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## **Korea's Policy Experiences for Alleviating Rural Poverty in the Process of Economic Development<sup>1</sup>**

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### **ABSTRACT**

*Like many countries, rural poverty was one of the most important issues to be solved at the initial stage of economic development in Korea since the early 1960s. The objective of this study is to draw policy implications for alleviating rural poverty based on the experiences of Korea in the process of economic development. The Korean government recognized that the key solution to fight rural poverty is to increase agricultural productivity and farm household income in the rural areas. Particularly the Korean government steadily implemented agricultural policies for strengthening the basic factors for increasing agricultural productivity and farm household income in terms of production bases, physical infrastructure, organization and institutional systems. As a result, Korea has been evaluated as a successful model in rural development and poverty reduction. Based on Korea's six success factors of rural poverty reduction, policy recommendations for developing country struggling with rural poverty are as follows: (1) Expansion of Investment in Agricultural R&D and Extension Services, (2) Establishment of Effective Agricultural Infrastructure System, (3) Promotion of Establishment of Agricultural Cooperatives and Farmer's Organization, (4) Efforts for Diversifying Income Sources of Farm Household, (5) Improvement of Agricultural Marketing System, (6) Launch of Rural Development Movement.*

Keywords: Korea, Rural Poverty, Agricultural Productivity, Farm Income, Agricultural Policy

### **INTRODUCTION**

Until the early 1960s, Korea was one of the poorest countries in the world, with per capita GDP of around US\$80, which was less than most countries in Asia. However, Korea went

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<sup>1</sup> This paper is based on the author's presentation at the World Bank's seminar on "Structural Transformation in Zambia: Lessons from Korea", May 21-22 2018 at Lusaka, Zambia."

through radical changes from a less developed society to an advanced society with fast economic development. With the development of its agricultural and industrial sectors, Korea has achieved a remarkable economic growth for decades. The per capita GDP of Korea exceeded US\$29,000 in 2017 and became the 8<sup>th</sup> large trading country in the world. While the Korean government had focused on developing its industrial sector for export-oriented growth at the initial stage of economic development, it made a lot of policy efforts to develop its agricultural sector and rural areas at the same time. Thus today most Koreans living both in the urban and rural areas enjoy one of the highest living standards in Asia-Pacific region.

Many Koreans suffered from chronic food shortages and severe poverty until the end of 1960. However, Korea has achieved remarkable socio-economic development and reduced extreme poverty with the rapid economic growth. From the 1960s to the 1970s during the initial stage of economic development in Korea, the main goal of the agricultural policy was to alleviate hunger and poverty in the rural areas through the increase of agricultural productivity and farmer's income. The policy means to achieve this goal were in the development of new varieties and species, seed improvement, the improvement of breeds, the dissemination of high yield varieties and new agricultural technologies, and the provision of education and training for advanced farming practices. Also, public investments to improve the agricultural infrastructure expanded steadily, with the creation and consolidation of farmlands, development of agricultural water resources, the improvement of irrigation systems and mechanization of agriculture. Additionally, various policies were conducted in the name of rural development through the supply of electricity and expansion of rural roads, launch of special project to increase farmers' income and implementation of price support and stabilization policy for rice and barley to promote the production of basic food grains. Consequently, agricultural productivity and farm income has steadily increased with improvements in the agricultural production base and technological innovation. As a result, the absolute poverty rate had greatly reduced from 34% in 1965 to 10.9% by 2007.<sup>2</sup>

The purpose of this chapter is to draw policy implications for alleviating rural poverty based on the experiences of Korea.

### **Korea's experiences in poverty reduction in the rural areas**

Like many countries, rural poverty was one of the most important issues to be solved at the initial stage of economic development in Korea since the early 1960s. At that times, the Korean government recognized that the key solution to fight rural poverty is to increase agricultural productivity and farm household income in rural area where farmers mainly live and engage in agriculture as their primary business. Agricultural R&D and extension service, advanced farming technologies, agricultural water supply system and land conditions are very important production factors which determine the level of agricultural productivity and farmers' income. Transportation, communication, and electricity supply as well as agricultural cooperatives and market conditions are also important factors that affect agricultural productivity and farmers' income. In this regard, the Korean government implemented various kinds of policies so as to enhance agricultural productivity and farmers' income in rural area. Particularly the Korean government tried to strengthen the basic factors

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<sup>2</sup> The figure of poverty rate figure is from Sooyoung Park (2009). "Analysis of Saemaul Undong: A Korean Rural Development Programme in the 1970s", *Asia-Pacific Development Journal*, Vol. 16, No. 2, December pp.113.

for increasing agricultural productivity and farm household income in terms of production bases, physical infrastructure, organization and institutional systems (see Table 1).

