

**A way to turn the economic crisis into an opportunity:**

**Programs to rebuild workforce skills at the mass level and the Korean experience**

- 1) The policy note “2007-08 Global Financial Report and Turkey: Impacts and Recommendations” published on 9 November 2008 pointed out that the corporate sector has been going through a challenging period due to both the tightening in the domestic and foreign markets and the fall in the volume of foreign loans. The note also underlined that it is necessary to preserve production capacity during the crisis period and implement mass training programs to improve the skills of the workforce so as to get prepared for the post-crisis period. This note aims to detail the mentioned recommendation and open it to discussion.
- 2) Financial turbulence that begun in September 2007 as the problems in the US banking sector became apparent started spread first to the European Union countries and then to the whole world. Along with the global financial integration deeper than ever, the idea that the crisis will spread around the whole world gained prevalence. Due to the deepening of interdependency, it is a high probability that the problems in the balance sheets of developed countries’ banks will affect the banking sector and real sector of developing countries.
- 3) This evaluation note focuses on the improvement of the skills of the workforce to contribute to the continuation of the sustainability of growth process and to the rapid recovery in the period after the crisis. The note, taking departure from the experiences of the South Korea in this context, lists some evaluations implying that the current economic environment is quite appropriate to focus on building new workforce skills through mass programs.

**Structural transformation, employment trends and unemployment problem of the Turkish economy**

- 4) Turkish economy has gone through a comprehensive transformation process thanks to the successful implementation of the economic program devised following the 2001 crisis. While the share of the agricultural sector, which has the lowest value added per capita, in the economy decreased, that of relatively more productive sectors like services and industrial sectors tended to increase. That the human resources shifted from relatively less productive areas to relatively more productive ones led to economic growth that was maintained continuously for 26 quarters.

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- 5) Structural transformation of the economy also resulted in a change in the distribution of employment among sectors. Table 1 gives a brief idea on sectoral employment trends. While employment in the agricultural sector decreased by 1.7 million people from 2000 to 2006, employment in the industrial and services sectors rose by 2.4 people in the same period. In the mentioned period, the net increase in employment at the national level was around 750 thousand people. Nonetheless, in the 2000-2006 period where the Turkish economy grew by around 33 percent, employment at the national level rose only by 3 percent. This implies that the economic growth stemmed from the improvement in productivity rather than rise in employment.

**TABLE 1: Employment Trends by Sectors**

	<i>Employment (thousand people)</i>			
	<b>Agriculture</b>	<b>Industry</b>	<b>Services</b>	<b>Total</b>
<b>2000</b>	7769	3811	10002	21582
<b>2002</b>	7458	3954	9942	21354
<b>2006</b>	6088	4407	11836	22331
<b>Net increase in employment (2000-2006)</b>	-1681	596	1834	749

*Source: TURKSTAT Household statistics*

- 6) Even though net rise in employment at the national level was ensured, with the 2001 crisis, number of unemployed people increased by 1.5 million people and did not fall down after the crisis. Number of unemployed people in Turkey went up from 1.4 million to 2.3 million people from 2000 to 2002 and remained at the same level as well in 2007. Among the main reasons of the rise in unemployment is the increase in the population at the working age. Non-institutional civilian population between the ages 15 and 64 increased from 42.6 million in 2000 to 47.3 million in 2006.
- 7) 35 percent of the unemployed population constitutes of people younger than 25 years old. Furthermore, people younger than 35 years old constitute 70 percent of the total unemployed population. Another striking point is that 52 percent of the unemployed population under 24 years old is graduate of high school or has a better educational background. In the light of these data, it can be concluded that unemployment is quite prevalent among the young population that has received formal education relatively for a longer period in average.
- 8) Overall unemployment rate in 2006 stood at 9.9 percent. In terms of the unemployment rate for age groups, it is observed that unemployment rate for the group between 15 and 24 years old is two times the overall unemployment rate, at 18.7 percent. Another point that strikes attention is that the period in which people between 15 and 24 years old have been unemployed has been rising. Within the 15-24 years old group, the share of people that have been unemployed for more than one year increased from 19.3 percent in 2000 to 32.6 percent in 2006.
- 9) One other significant problem of the corporate sector is the high rate of informal employment. Relatively higher public burden on the workforce as compared to other countries encourages informal employment. Among OECD countries, highest tax burden on employment is in Turkey with 42.2 percent.
- 10) There is a possibility that the unemployment problem that was not solved despite the dynamic growth process in the 2002-2006 period will deepen further in the upcoming period. This possibility will strengthen unless steps are taken to minimize the impacts of the global financial crisis on Turkey. In addition to implementing immediate measures to

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mitigate the short term impacts of the crisis, it will be wise to implement as set of measures devoted to facilitate the post-crisis recovery and ensure the continuity of the structural transformation. When devising such measures, it will be to the purpose to target the mitigation of unemployment problem that already became chronic. In this context, improving the skill level of people that are already employed or unemployed can be considered as a policy step in the right direction.

