



The Impacts of Rural Income Generation Policies on Korean Farmers

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1. Introduction

- ◆ Aging of Korean farmers

- 62.1% of farmers over 60 years old (2017)

- ◆ Small farm size

- 1.5ha (Rice paddy 0.8ha, Upland 0.7ha)

- ◆ Dispersed farmlands

- Average of 4-5 patches

- ◆ Low farm household income

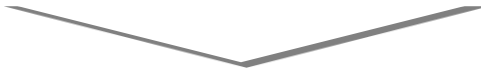
- 36.5% lower than urban labor household income (2016)

Farm Sector National Demand

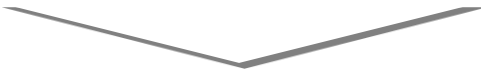
- ◆ Structural reform
 - Increased competitiveness in agriculture
- ◆ Stabilized farm economy
 - Increased farm income
 - Stable income generation
- ◆ Lack of young farmers to keep agriculture
 - More than 50% of farm households without successors
- ◆ Job creation for aged farmers and women
- ◆ Rural Vitalization
 - Utilization of regional resources

income generation Policies in Korea

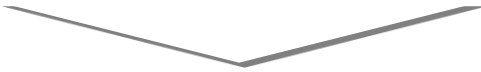
1960s: Sideline opportunities utilizing excessive labor forces



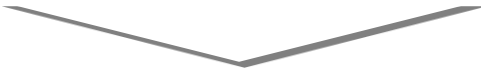
1970s: Sideline complex and Saemaul factories



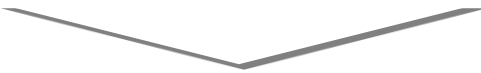
1980s: Development of non-farm income sources such as rural industrial park, special complex and Tourist farms



1990s: Composite industrialization of agriculture



2000s: Direct payments



2010s: The 6th industrialization of agriculture

2. Rural Industrialization Policy

Rural industrialization

- ◆ Since the early 1970s, the Korean government has adopted a rural industrialization policy as an important measure to promote rural development
- ◆ The rural industrial development has passed through three phases
 - The period of promoting rural cottage-type industries (1960s-1970s)
 - The period of rural industrial park establishment [1980s]
 - Stagnation period after the early 1990s
- ◆ Government policy changed from an individual project-based approach to a diversified and comprehensive program throughout the period
- ◆ Programs, such as the rural industrial parks and off-farm income source development and farm youth vocational training programs were effective
 - Rural out-migration and unbalanced regional development programs have negatively impacted rural industrialization

Composition of farm household income in Korea and Japan

Unit: %

Year	Farm income	Agri. income	Non-agri. income			
			Total	Side income	Wage & Salaries	Transfer income
Korea						
1962	100.0	79.6	20.4	3.8	9.4	7.2
1970	100.0	75.9	24.1	3.8	10.4	9.9
1980	100.0	65.2	34.8	2.5	14.5	17.8
1990	100.0	56.8	43.2	5.3	20.4	17.4
Japan						
1962	100.0	51.4	48.6	9.4	35.7	-
1970	100.0	31.9	68.1	-	-	12.5
1980	100.0	17.0	83.0	-	-	19.3
1990	100.0	13.8	86.2	-	-	21.4

Composition of farm household income in Korea and Japan

Year	Households in Korea (1,000 Won)		Farm-nonfarm disparity (%)	
	Urban(A)	Rural(B)	Korea(B/A)	Japan
1965	113	112	99.1	99.2
1970	381	256	67.1	110.1
1975	859	873	102.0	126.1
1980	3,205	2,693	84.0	118.0
1985	6,044	5,736	94.9	110.5
1990	13,184	11,026	83.6	111.6

