Equitable Growth and Poverty Alleviation: Lessons Learned from Korean Experience*

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This case study analyzed how Korea achieved rapid economic growth with increasing equity and poverty alleviation. Korean GDP per capita increased 110 times and absolute poverty rate decreased from 48.3 percent to 9.8 percent between 1961 and 2001. It is true to say in the Korean case that the most effective measure in reduction of the absolute poverty level has been to make the economic pie bigger. It is called growth-first-distribution-later principle and brought about economic success by overcoming a severe shortage of natural endowments.

The Korean government prioritized certain development-led industries in order to accelerate economic growth. It was called "imbalanced development strategy" and assessed as being more effective than "balanced development strategy" within the limited budget for economic development. Although income inequality became aggravated due to the growth-first policy and imbalanced strategy, the size of the economic pie increased drastically. The income levels of middle and low income households increased to such an extent that much income inequality could be tolerated. It can be said that in Korea, rapid economic growth raised welfare levels during the period between the 1960s and the 1990s even as income inequality worsened.

Korea ran into serious economic difficulties in late 1997. The poverty rates rose sharply from 7.67 percent in 1997 to 14.28 percent in 1998. The Korean government undertook various anti-poverty programs designed to ease the impact of mass lay offs by implementing a new public assistance program and expanded the coverage of social insurance. In addition, human resource development programs were introduced that enhanced the access of the vulnerable class to the labor market by laying stress on labor welfare, taking measures to protect irregular employees, and extending the application of the minimum wage system to all industries. Thanks to these efforts of the government, the poverty rates have decreased since 1999.

This study has led us to six tentative but useful lessons learned from the Korean success to be applied to other developing countries: establishment of a clear objective of development and the commitment of authorities; perceptive selection of representative locomotive engines for rapid economic growth and properly designed management; best investment in human resource development; fair land reform; and rural development; job creation and expansion of employment; and building-up of country's capacity to implement plans and projects expeditiously within budgeted costs.

Keywords: economic development, poverty reduction, income distribution, Korean economy, development strategy

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I. INTRODUCTION

This paper has been prepared to present the lessons learned on how Korea has successfully achieved a rapid economic growth and dramatic poverty reduction during the past four decades. Such remarkable poverty reduction during such a short period was possible thanks to the rapid increase of mean income by equally rapid economic growth. Of course, increase of income does not necessarily result in poverty alleviation as evidenced in many developing countries. However, it is true to say in the Korean case that the most effective measure in reduction of the absolute poverty level has been to make the economic pie bigger. It is called growth first distribution later principle and brought about economic success by overcoming a severe shortage of natural endowments.

The experience of Korea in combining fast economic growth with rapid reduction in poverty is paralleled by few other countries. It is even more impressive considering that less than 25 percent of the country is suitable for agriculture or other economic activities, and that Korea possesses very few natural resources. At the same time, Korea had to recover from a devastating civil war in which the major part of its infrastructure was destroyed. The success attained by Korea was brought about almost entirely as a result of adopting the right economic policies, taking advantage of whatever opportunities presented themselves, and a disciplined work effort. Moreover, this strategy has been continuously maintained since the early 1960s.

The paper consists of five chapters. The second chapter gives a summary of the rationale of development strategy and its political aspects with special emphasis on macroeconomic outcomes, using the most recent data available. The third chapter lays out a general view of poverty level and a poverty profile by age, educational attainment and gender of the household head. It also describes characteristics of the poor by highlighting economic and social aspects. This chapter shows the policies for reducing poverty caused by the 1997 economic crisis and their limitations. The fourth chapter of the paper describes how Korea reduced poverty with its development strategies. It comments on government policies related to poverty reduction and economic growth by initiating discussion on the government's role in economic development and the major economic strategy, such as the outward looking development strategy and external borrowing. This chapter also describes how the success of Korea in overcoming its poor endowment of natural resources owed a great deal to its policies of human resource development. Furthermore, it discusses agricultural development with land reform and expansion of employment. The fifth chapter contains the concluding remarks.

