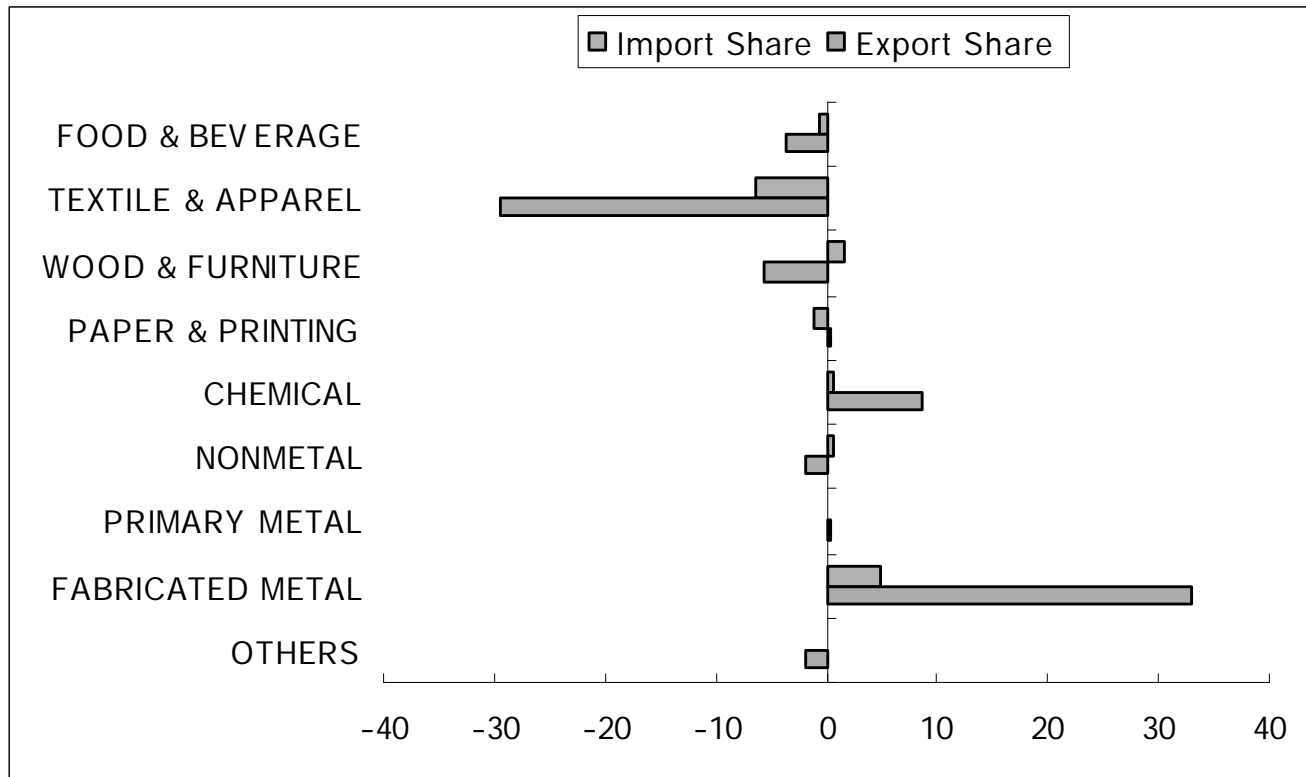


- Rapid Growth in Non-Traded Sectors
- Sign of Growth since the mid-1990s

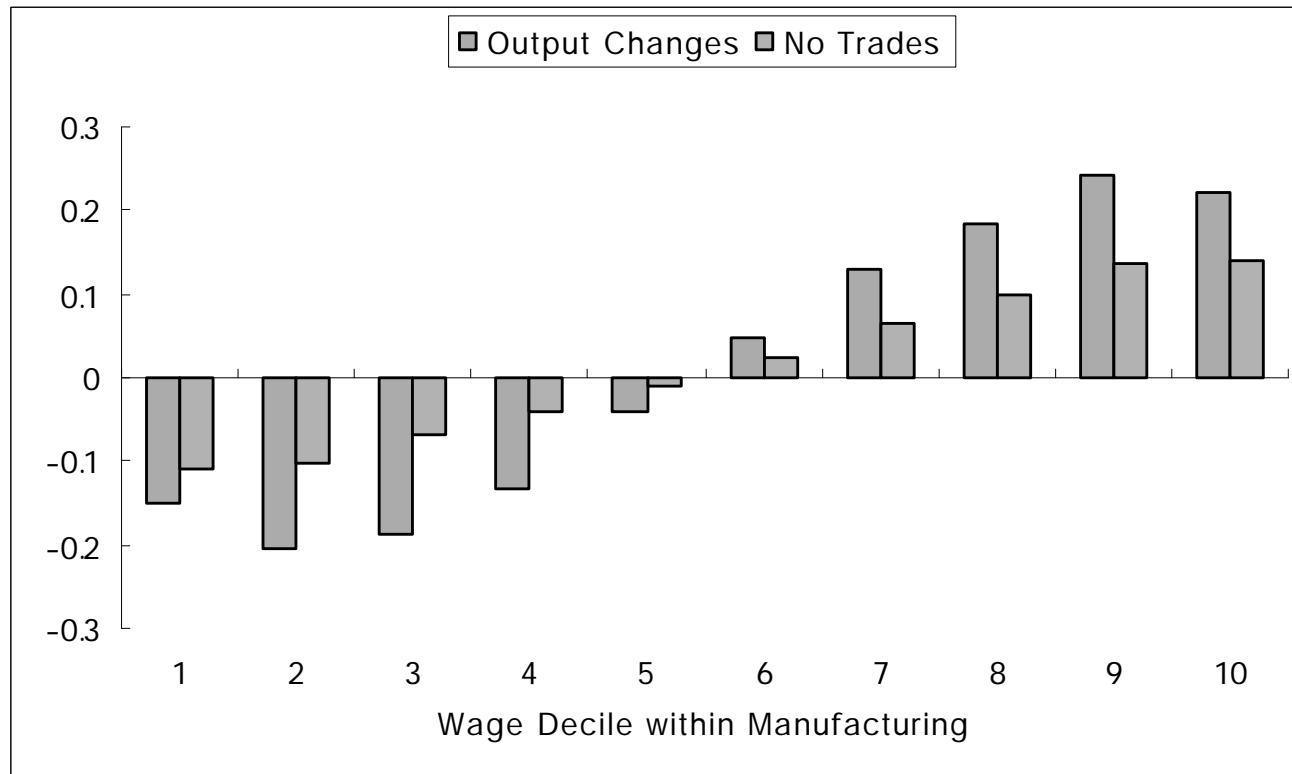
## (2) Steady Growth of Trade/GDP Ratio in Traded Sectors