Table 1. Basic Factors for determining Agricultural Productivity and Income Enhancement

Type	Examples
Production Bases	Agricultural R&D, Extension Service, Advanced Farming Technologies, Agricultural Water and Farmland Supply and Management
Physical Infrastructure	Roads, Transportation, Communication, Electricity
Organizations and Institutional System	Agricultural Cooperatives, Farmer's Organization, Agricultural Marketing, Governance System at the village, county, province and central government

As a result of the steady implementation of such policies for improving agricultural productivity and income in rural area, Korea has been evaluated as a successful model in rural development and poverty reduction. Agricultural productivity has steadily increased in most crops such as rice, barley, soybeans, and corn. For instance, per unit production of rice, a stable crop in Korea, increased from 330kg/10a in 1970 to 539kg/10a in 2016. Also average income per farm household has continuously increased from US\$823 in 1970 to US\$32,053 in 2016 and Farm household income sources has been diversified(see Table 2). Major sources of non-agricultural income are divided into income from off-farming activities and transfer income from government subsidies or family donations. Over the last 50 years, the non-agricultural income of farm households grew much faster than the agricultural income. The high increase in non-agricultural income has been promoted since the 1970s by initiatives to improve rural industrialization and to create off-farm job opportunities in rural areas. Also, the percentage of transfer income has increased recently, accounting for 32% of total farm household income in 2016<sup>3</sup>. Some of the transfer income comes from government direct subsidies to farmers, such as increased public subsidies like the rice income compensation program and environmentally friendly farming payment et cetera.

Table 2. Farm Household Income and Composition of Income Sources

(Unit: KRW thousand won)

Year	Farm Household Income (A)	Agricultural Income (B)	Income From Off-Farming (C)	Transferred Income (D)	Ratio (%)		
Year	Farm Household Income (A)	Agricultural Income (B)	Income From Off-Farming (C)	Transferred Income (D)	B/A	C/A	D/A
1970	256	194	62	0	76%	24%	0%
1980	2,693	1,755	938	0	65%	35%	0%
1990	11,026	6,264	2,841	1,921	57%	26%	17%
2000	23,072	10,897	7,432	4,743	47%	32%	21%
2016	37,197	10,068	15,252	11,881	27%	41%	32%

Source: Ministry of Agriculture, Food and Rural Affairs (MAFRA), Statistical Yearbook 2017

3 Transfer income mainly comes from direct payment programs supported by the government and assistance from relatives.

With diversifying income sources of farm households, the promotion of commercial production is another effective way for rural poverty reduction. Generally the decline in self-consumption rate<sup>4</sup> is an indicator of commercial production. For example, the self-consumption rate of rice, which is the most important cash crop in Korea traditionally and currently, is a clear indicator that shows the developmental stages of commercializing agriculture. The self-consumption rate of rice by farm households has continuously dropped from 75% in the 1950s to 57% in 1960s, 50% in 1970, 26% in 1980, 14% in 1990 and 7% in 2000, and only 5.2% in 2010.

Table 3 shows the policies implemented by Korean government for alleviating rural poverty through improving agricultural productivity and farm household income from the end of 1950s till the early of 1980s. The policies are broadly classified by six categories; farm land, agricultural R&D and extension service, agricultural infrastructure, agricultural cooperatives and farmers' organization, agricultural marketing, and rural development.

In the 1950s, Korea suffered from chronic food shortages. At that time, famine with food shortage was a serious problem in Korea. The Korean government conducted the farmland reform in 1957 which introduced the land-to-the-tillers principle and reallocated farmland to small size tenant (family) farmers. Eventually, the farmland reform created owner farmers by buying the farmlands by government from landlords and distributing it to actual cultivators with imposing a maximum limit of farmland ownership to 3 hectares. The main purpose of the farmland reform in Korea was to terminate the abuses of the landlord-tenant system and foster family farmers with self-own farmland as a means to build a stable social foundation and to increase agricultural productivity. In Korea, land reform based on the principles of owner farming has been evaluated as being successful for alleviating hunger and poverty in rural areas.

During the 1960s and 1970s, the focus of the Korean government's agricultural policy was still in improving agricultural productivity in order to solve the problem of food shortage. The Korean government consistently initiated projects to acquire high-yielding breeds, to mechanize agriculture and to secure water for agricultural use. To achieve this goal, the Korean government established the Rural Development Administration (RDA) in 1962 and it played a central role in R&D for breed improvement and agricultural production technology as well as in the dissemination of such knowledge and technologies to the local farms. In addition, the Korean Rural Community Corporation (KRC) was founded in 1962 and it played a vital role in building a solid foundation for agricultural production through various efforts such as exploiting agricultural water, reclaiming farmland, mechanizing agricultural production, enlarging average farm size, and so on.