II. DEVELOPMENT STRATEGY OF KOREA

1. Rationale of Development Strategy and Its Political Aspects

The Korean economy has been marked by a relatively high growth rate since the

First Five Year Development Plan (1962-1966) was set out. The plan was established against the dark backdrop of the country's industrial plants and agricultural land damaged and impoverished by the Korean Civil War (1950-1953). Even several years after the armistice, Korea's economic situation was far from promising. At that time, most people had naturally been waiting for the appearance of a strong national policy to help them escape poverty. Under the socio-economic situation, the regime brought forward two representative mottos "escape from the vicious circle of poverty" and "modernizing the fatherland." The development strategy was managed by strong government leadership in order to improve the deficient market economy system of those days. One of the most obvious points of the backward nature of the Korean economy was that the market economy was not very mature at that time.

The Korean government decided to expand the country's infrastructure, build up its industrial foundation, secure the required budget by foreign capital and carry out an industrialization policy by concentrating investment on export led industries. Also, the Korean government prioritized certain development led industries in order to accelerate economic growth. It was called "imbalanced development strategy" and assessed as being more effective than "balanced development strategy" within the limited budget for economic development. However, the strategy was not welcomed by all people at the beginning, so it was necessary to appease particular social groups that felt relatively deprived by the imbalanced development strategy, even under the authoritarian regime of those days. The growth-first-distribution-later principle might be considered as a kind of promise that would provide the relatively deprived groups with a hope of improving their lives in the near future. As a result, it proved helpful in forging a consensus on the national development strategy.

However, the development strategy seemed to be established not only for the purpose of rapid economic growth and escape from absolute poverty, but also due to some political reasons unavoidable to the regime. The military regime, which took political power by military coup in 1961, must have judged that the escape from absolute poverty by rapid income increase could be the sole measure to justify their military coup and that the rulers would ultimately recover from a lack of political legitimacy. In fact, certain portions of the population, especially the college students and the intellectuals, were against the military regime and the United States was unhappy with the military coup and was interrupting aid flows for leverage (Krause L. B. 1997). Also, there was a thinking within the regime that only through rapid economic growth could Korea be entirely independent from the historical scars left by the Japanese occupation. Also the result of rapid growth would establish a good vantage ground to deal with North Korea.

Some observers consider that much of Korea's planning and policy-making had been formulated in the shadow of what was happening, or said to be happening in the North. It was said that Korea, from the very beginning of its planning, had to pay much more attention to questions of equity and poverty alleviation than perhaps other countries had to, because the rhetoric, at least, from North Korea was that

they were developing an equitable and classless society. It is true that the initial planning of North Korea appears to have been quite successful. The two systems, those of North and South Korea, were in competition. However, it would never do for South Korea to be seen to be lagging behind the North in terms of equity, while escaping from absolute poverty through rapid economic growth. At the beginning of the economic development in the 1960s, South Korea already had very equalized incomes and assets due to land reform and total destruction of the industrial facilities during the Korean War. So the most important objective in South Korea was an increase in income. Also, another reason why Korea was not interested in North Korea's economic equality was that most Koreans believing in socialist ideology left South Korea to emigrate to North Korea during the Korean War. As a result, South Korea could, from the very beginning of its planning, pay attention primarily to questions of economic growth. The economic principle of "growth-first-distribution-later" could be found also in macroeconomic policy with high inflation and a fiscal policy with regressive income tax rates.

Although income inequality became aggravated during economic development, the size of the economic pie increased greatly. Park (1992) reports that the income level of middle and low income households increased to such an extent that much income inequality could be tolerated. It can be said that in Korea, rapid economic growth raised welfare levels during the period between the 1960s and the 1990s, even as income inequality worsened. Also, the Korean development strategy accelerated economic growth and created many jobs that could provide the unemployed with a stable income, and ultimately brought about an expansion of social welfare.