### (3) Compositional Shift in Trade (Manufacturing, 1976-97)



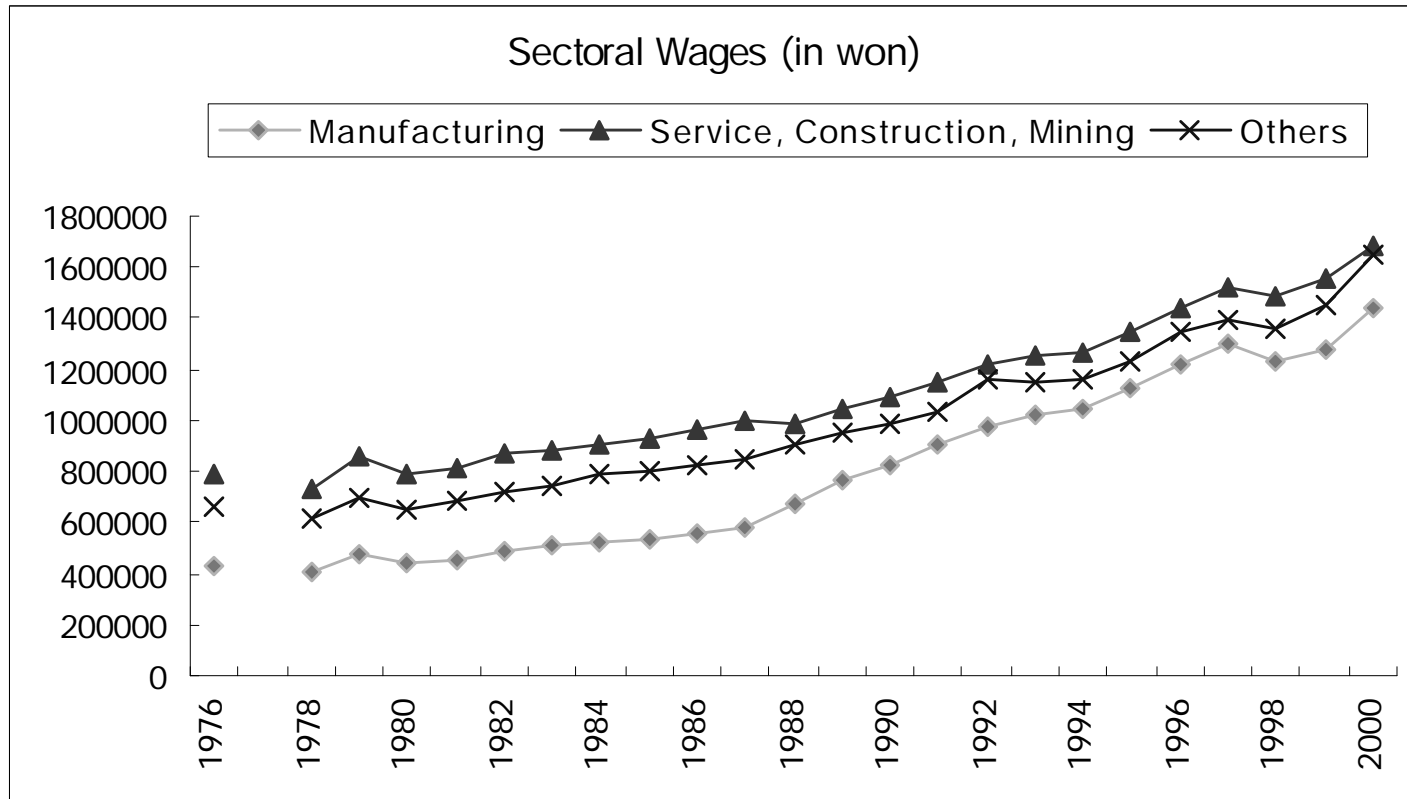
#### (4) Induced Shift in Labor Demand (Manufacturing, 1976-97)



- Skill-biased demand shift induced by trades
- Some evidence that trades favored men