At that time, the establishment of agricultural cooperatives and farmer's organization were promoted based on Farmers' Cooperative Act founded in 1961. The main functions of agricultural cooperatives and farmer's organization were to increase farmers' bargaining power in agricultural input and output markets, and to encourage farmers and agricultural companies to invest more in agricultural sector with a little risk. Agricultural Cooperatives in Korea have played an important role for enhancing farm household's income and welfare in rural regions as financial institutions, input providers for agricultural production and other income-enhancing activities, marketers of agricultural products and processed products, and farming education and training agency. In addition, the Korean government has constructed agro-food wholesale markets in major cities since 1977. The purpose of construction of

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<sup>4</sup> Self-consumption rate is the share of own consumption by farm households within total production by commodity.

wholesale markets was to reduce agricultural marketing costs and to give farmers higher profits through the establishment of efficient distributional and marketing system.

Table 3. Policies for alleviating rural poverty at the early stage of economic development

Policy area	Implemented Policies
Farmland policy	Land reform with introduction of the land-to-the-tillers principle and reallocated farmlands to small family farms. Reallocation of agricultural land pre-owned by Japanese to family farm in 1957.
Expansion of agricultural R&D and extension service	Expansion of agricultural R&D for high-yielding, superior breed improvement and extension service with establishment of Ryal Development Administration(RDA) since 1962
Improvement of agricultural infrastructure	Agricultural water resources development and management, farmland development and management, agricultural mechanization with establishment of Korean Rural Community Corporation (KRC) since 1962
Promotion of agricultural cooperatives and organizations	Increase of farmer's bargaining power and welfare through promoting farmers' cooperatives and organizations since 1961 based on Farmers' Cooperative Act (1957)
Price policy	Price support and stabilization policy in major crops(rice and barley) which play a vital role in farm income since 1970.
Agricultural marketing policy	Reasonable price formation with establishment of public wholesale markets at the hub region since mid-1970s
Policy for Rural Development	Launch of "New Community Movement" called 'Saemaul Undong' in 1970 for improving rural infrastructure and living standard, and creating new income sources for rural residents

Korea has also experienced the increased development gaps in terms of income and living conditions between rural and urban areas like many countries. Therefore, the Korean government launched the "New Community Movement" so called 'Saemaul Undong' in 1970. The main purpose of this movement was to reduce the development divide between rural and urban areas through improving rural infrastructure and living conditions such as dwellings, roads, telecommunication, electrification, drinking water installations and sewage facilities, etc. Saemaul Undong was a large-scale rural development project that aimed to introduce cash crops and to develop new agricultural related industry, and to generate other income sources in rural area. This movement focused on the village level and encompassed various government policy measures such as the improvement of basic living environments, income-enhancing programs, and investment in production infrastructure and welfare infrastructure. Saemaul Undong involved both top-down and bottom-up initiatives that, together with post-Korean War land reform, significant investment in human capital, and gradually improving terms of trade for the rural sector due to increasing urban demand for agricultural goods and agricultural subsidies, were able to provide the enabling conditions for rural households to overcome their poverty and to improve the livelihoods of rural households.

### **Success factors of Korea's rural poverty reduction**

As mentioned above, Korea's rural poverty reduction in the early stages of economic

development during the 1960s and 1970s is the result of various and comprehensive policy efforts. Based on Korea's experiences in alleviating rural poverty, the following are the summary of success factors of rural poverty reduction in Korea and policy recommendations for developing country struggling with rural poverty are suggested:

(1) Expansion of investments in Agricultural R&D and extension services:

This is one of the most effective methods to achieve the increase of agricultural productivity and farm income. New farming technology and high-yielding varieties should be promptly disseminated to farmers to increase productivity at both farm and regional level. This could be achieved by establishing an effective agricultural R&D and extension system. Also it is important to establish the close cooperation relationship between agricultural research and extension service organization for providing on-site friendly research and technology that suits each region's characteristics and needs of local farms. In this regard, the government of Korea established Rural Development Administration (RDA) which has played a vital role in the development and dissemination of agricultural technologies to improve agricultural productivity and increase farm income since its establishment in 1962. In Korea, agricultural research and extension services by RDA had contributed greatly to reducing rural hunger and poverty through enhancing agricultural productivity and food production during 1960s and 1970s.