2. Main Macroeconomic Outcomes

The development strategy was effective in raising the Korean economy. Rapid economic growth started just after the outset of the First Five Year Development Plan. For example, per capita GDP increased by about three times for the period between 1961 and 1970, and over five times for the 10 year period between 1970 and 1980. The high growth rate continued until just before 1997 when the Korean economy was hit by an economic crisis. Also, Korea became a country that could boast the highest GDP growth rate in the world. However, the external environment did not let the Korean economy drive always on a level road. The Korean economy had some bitter experiences to be faced with a few severe crises, such as the first and second oil shocks, the Kwangju Uprising and the 1997 economic crisis. Nonetheless, those socio-economic obstacles were not able to drastically slow down the locomotive force of the Korean economy. In the 1990s, the GDP grew by over 5% every year except for 1998. In 1990 and 1991, the growth rate for the GDP was 9.0% and 9.2% respectively, but for the following year it fell to 5.4% and this was maintained at a similar level in 1993. After the onset of the financial crisis, Korea suffered a serious economic downturn. However, the Korean government implemented drastic

reforms to correct the structural weaknesses inherent in its economy. The economic restructuring was carried out in the corporate, financial and labor sectors in order to promote transparency, efficiency and flexibility. Starting in 1999, the Korean economy has shown a trend of rapid recovery. The growth rate, after dipping to 6.7% in 1998, soared to 10.9% in 1999.

Korea's exports grew from \$55 million to \$22 billion, an annual growth rate of nearly 40 percent. Not surprisingly, the composition of exports changed, from less than 10 percent accounted for by manufacturing in 1962, to 90 percent in 1980. In 1962 the value of Korea's trade was only \$477 million. In 1965, it passed the \$638 million mark; in 1970, \$2.8 billion; in 1975, \$12.4 billion; in 1980, \$39.8 billion; in 1985, \$61.4 billion, and in 1990, \$135 billion. In 1960, Korea ranked 101st among the world's exporters; today it is the 12th biggest.

TABLE 1. OVERALL ECONOMIC PERFORMANCE

Year	Per Capita GDP ¹⁾ (US\$)	GDP Growth Rate ¹⁾ (%)	Trade ¹⁾ (Exports+Imports) (Billion US\$)	Savings Rate ¹⁾ (%)	Investments Rate ¹⁾ (%)	Gini Coefficients
1961	82	5.6	0.357	11.7	12.0	-
1962	87	2.2	0.477	11.0	11.8	-
1963	100	9.1	0.647	14.4	17.0	-
1964	103	9.6	0.523	14.0	13.2	-
1965	105	5.8	0.638	13.2	14.1	-
1970	249	7.6	2.819	18.1	24.3	-
1975	592	6.5	12.4	18.1	28.6	0.340 ³⁾
1980	1,598	-2.1	39.8	23.2	31.9	0.354 ²⁾
1985	2,229	6.5	61.4	29.8	30.3	0.384 ²⁾
1990	5,886	9.0	134.9	35.9	37.1	0.395 ²⁾
1991	6,810	9.2	153.4	36.1	39.1	0.393 ²⁾
1992	7,183	5.4	158.4	34.9	36.8	0.364 ²⁾
1993	7,811	5.5	166.0	35.2	35.2	0.362 ²⁾
1994	8,998	8.3	198.4	35.2	36.1	0.363 ²⁾
1995	10,823	8.9	260.2	35.5	37.3	0.370 ²⁾
1996	11,385	6.8	280.1	33.8	38.1	0.377 ²⁾
1997	10,315	5.0	280.8	33.4	34.4	0.369 ²⁾
1998	6,744	-6.7	225.6	33.9	21.3	0.390 ²⁾
1999	8,595	10.9	263.4	32.9	26.9	0.398 ²⁾
2000	9,770	9.3	332.8	32.4	28.3	-
2001	9,000	3.0	291.5	30.2	27.0	-
2002	10,013	6.3	314.6	29.2	26.1	-

SOURCE: 1) Bank of Korea, National Statistical Office.

2) Park and Kim (1998)

3) Park, Kim, and Kim (1999)

4) Park and Kim (2003)

Domestic investment can be financed by both domestic and foreign savings. However, at the beginning of the first plan, a shortage of savings was one of the most serious economic problems, so that it was resolved, in part, by recognizing the relationship between inflation and the real rate of interest. According to Cole and Park (1983), monetary reform reduced the inflation rate and established a positive real deposit interest rate of between 15 and 20 percent until the early 1970s. The savings rate responded and rose from the 11-14 percent in the early 1960s to 20 percent by the end of that decade (Krause L. B. 1997). In 1991, it was recorded at 36.1 percent, which has been the highest rate to this day.