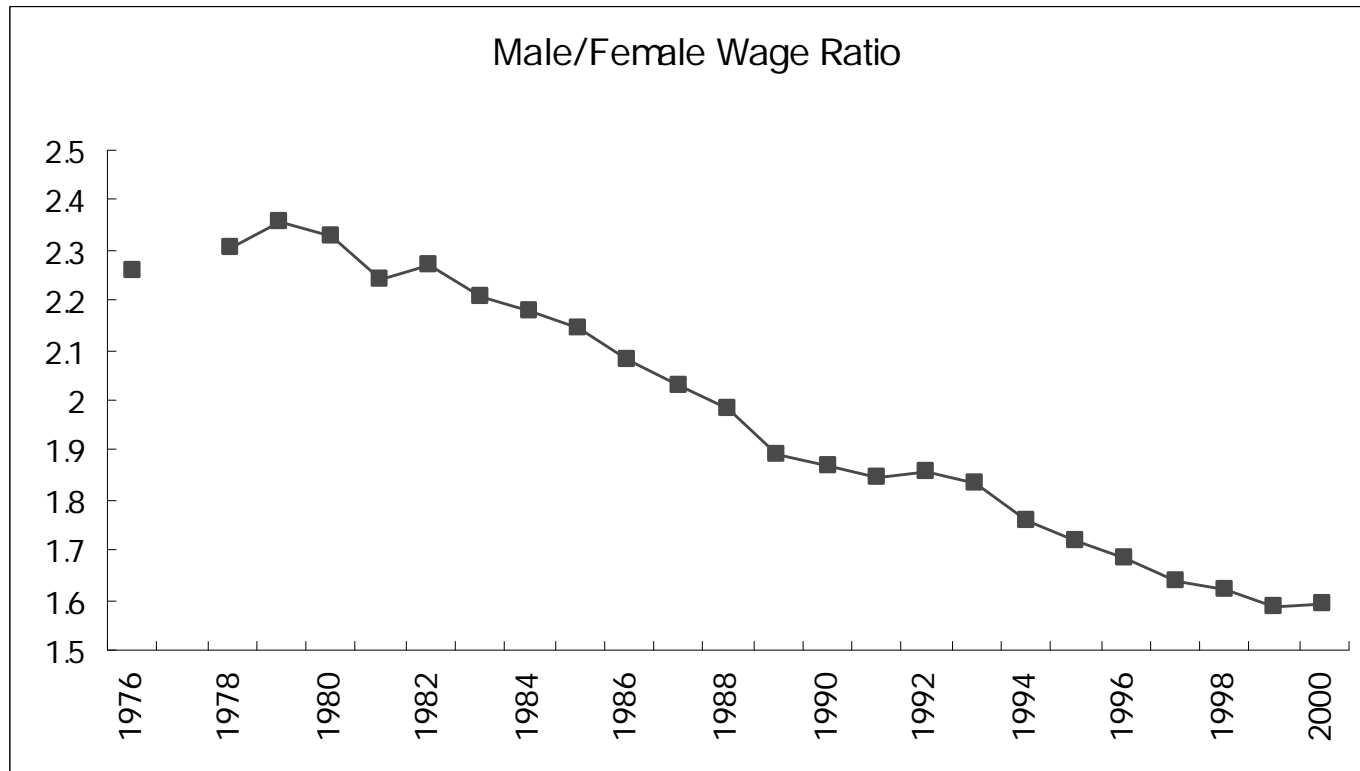
## II. Changes in Labor Market

“Good” Changes : (1) Strong Wage Growth



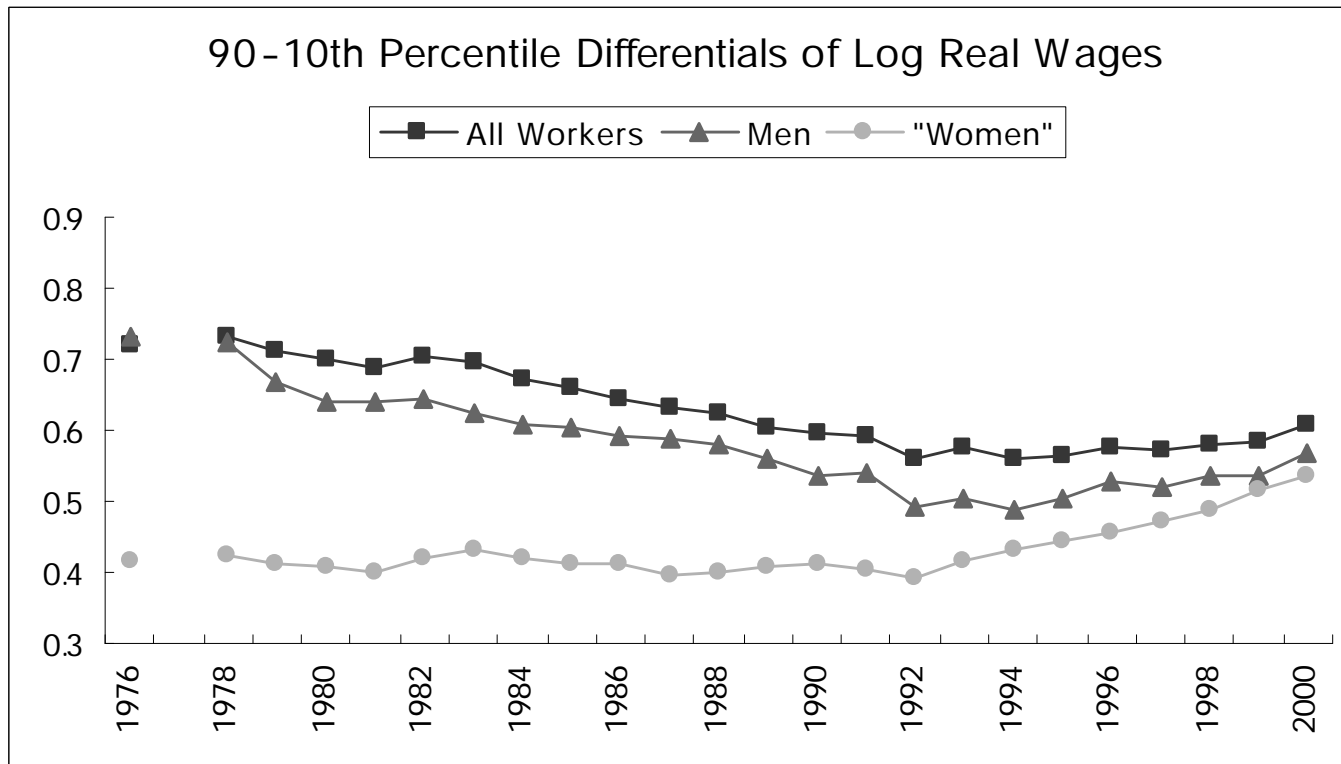
- Real wages grew everywhere -> single big labor market
- Unemployment has fallen everywhere, too

## (2) Women have steadily gained over men



- Faster growth in Female-intensive Non-Traded Sectors
- Induced by Income Growth (engineered through trades?)

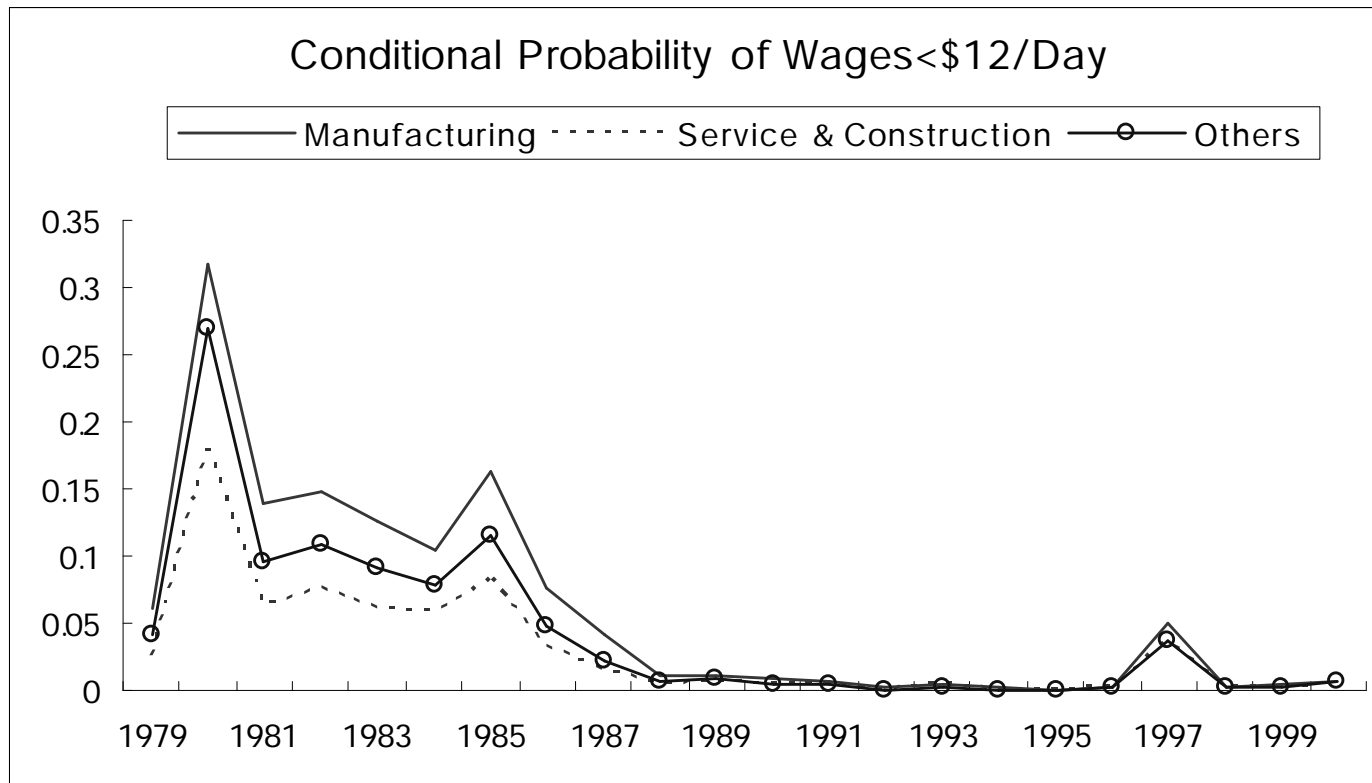
### (3) Inequality grew only recently



- Faster Increase in Relative Supply of Skilled Workers (Declining college premium till the mid-1990s)
- the turning point was around 1993