3. Direct payments

Direct payment programs in Korea

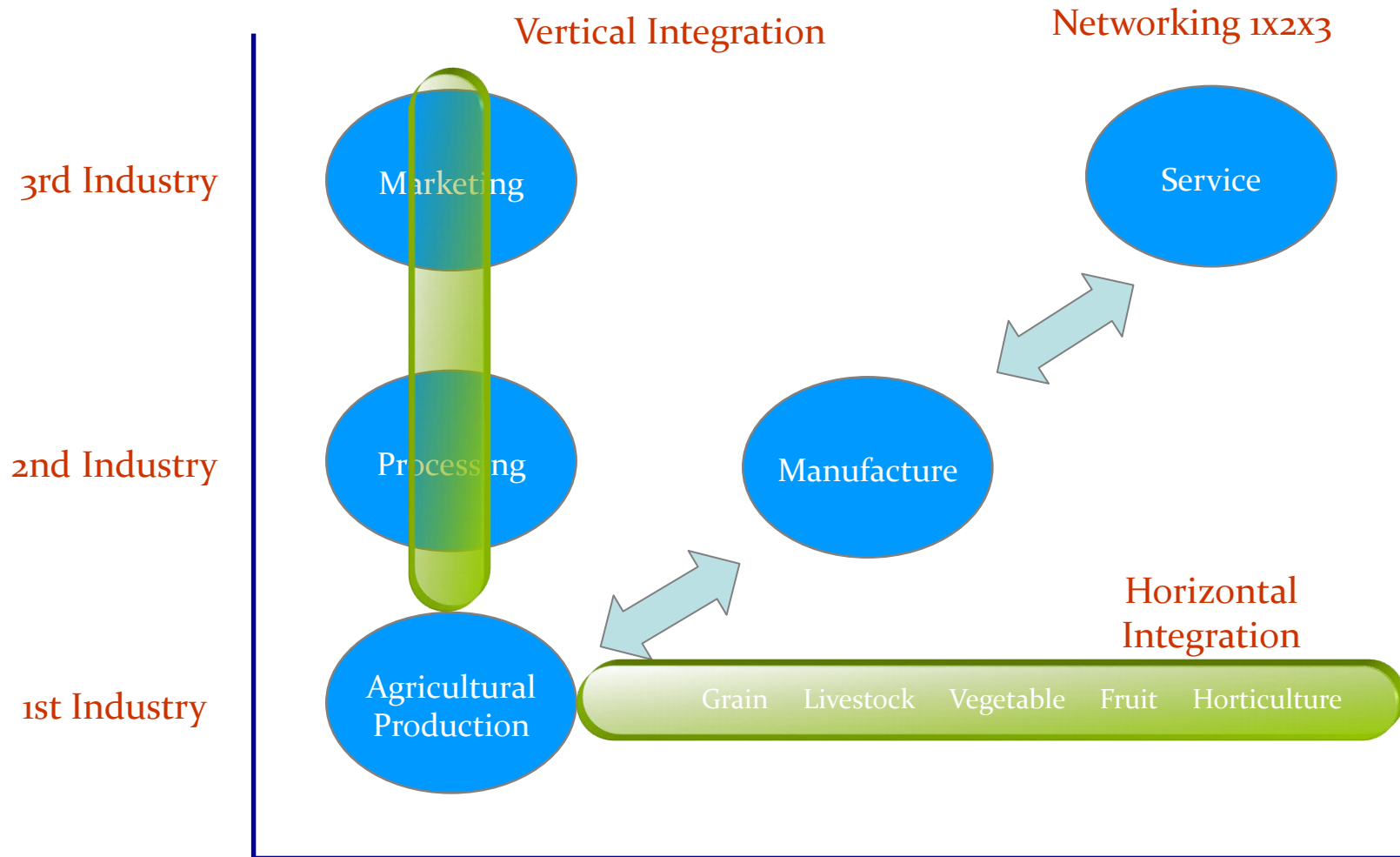
Type	Beginning Year	Purpose	Payment requirements
Management transfer	1997	<ul style="list-style-type: none"> Expand farm size Stabilize income of retired farmers 	<ul style="list-style-type: none"> Farmland sale or lease of 5 years or longer
Environment friendly farming	1999	<ul style="list-style-type: none"> Environment preservation 	<ul style="list-style-type: none"> Compliance with the certification criteria of agricultural products
Rice farming	2001	<ul style="list-style-type: none"> Income compensation 	<ul style="list-style-type: none"> Maintain form of rice paddies
Direct payments for rice farming	2002	<ul style="list-style-type: none"> Management stabilization 	<ul style="list-style-type: none"> Joining agreement, contribution payment, and price reduction below the reference price
Rice production adjustment	2003	<ul style="list-style-type: none"> Rice supply/demand balance Strongly positioned rice renegotiation 	<ul style="list-style-type: none"> 3-year mandatory non-farming of rice and commercial crops
Environment friendly livestock farming	2004	<ul style="list-style-type: none"> Build a sustainable livestock farming Produce safe livestock products 	<ul style="list-style-type: none"> Program implementation, handling of night soil created
Less-favored rural areas	2004	<ul style="list-style-type: none"> Maintain agri. Landscape Maintain local community 	<ul style="list-style-type: none"> Village agreement execution, village fund creation
Landscape conservation	2005	<ul style="list-style-type: none"> Maintain agri. landscape Boost vitality of rural areas 	<ul style="list-style-type: none"> Landscape conservation planning, agreement signing, and compliance
Income support direct payment for rice farming	2005	<ul style="list-style-type: none"> Stabilize rice farm management 	<ul style="list-style-type: none"> Maintain form of rice paddies