With regard to income distribution, Gini coefficients showed a sharp increase of income inequality during 1975-1990, and then a decrease until 1993. The Korean government accelerated trade as a measure to increase people's income levels during times of development. Mah (2002) examined the impact of trade on income distribution from 1975 to 1995 in Korea and found that when foreign trade increased, the Gini coefficients tended to increase. The result of Mah's analysis supports the fact that when absolute poverty reduced as income level increased, income inequality was aggravated with growth oriented policy (including export-led policy).

However, Korea has often been considered as a country that has retained an equitable distribution from the initial stage in the 1960s. This assessment likely stems from a lack of income data of whole households. For instance, "Family Income and Expenditure Survey" is a representative income survey in Korea. It has released income data annually since 1963. However, the survey covers only urban salary and wage earners excluding self-employed people.¹ That is, only income inequality among salary and wage earners could be calculated, making it impossible to produce statistics on the high income of the self-employed and the low income of the unemployed hit by the economic downturn.

III. POVERTY ALLEVIATION

1. General View on Poverty and Income Distribution

Table 2 displays the incidence of poverty in Korea during 1961-2001. There are two kinds of absolute poverty rates shown in the table. They are estimated based on different poverty lines by different authors. The results are naturally different from each other. However, they are utilized as they are, because it is not easy to get consistent absolute poverty rates for a long-term period. Even with this method, its general trend, at least, can be noted. The table shows a spectacular decline in absolute poverty rate from 48.3 percent in 1961 to only 7.41 percent in 1996. However, the absolute poverty rate increased in 1997 as a result of the economic crisis, reaching 14.28 percent in 1998 before dropping again to 9.84 percent in 2001.

As shown in the table, the relative poverty rate, estimated with three different poverty lines (40 percent, 50 percent and 60 percent of the average income), was 9.7 percent, 18.68 percent and 28.93 percent respectively in 1975, and then recorded 13.09 percent, 22.22 percent and 32.12 percent in 1995. While absolute poverty had been drastically reduced during this period, relative poverty had increased.

It was found that there was high correlation between the relative poverty rate and income distribution (see Tables 1 and 2). The relative poverty rate and Gini coefficients both increased during 1975-1985 then the relative poverty rates decreased until 1995, but Gini coefficients continued to increase until 1990, and then decreased with the relative poverty rates until 1995. This explains that the relative poverty rates rose sharply with the aggravation of income inequality during 1975-1985, and then decreased due to the reduction of income inequality during 1990-1995. It can be said that absolute poverty was alleviated thanks to the rapid growth of income, but relative poverty was not reduced as much as absolute poverty, due to the increase in income inequality in Korea.

TABLE 2. ABSOLUTE AND RELATIVE POVERTY RATES²

(Unit: percent)

	Absolute Poverty Rate		Relative Poverty Rate		
	Estimated Poverty Rate ¹	Administrative Poverty Rate	40 percent of the average income	50 percent of the average income	60 percent of the average income
1961	48.3 ³⁾				
1965	40.9 ³⁾				
1970	23.4 ³⁾				
1975	21.52 ¹⁾		9.73 ¹⁾	18.68 ¹⁾	28.93 ¹⁾
1980	15.25 ¹⁾	9.8 ¹⁾	4.8 ¹⁾	13.82 ¹⁾	21.88 ¹⁾
1985	18.50 ¹⁾	5.6 ¹⁾	17.51 ¹⁾	25.35 ¹⁾	33.63 ¹⁾
1988	9.5 ¹⁾				
1990	15.74 ¹⁾	5.3 ¹⁾	11.22 ¹⁾	24.44 ¹⁾	33.29 ¹⁾
1993	7.6 ⁴⁾				
1995	8.42 ¹⁾	3.9 ¹⁾	13.09 ¹⁾	22.22 ¹⁾	32.12 ¹⁾
1996	7.31 ²⁾	3.3 ¹⁾			
1997	7.6 ²⁾	3.1 ¹⁾			
1998	14.28 ¹⁾	3.2 ¹⁾			
1999	13.67 ¹⁾	4.1 ¹⁾			
2000	10.39 ³⁾	3.6 ¹⁾			
2001	9.84 ³⁾				

NOTE: The poverty rates appeared with superscript numbers 1), 2) or 3), were estimated on the basis of the data from "The Family Income and Expenditure Survey" of the National Statistical Office of Korea, which it covered only the urban households excluding rural households and one-person households.