## (4) Poverty Incidence Fell

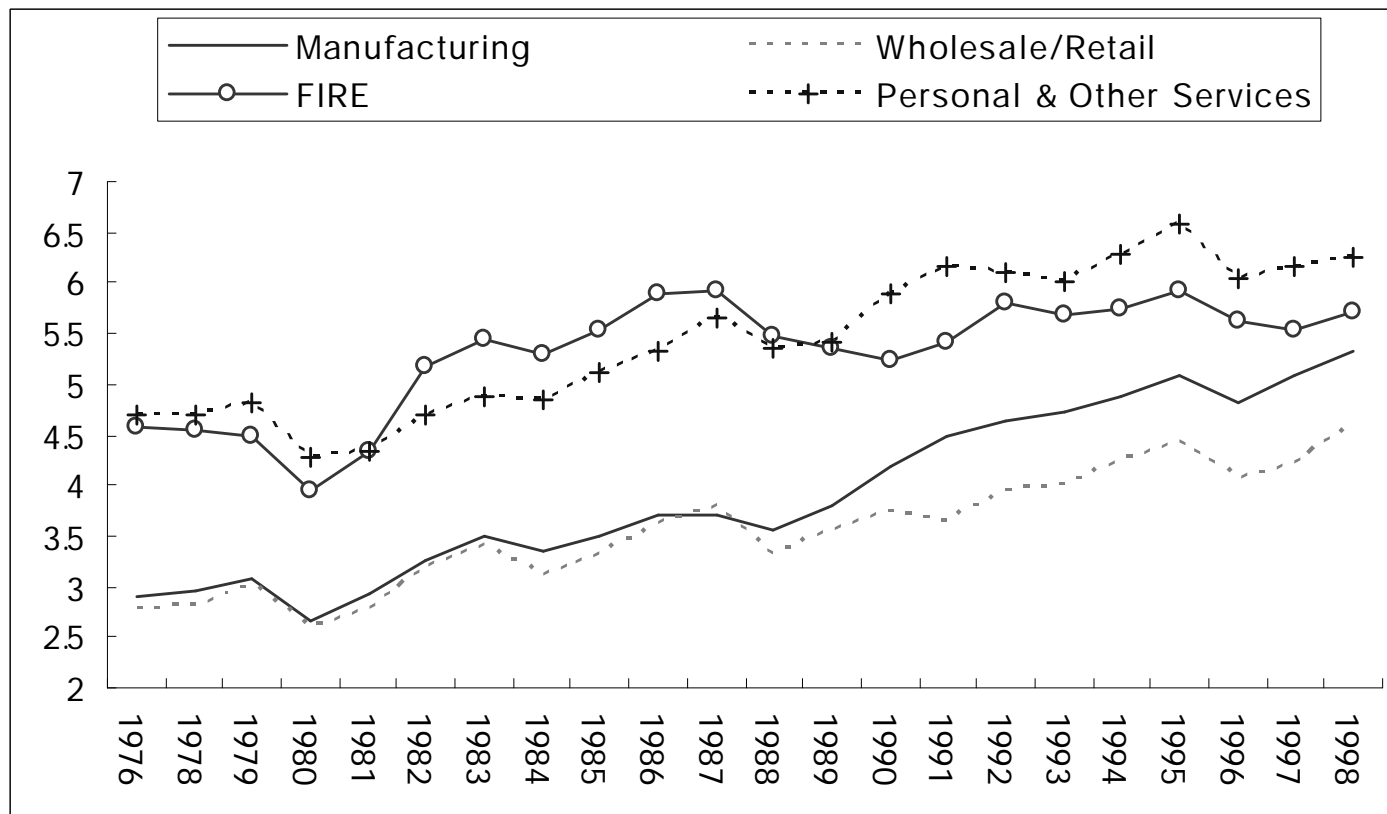
<Conditional Probability of Poverty Given Previous Earnings above the threshold>