- 11) It is evident that South Korea has successfully implemented a similar policy during the Asian Crisis of 1997. Thanks to the skill rebuilding programs that covered a hundred thousands of unemployed people, both the unemployment rate was reduced significantly and the growth capacity of the economy was improved with the creation of masses that has the skills the economy is in need of. The following part of the note provides information on the experience of South Korea with this respect.

### Mass workforce program experience of South Korea

- 12) After the 1997 financial crisis, unemployment rate in South Korea has increased from 2 percent to 7 percent. Total number of unemployed people, which was 436 thousand in 1996, increased to 1.5 million in 1998. To tackle the rise in unemployment, Korean government increased the capacity of the training programs for unemployed people to eightfold. With the contribution of training programs, number of unemployed people gradually fell down by 630 thousand.
- 13) The skill building programs implemented in Korea for unemployed people can be grouped under the following categories.
  - a. **Reemployment programs designed for those who used to work at companies contributing to the unemployment insurance fund.** There is no requirement of benefiting from the unemployment allowance to be entitled to enroll this program.
  - b. **Training programs for the people that work in timeworks or half-time jobs and that are already unemployed.** There is no requirement of being registered in the unemployment insurance system to receive training under this program.
  - c. **Training programs for unemployed young population that has just participated in the workforce.**
  - d. **Entrepreneurial training programs for those planning to establish their own business.** These programs are designed in particular for middle-age and elder groups of the population, handicapped people and people that dropped school.
  - e. **Manpower development programs.** These programs are devoted in particular to developing manual skills for the branches intensively relying on physical power.
- 14) Among the programs mentioned above, only the first one was financed by the unemployment insurance fund of Korea while the rest of the programs were financed by the funds transferred from the public budget. **In the 1998-1999 period, more than 700 thousand people participated in the reemployment programs in South Korea.** This figure corresponds almost to the half of total number of unemployed people.
- 15) The study “Labor Market Reforms for Korea: Policy Options for Future”, published by the World Bank and Labor Force Institute of Korea in 2001 makes impact analysis for the reemployment programs carried out in Korea. In examining the situation of the labor market, the study groups the unemployed people under two categories. While the first group involves those participating in the training programs devised for unemployed people, second group covers those not participating in any training activity. Main findings of the study are summarized below.
  - a. Those in the first group find a job two times faster than those in the first group.

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- b. Another finding of the study is that participating in the trainings increased the chance to find a job in particular for unemployed women.
- c. It is found out that, training programs for unemployed people prevented them from leaving the workforce and made them more active in the labor market. It is observed that becoming discouraged about finding a job was more prevalent among the people that did not participate in trainings.
- d. The study also revealed that the jobs people that participated in the trainings found at the end of the program were mostly full-time jobs while those that did not participate in the trainings mostly found timework or half-time jobs.

### How must the Korean experience be addressed in Turkey?

- 16) The experience of the Korea in the aftermaths of the 1997 Asian crisis must be comprehensively examined by the policy makers of Turkey. In particular the steps taken to repress the unemployment rate down to the pre-crisis levels involve valuable lessons for Turkey. It is proposed that programs similar to those designed in Korea to increase the chances of unemployed people to find new jobs can be commonly implemented in Turkey.
- 17) No 4447 Unemployment Insurance Law states that job development, job placement and professional development trainings will be provided for the unemployed population. Such programs can be financed by two separate sources: public budget and Unemployment Insurance Fund. The public authority responsible for organizing training activities for unemployed people is Labor Institute of Turkey (İŞKUR). **Between 2004 and 2007, only 60 thousand people participated in the labor force training programs organized by İŞKUR.** In a country where the number of unemployed people is 2.5 million people, the current capacity of the labor force training programs must certainly be improved by İŞKUR. When the high share of young population in total number of unemployed people is considered, programs devoted to the said group must be the prior concern in the design of the labor force training programs.
- 18) Under the current structure of the system, it is required that the people to participate in the training programs must be registered at İŞKUR. However, as of October 2008, only 838 thousand 933 out of 2.5 million unemployed people are registered at İŞKUR. Therefore, it will be beneficial if creative solutions to increase the rate of participation in the training programs organized by İŞKUR are developed.
- 19) The study “Higher Education and Labor Market in Turkey” prepared jointly by TEPAV and the World Bank reveals that the private sector in Turkey does not think the labor force has sufficient foreign language and computer skills. In the light of this finding, it is possible to conclude that training programs of İŞKUR must put special emphasis on developing language and computer skills.