SOURCE: 1) Park and Kim (1998)

2) Park, Kim, and Kim (1999)

3) Park and Kim (2003)

4) Ministry of Health and Welfare, Internal Documents

5) For 1965-1980 Suh (1985), for 1988 and 1993 Hyun and Na (1995)

A comparison between the absolute poverty rate and the administrative poverty rate (poverty rate for public assistance recipients) revealed a considerable gap between the two. This can be attributed to several factors. First, to be eligible for public assistance applicants must meet not only income criteria that are based on the poverty line, but also the property criteria, so some of those who qualified under the income criteria might actually be excluded if their property value exceed the maximum property limit. Second, even those who qualify for both income and property criteria can be excluded if they have livelihood support from their legally responsible supporters. If such excluded persons were added to the calculation, the two rates are likely to be closer to each other.

2. Characteristics of the Poor⁴

Poverty is highly related to people's economic activity. A little over half of the public assistance recipients, 54.5 percent of household heads and 57 percent of the household members, are economically active (see Table 3).

Among the economically active recipients, the employment rate is 69.3 percent for household heads and 64.5 percent for household members. In other words, about one third of economically active recipients are unemployed. This unemployment rate is much higher than that of the total population, which was 2 percent in 1995. It means that the high unemployment rate is one of the most important causes of a poor economic situation. The details are displayed in Table 3.

TABLE 3. ECONOMICALLY ACTIVE RECIPIENTS, 1996

(Unit: Percent)

	Economically Active		Economically Inactive (C)
	Employed (A)	Unemployed (B)	
Head	37.7 (69.3)	16.8 (30.7)	45.5
Member	36.8 (64.5)	20.2 (35.5)	43.0

NOTE: Numbers in parentheses indicate the proportion of the employed and the unemployed to the economically active population.

SOURCE: The Ministry of Health and Welfare, *Analysis of Livelihood Protection Recipients*, 1996.

Poor health condition is another attributing factor of poverty, because it determines one's capability to work. A survey shows that only 51 percent of recipients are healthy, around 20 percent are either sick or disabled, and 29 percent have other types of illness, indicating that almost half of the recipients are either disabled or sick.

TABLE 4. HEALTH STATUS OF RECIPIENTS

(Unit: Percent)

	Healthy	Disabled	Sick	Other
Head	38.6	13.1	15.4	32.9
All	51.4	8.7	10.9	29.0

SOURCE: The Ministry of Health and Welfare, *Analysis of Livelihood Protection Recipients*, 1996.

Education, as well as skills, is crucial to finding a job. Most public assistance recipients have less than ten years of education. About 77 percent of household heads have no more than an elementary school education, and most of them have less than junior high school education. A total of 80 percent of all household members have no more than a junior high school education. Lack of education is a major obstacle for them in finding a well-paid or stable job. These figures indicate that the overall educational level of recipients is low.

TABLE 5. EDUCATIONAL LEVEL OF RECIPIENTS, 1996

(Unit: Percent)

	No Education	Elementary	Junior Middle	High School	Junior College
Head	47.6	29.8	14.8	7.1	0.6
All	35.2	29.1	19.0	14.6	1.1

SOURCE: The Ministry of Health and Welfare, *Analysis of Livelihood Protection Recipients*, 1996

The most common cause of poverty in Korea is lack of work capacity. As Table 6 shows, this can arise from age (too old or too young), illness, disability, and not having a father in the family (66 percent). Aging, sickness, disability and fatherlessness constitute the primary factor in poverty. The second cause is lack of education, work experience and skills, even though the recipients are capable of working (29 percent). To be employed, especially with secure working conditions, education, work experience and skills are required. Persons without those elements have difficulty finding jobs and their risk of becoming poor is increased. The third cause is the unemployment of recipients with some skills. Only 5 percent of them fall into this category. Since unemployed persons with skills can easily find jobs, their chances of emerging from poverty are higher than most other recipients without any skills. Thus, most people in Korea become poor because of poor physical condition or lack of education, working experience and skills.