- Mostly due to strong income growth

## (5) Jobs have become more stable

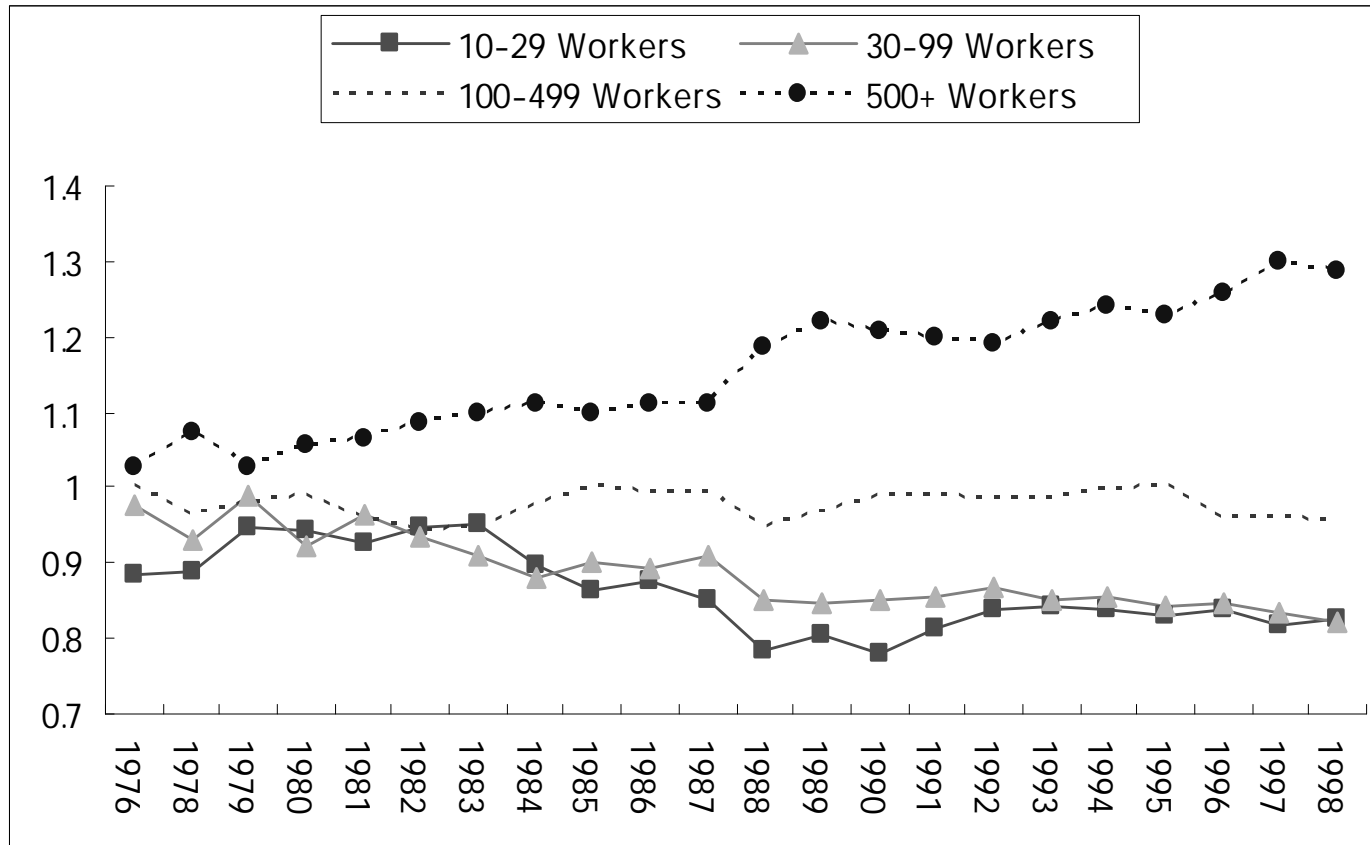
<Average Tenure (in years)>



- Job security has improved in both traded & non-traded sectors

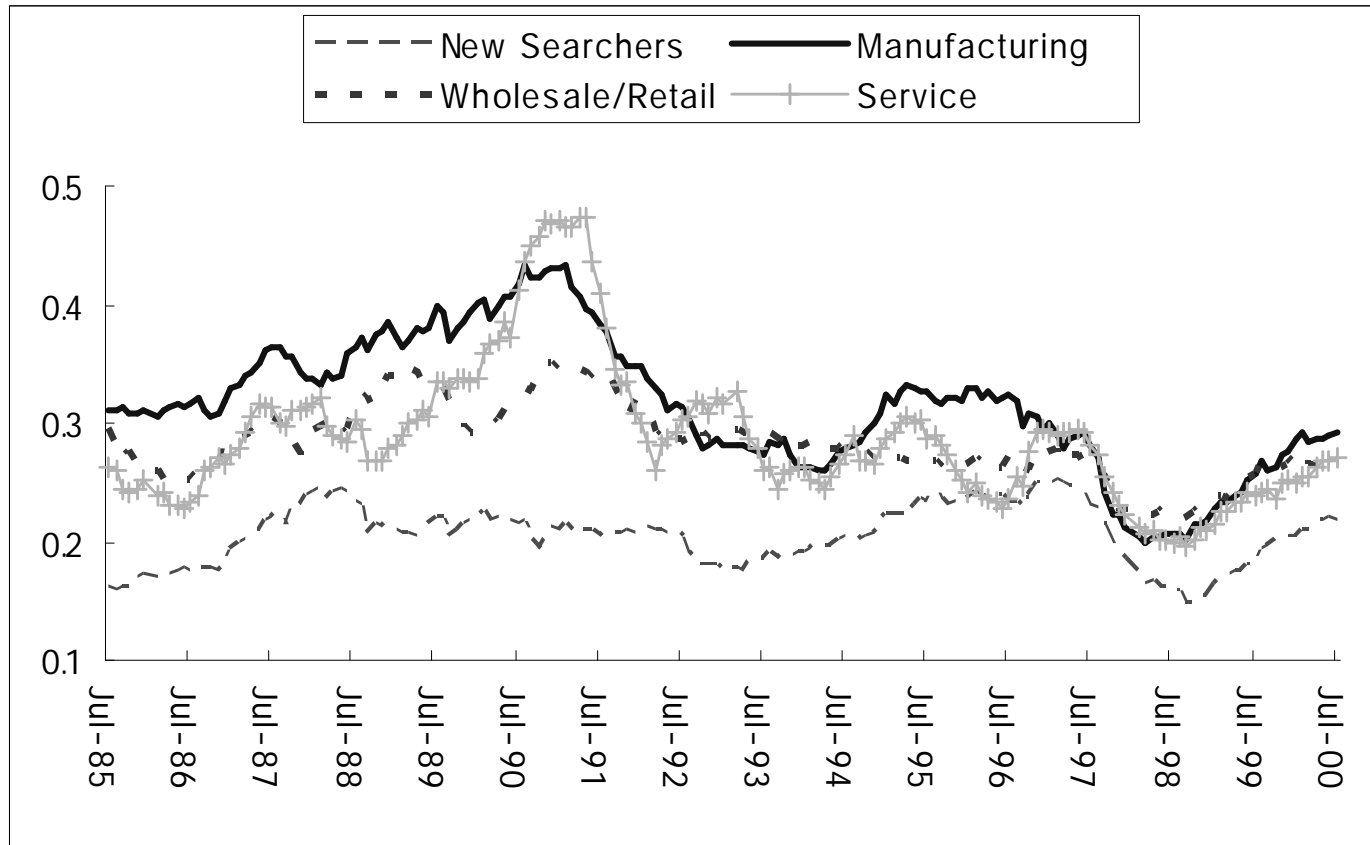
# “Not So Good” Changes : (1) Widening size differentials

<Relative Wages to the Mean by Firm size>



- Export-led growth has favored larger firms?
- union effects in 1988, some acceleration in 1993

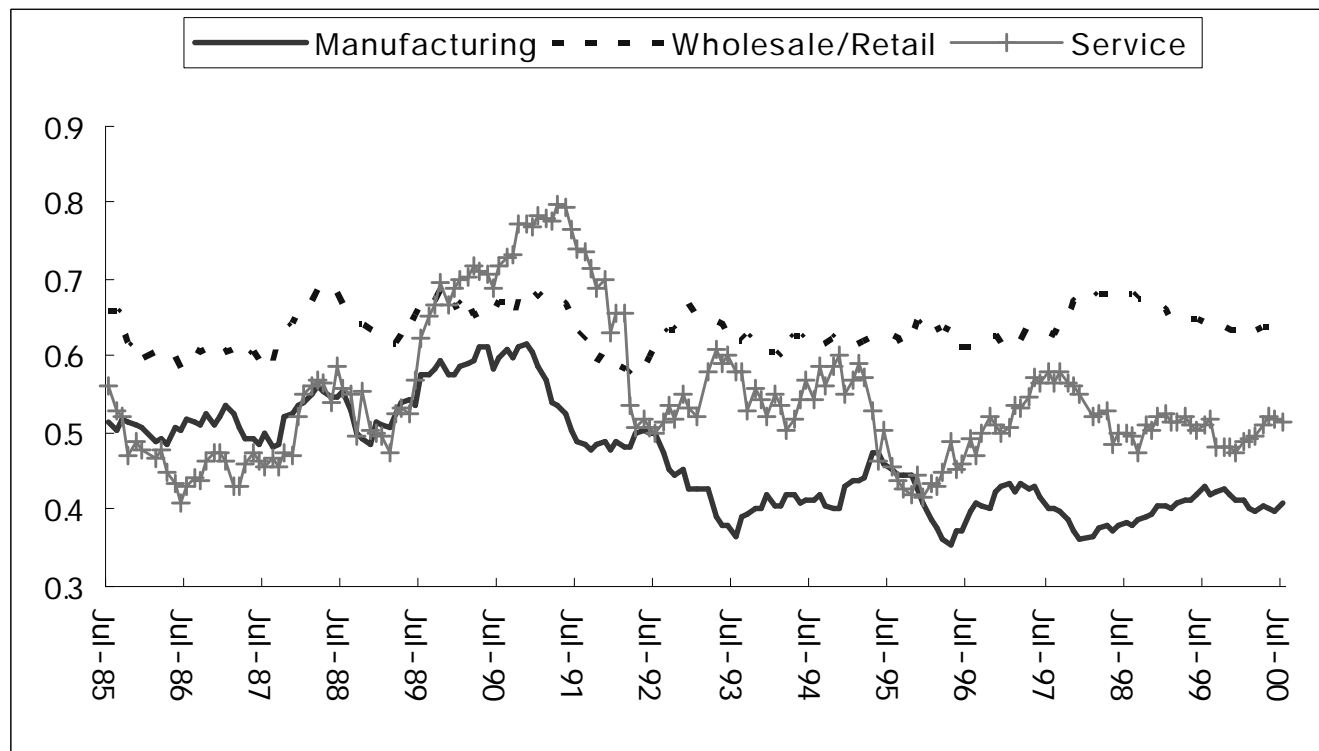
## (2) Exit hazard from unemployment fell recently