Impacts of direct payment on farm h.h. income

- ◆ Decoupling agricultural support from production decisions has become one of the central issues in agricultural policy, both nationally and internationally
 - Prior to the WTO system, agricultural supports were provided to producers through target pricing or various input subsidy
 - Operating two types of direct payment for rice farm income compensation: fixed direct payments and variable direct payments
- ◆ The Korean government has expanded direct payments to improve agricultural structure and to stabilize farm household income, since the adoption of management transfer for aged farmers in 1997
 - The program contributed in stabilizing farm household income, but partially contributed in improving agricultural structure
- ◆ Direct payment programs are criticized due to the distorted resource distribution
 - In 2017, over 80% of the budget was allocated on rice

4. The 6th Industrialization of agriculture

Direction for the 6th Industrialization of agriculture



Types of the 6th Industrialization

Community type

- Community-base agricultural products enterprises or groups expand their business areas from production to processing or marketing
- Suitable for small-scale businesses
- Ideal for hilly or mountainous areas
- Economies of scope

Franchise type

- Contracted transaction between franchiser(leading farmers) and franchisee(small scale farmers)
- Active in horticulture or livestock
- Effective for training producers and promoting local farms
- Economies of linkage

Network type

- Alliance between different types of industries
- Led by manufacturing and service sectors
- Ideal for large-scale production sites and enterprises
- Creates value chain
- Economies of linkage

Number of farmers involved in the 6th industry

Activities		2005(A)	2010(B)	(B-A)/A(%)
Secondary industry	Agricultural or livestock processing	6,503	8,564	3.2
Tertiary industry	Farm machinery contractor	-	23,331	-
	Direct transactions	88,290	117,234	3.3
	Farm restaurants	5,174	9,043	7.5
	Rural tourism	4,014	4,468	1.1
	Subtotal	97,478	154,076	5.8
6 th industry total		103,981 (8.2%)	162,640 (13.8%)	5.6
Total farmers		1,272,908	1,077,318	-7.5

Impacts on farm h.h. income of the 6th industrialization of agriculture

- ◆ The comprehensive approach has limited impact on increasing farm h.h. income
 - The partial integration, such as primary-secondary or primary-tertiary combination would be more suitable in Korean context rather than the integration of primary-secondary-tertiary industry all together
- ◆ Regional innovation enhances regional capacity and creates better results on farmers' income generation
- ◆ Vitalizing upstream and downstream industries in the region is encouraged
 - Convergence is required among the primary, secondary, and tertiary industries for commercialization
- ◆ Projects to foster regional industry and to develop local asset-based industry are helpful to balance regional development
- ◆ Connection and cooperation among ministries are needed to avoid overlapping project goals

5. Implications

Lessons from Korea's experiences (1)

- ◆ Although Korea has accomplished various rural income generation policies, the impacts on farmers' income are limited
- ◆ Relatively lower farm income was a result of rapid decrease in rural population and lack of farm household's successors
- ◆ Poor initial conditions of rural industrialization caused the Korean government to adopt a strong industrial policy towards urban areas.
 - As a result, little room was left in the government program for the development of rural industries
- ◆ Government support was directed in transplanting urban enterprises to rural areas, which neglected the importance of rural entrepreneurs rooted in rural communities
 - The government provided subsidies, preferential loans, and tax exemptions or reductions in order to attract urban enterprises to rural areas.

Lessons from Korea's experiences (2)

- ◆ Government concern stayed at the physical dimension of rural industry and the government ignored the importance of institutional and entrepreneurial development
- ◆ Marketing system is one of the most important aspects of business, especially, in rural areas
 - Government role to establish marketing channel for the newly moved enterprises in rural areas is important
- ◆ Government effort should be made to improve infrastructure, not to provide direct incentives to rural enterprises for individual success
- ◆ Government policy should be directed to entrepreneurs in rural sites, especially in unfavorable locations for large-scale industrial activities
- ◆ Government should also focus on the development of institutions and entrepreneurship, and not only on the physical side of building rural industry

Thanks !!!