TABLE 6. MAJOR CAUSES OF POVERTY IN KOREA, 1996

(Unit: Percent)

Major Causes of Poverty	Proportion
Age, Disease, Disability, Fatherlessness (No available labor force in the household)	66.4
Lack of education, working experience, and skills (Labor force available in the household)	28.6
Possess skills but not finding a job (Labor force available in the household)	5.0

SOURCE: The Ministry of Health and Welfare, *Analysis of Livelihood Protection Recipients*, 1996.

To sum up, the highest incidence of poverty in Korea occurred among families headed by persons of low educational attainment, and those headed by unemployed or underemployed persons. Age is a significant factor, in that poverty is higher in

families headed by elder persons. High rates of poverty are found in families headed by single mothers with dependent children. The majority of the poor in Korea live in cities.

3. The 1997 Economic Crisis and Poverty Reduction Strategies

After a long period of rapid economic growth, Korea ran into serious economic difficulties in late 1997. Companies were forced to carry out corporate restructuring to retain their competitiveness, leaving an unprecedentedly high rate of unemployment in the process. As shown in Table 2, the poverty rates rose sharply from 7.67 percent in 1997 to 14.28 percent in 1998 due to the 1997 economic crisis. The poverty rates have decreased since 1999, however, the poverty rate in 2001 was still higher than that in the years prior to the economic crisis.

Table 7 shows current income-poverty rate by age of household head.⁵ The incidence of poverty had been highest for households headed by people aged 60 or over until 2001. Until 1998, households of the lowest poverty rate were headed by those in their 50s. Beginning in 1999, households led by those in their 40s were found to have the lowest poverty rate.

Between 1996 and 1997, the poverty rate of households led by those in their 40s made up 7.89 percent of the total households and it was down to 7.88 percent. However, households led by people of other age groups, recorded increases in poverty rate.

The poverty level of households headed by those aged 60 or older was higher than those headed by other age groups. The analysis also showed that, generally, households led by those in their 50s, had been affected the most by the economic crisis.

TABLE 7. CURRENT INCOME POVERTY RATES BY AGE OF HOUSEHOLD HEAD
(ALL HOUSEHOLDS)

	20 and below	30s	40s	50s	60 and over	Whole Households
1996	12.90	9.59	7.89	6.53	16.95	9.45
1997	12.91	9.80	7.88	5.70	17.81	9.52
1998	19.68	14.93	12.11	11.98	24.03	15.30
1999	14.58	14.66	12.44	13.44	32.39	15.56
2000	10.24	11.32	9.51	10.26	26.97	12.25
2001	9.92	10.31	9.28	9.29	27.55	11.81

SOURCE: Park, Kim and Kim (1999), and Park and Kim (2003)

In 1997, households led by those aged 60 or more recorded the highest poverty rate at 17.81 percent, followed by those led by heads aged 20 or less at 12.91 percent, 30s at 9.80 percent, 40s at 7.88 percent, and 50s at 5.70 percent. In 1998

at the peak of the economic crisis, households headed by persons aged 60 and over showed the largest poverty rate of 24.03 percent, followed by those with heads in their 20s or less, then 30s, 40s, and 50s respectively. Prior to and after the crisis as well, those households headed by persons in their 50s showed the lowest poverty rate.

The review of current income-poverty rate based on educational attainments clearly shows that the more educated, the lower poverty rate (See Table 8). In other words, college graduates are less likely to be poorer than high school graduates, and high school graduates are less likely to be poorer than junior high school graduates.

Between 1997 and 1998, or right before and after the economic crisis, the trend continued and the poverty rate diminished as the educational level increased. During the same period, poverty rates among households headed by junior high school graduates increased from 11.23 percent to 19.68 percent. Poverty rate among high school graduates increased from 8.36 percent to 13.87 percent. Poverty rate among households headed by elementary school graduates increased from 20.35 percent in 1997 to 28.87 percent in 1998.