- During the 1990s, unemployment has been increasingly concentrated among experienced (older) population, and their spells became lengthy

### (3) Probability of Reemployment fell, too

<Conditional Probability of Reemployment in the Same Industry>



- the decline of the probability was most pronounced in the early 1990s

### III. Why in the early 1990s?

“Not so good” changes are rather recent phenomena, mostly around 1993-1995, Why?

- Accelerated Increase in Trade Exposure?

But, increase in trade exposure is not new

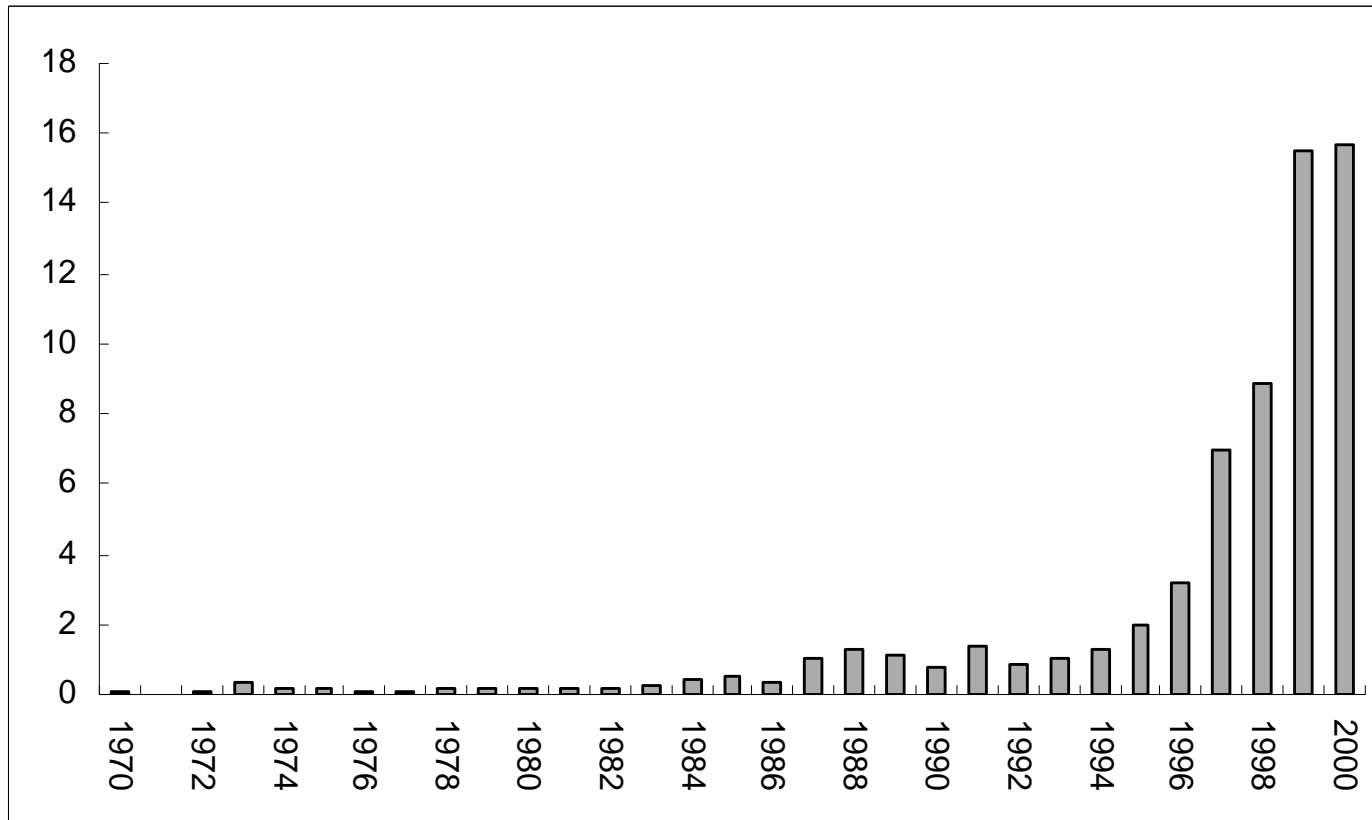
- Capital Market Opening?

