

Analysis of Inter-industry Labor Mobility and Implications

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While services have come to account for a growing share of the Korean industrial structure since the 1990s, the gap in labor productivity between manufacturing and services has been gradually widening. Judging by the advanced countries' experience, a widening gap in labor productivity leads to a migration of labor from sectors with low-productivity to those with high-productivity, leading to the narrowing of the gap, but there is little evidence of such adjustment in Korea. In this regard, this study examines the degree of inter-industry labor mobility in the Korean economy through various indicators and analyzes its determining factors in order to draw out their policy implications.

Korea's inter-industry labor mobility, as measured in various ways including the industry reallocation of employment (IR) indicator, is seen to have shown a downward trend since the 1990s and to have recently remained at a low level. This reduced labor mobility is analyzed as having been attributable to the heightened technical entry barriers to manufacturing whose productivity has been rapidly enhanced, boosted chiefly by advances in information technology, along with the increased opportunity costs associated with labor migration because of the progress of demographic ageing. Moreover, despite low labor mobility, as labor tends to move from higher value-added industries to those with lower value-added, the enhanced labor productivity of the economy as a whole is found to have only a limited effect in enhancing economic growth.

In order to facilitate inter-industry labor movement from low-productivity sector into those with high productivity so as to heighten the productivity of the economy as a whole, it is necessary to improve the efficiency of the job training system to enable those engaged in lower value-added industries to move to those with higher value-added by way of vocational retraining programs and suchlike. Moreover, while continuously promoting labor market flexibility, policy responses are called for such as solving the information gap between job seekers and employers and facilitating productivity improvement for example through industrial integration and diversification.

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III . Analysis of determinants of inter-industry labor mobility

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