(2) Establishment of effective agricultural infrastructure system

The establishment of effective agricultural infrastructure systems for agricultural irrigation and drainage, land development and management, and agricultural mechanization is another important precondition for improving agricultural productivity contributing to reducing rural poverty. Lack of agricultural infrastructure is a big obstacle not only to productivity advancement but also to improving product quality. To achieve this end, the Korean government established the Korea Rural Community Corporation (KRC) in 1962 as a public enterprise, which played a vital role in increasing agricultural productivity through agricultural water resources development and management, farmland development and management. The core mission of KRC is to develop, maintain and manage the agricultural production infrastructure. Such a role conducted by KRC contributed greatly to reducing the rural poverty by the stabilization of agricultural production, the reduction of agricultural production costs as well as the increase of agricultural productivity.

(3) Promotion of establishment of agricultural cooperatives and farmer's organization:

Agricultural cooperatives and farmer's organization run by farmers themselves should be formed to reinforce the bargaining power of farmers and to increase their welfare. Generally, agricultural cooperatives play a crucial role in preventing market failure from improper activities by middlemen with the collective purchase of inputs and sale of outputs. Agricultural Cooperatives also give farmers the ability to borrow loans at a reasonable interest rate. In this regard, the Farmers' Cooperative Act was enacted by the Korean government and the National Agricultural Cooperative Federation (NACF) was established in 1961. The main function of agricultural cooperatives is to increase farmers' bargaining power in agricultural input and output markets, and to encourage farmers and agricultural companies to invest more in agricultural business by providing funds at low interest rate. Moreover, cooperatives contribute to improving farmers' welfare by offering education programs and management consulting opportunities. With close cooperation with the government during 1960s and 1970s, the NACF had greatly contributed to promoting the rural economy and

reducing poverty by lending farming funds to poor farmers and rural residents at the reasonable interest rate.

(4) Efforts for diversifying income sources of farm household:

Farm household income is broadly composed of agricultural income and non-agricultural income. The most effective way to alleviate rural poverty is to increase the household income in the rural community. In this regard, the Korean government has made a lot of efforts for creation of various income sources in the rural areas through promoting commercial farm production and making the rural industrial complexes. Increase in commercial production will be possible when a close connection between the agricultural and food processing industries is established. In order to facilitate commercial farming and food processing industry in rural areas, agro-industrial complexes has been built to raise farmers' income and to promote rural economy. As a result, production of livestock, fruit, and vegetables began to increase and industrial complexes began to appear in rural area since the early 1980s in Korea. The promotion of commercial production and diversification of income sources of rural households must be an effective way for rural development and poverty eradication.

(5) Improvement of Agricultural Marketing System

In order to realize the high potential of agriculture in every country, improvement of the agricultural marketing system together with formation of agricultural wholesale markets is necessary. For instance, if the wholesale market operates well, it will serve not only as a price setting mechanism but also as a price stabilization mechanism because it can work as a storage system in response to market demand. In this regard, the Korean government has put a lot of effort into improving the underdeveloped agricultural marketing and logistic system together with the construction of agro-food wholesale markets in major cities since 1977. The purpose of construction of wholesale markets was to reduce agricultural marketing costs and to give farmers higher profits through the establishment of efficient agricultural marketing system. The construction of efficient wholesale markets is crucial for facilitating and expanding agricultural product transactions as a modernized trade logistics system. Also it will provide an effective link between supply and demand and capture consumers' needs for new product development. Particularly, wholesale markets play a vital role in agro-food distribution by promoting competition with the creation of conditions for transparent price discovery at relatively low costs. Stakeholders in agro-food marketing can access market information to make optimal decisions in efficient wholesale markets. In Korea, the construction of wholesale markets in major hub cities has contributed greatly to the increase in farmers' receiving prices and profits through enhanced transparency in agricultural transaction and marketing.

(6) Launch of rural development movement

In the process of economic development, a key issue is to reduce the regional development divide between rural and urban areas. Therefore policymakers need to be concerned about balanced regional development for making a solid foundation of sustainable economic growth. Korea has also experienced the increased development gaps in terms of income and living condition between rural and urban areas like many countries. Therefore, the government of Korea launched "New Community Movement called 'Saemaul Undong in 1970. The main purpose of this movement was to reduce the development gap between rural and urban areas improving rural infrastructure and living standard such as dwellings, roads, telecommunication, electrification, drinking water installations and sewage facilities, etc. Special programs for improving the infrastructure of rural community and villages need to be

conducted for creating better socio-economic conditions in rural areas, particularly with providing financial and materials supports to farmers and villages for improving the rural living conditions. The New Community Movement(Saemaul Undong) promoted during the 1970s in Korea contributed greatly to the reduction of rural poverty and the improvement of living conditions in rural areas through joint efforts by the private and public sectors.

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