Increase in FDI since the mid-1990s

Stock market opening in 1992

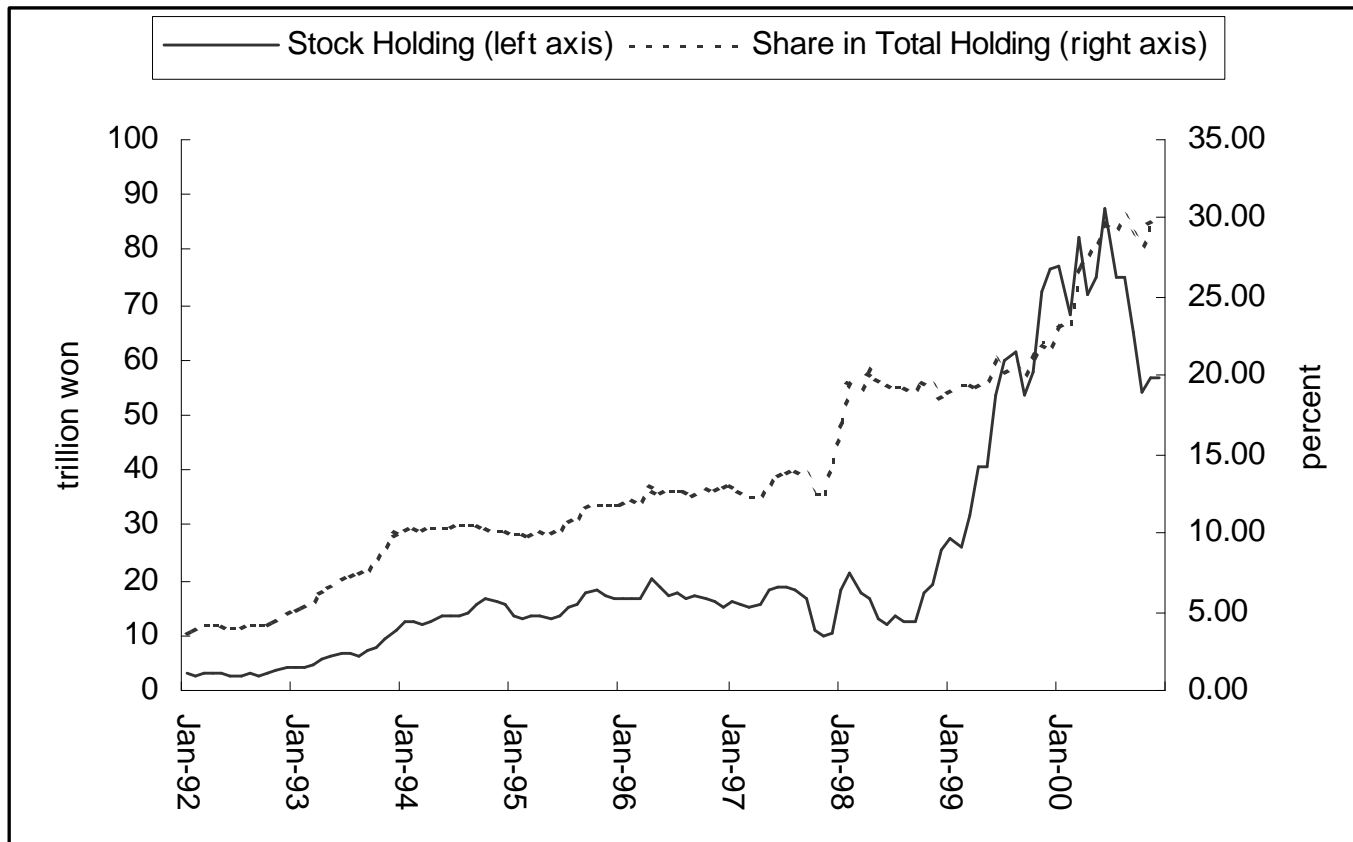
Increased exchange rate risks?

# (1) FDI inflow in Korea (in \$bil.)



- rapid growth in foreign direct investment since the mid-1990s

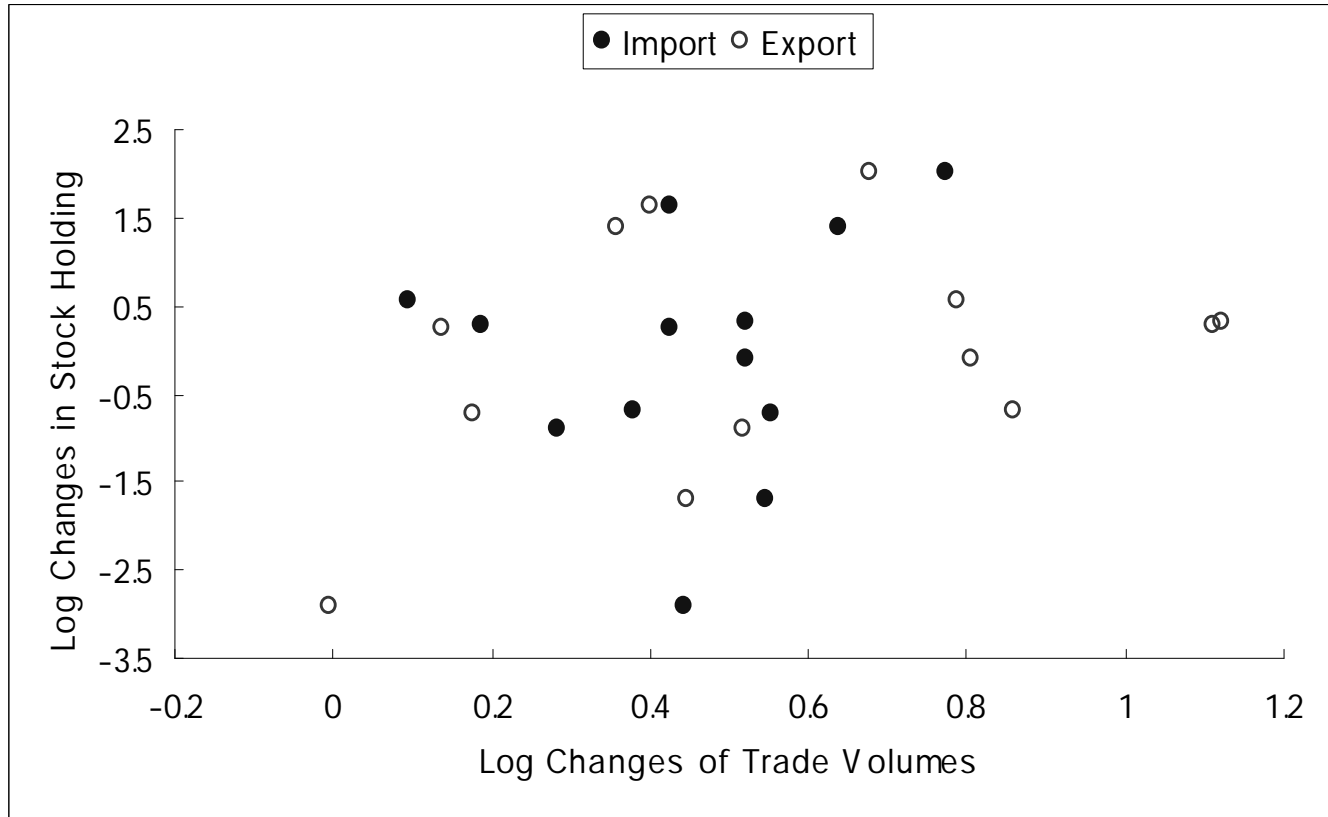
## (2) Stock Holding by Foreign Investors in Korea



- stock market was opened to foreign investors in 1992 with 10% cap on ownership, which was completely lifted in May 1998

### (3) Capital Inflow complementary to Goods Trade?

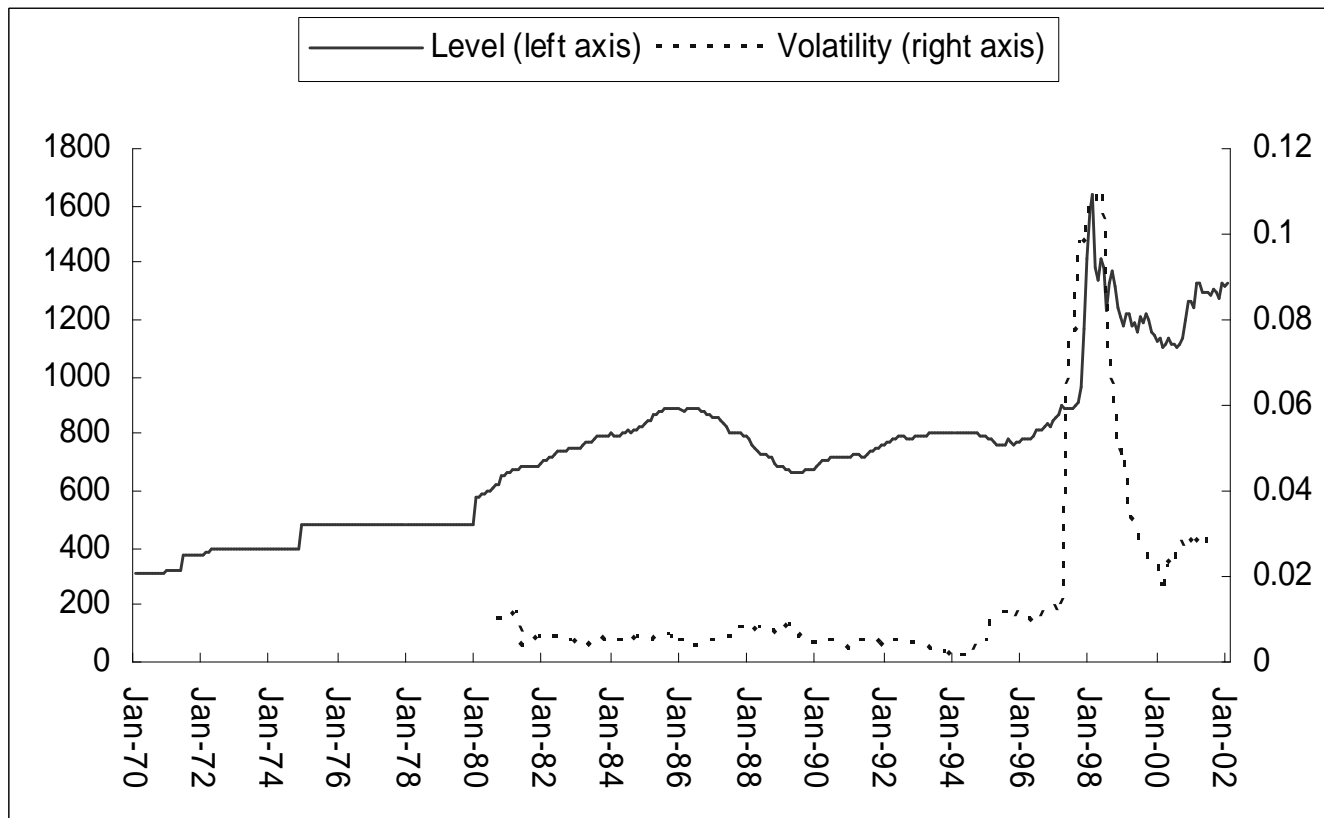
<Changes in Trade Volumes and Stock Ownership in Manufacturing>



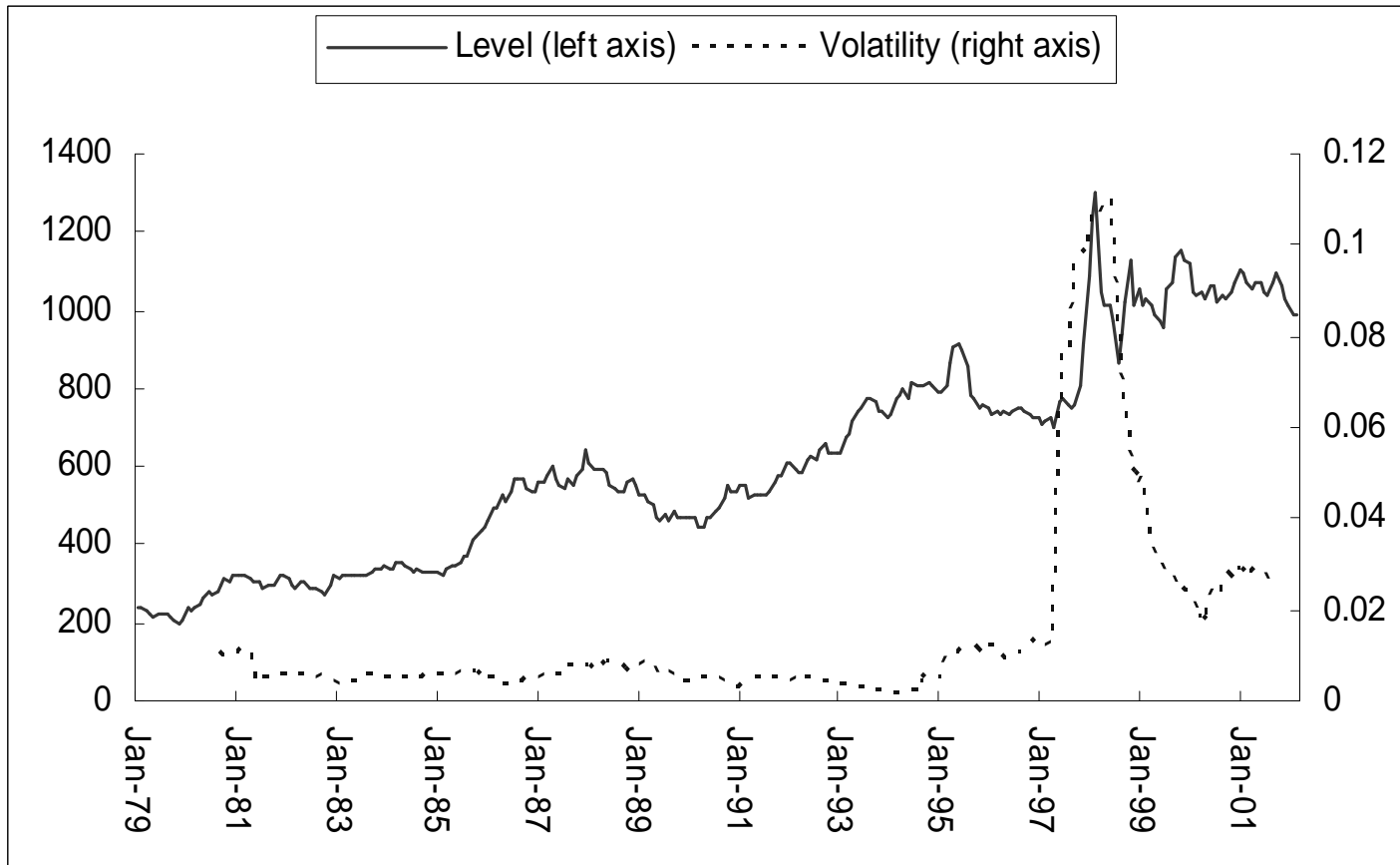
- each dot represents manufacturing subsectors

## (4) Exchange rate risks increased in the mid-1990s

<Korean Won per US Dollars>



# <Korean Won per Japanese Yen>



## IV. What to do if It's the Capital market opening?

### Is Capital Market Opening Bad for Workers?

- Imposes discipline & Offers opportunity

Note that “old” & “less educated” suffered more

- Productivity & Flexibility

Important to Induce Efficient Supply Responses

- Demand shift, accelerated by capital market opening
- Education & Training matters more?