When viewed from the standard of educational attainment, households headed by elementary school graduates were the ones who suffered most from poverty. On the other hand, households headed by college graduates or higher, showed the lowest level of poverty. In 1998, when the economic crisis reached its peak, rankings of poverty in relation to educational attainment did not change. However, the ripple effects of the economic downturn were most apparent in households headed by middle school graduates, and then those by high school graduates.

TABLE 8. POVERTY RATES BY ACADEMIC BACKGROUNDS OF HOUSEHOLD HEAD
(ALL HOUSEHOLDS)

	(Unit: Percent)			
	Elementary School	Middle School	High school	University and higher
1996	19.26	10.78	8.79	5.77
1997	20.35	11.23	8.36	5.56
1998	28.87	19.68	13.87	8.79
1999	34.48	23.22	14.51	7.79
2000	28.06	18.24	11.51	5.68
2001	27.05	16.48	11.64	5.29

SOURCE: Park, Kim and Kim (1999), and Park and Kim (2003)

The poverty rate varied considerably between male-headed and female-headed households. Table 9 shows that the poverty rate in male-headed households was 7.57 percent, as of 1997, while that in female-headed households was almost double, recording 15.86 percent. Gender-related poverty gap was narrowed to 1.68 times in 1998, but the gap has been widening since 1999. The problem of poverty was more serious for female-headed households than for male-headed households.

TABLE 9. POVERTY RATE BY GENDER OF HOUSEHOLD HEAD (ALL HOUSEHOLDS)

(Unit: Percent)

	Male (A)	Female (B)	B/A
1996	8.01	17.49	2.18
1997	7.57	15.86	2.10
1998	12.26	20.55	1.68
1999	13.99	25.18	1.66
2000	10.95	18.57	1.68
2001	10.41	18.07	1.74

SOURCE: Park, Kim and Kim (1999), and Park and Kim (2003).

After the 1997 economic crisis, the government undertook various anti-poverty programs designed to ease the impact of mass lay-offs, including temporary livelihood protection for those rendered jobless. While overall household incomes shrank, households with lower income were most likely to see their income contract even further. Likewise, the situation worsened income distribution and pushed those at the bottom of the middle class down into the poverty class, widening the gap between the rich and the poor. The economic crisis in 1997 demonstrated weaknesses in the ability of the Korean anti-poverty system to deal with external shocks.

The Korean government and ministries concerned with anti-poverty policies evolved a new model for welfare tailored to the prevailing circumstances of Korea. The changes made to the social protection system reflected the desire to extend benefits to all of society and to update the older system. This new model is known as "Productive Welfare."

Productive Welfare is an ideology that seeks to secure minimum living standards for all low-income households, provide human resource development programs to support self-reliance of the poor, and guarantee a basic living standard by expanding the coverage of social insurance to all people. In short, Productive Welfare endeavors to improve the quality of life for all citizens by promoting social development and a fair distribution of wealth. Thus, whether policies based on Productive Welfare have stabilized society through protection programs to the poor and the unemployed is the best criterion for assessing the achievement of the strategy.

Most assessments concur that Productive Welfare, regarded as a major pillar of national policies, did contribute significantly to overcoming the difficult situation. The main policies through which the ideology of Productive Welfare was implemented were the National Basic Livelihood Security Act (NBLSA) and the expansion of the coverage of social insurance. In addition, human resource development programs were introduced that enhanced the access of the vulnerable class to the labor market by laying stress on labor welfare, taking measures to protect irregular employees, and extending the application of the minimum wage system to all industries.

Among the reforms of anti-poverty system, the introduction of the NBLSA was a major change. The NBLSA started since October 2000 as a replacement of the Livelihood Protection Act, and guarantees minimum living standards to all low-income

families with an income below the official poverty line, irrespective of their ability to work. Hence all low-income earners with the ability to work also become eligible for benefits, unlike under the previous system. With the implementation of the NBLSA, the number of livelihood payment beneficiaries tripled from 540,000 in 1999 to 1.51 million in 2001.

Livelihood payments under the NBLSA are designed to provide supplementary payment to households with an income below the official poverty line. The amount of support is the difference between household income and the official poverty line. Civil rights were also enhanced as the NBLSA was made into a social duty. The NBLSA resulted in an increase in the number of the *Self-Reliance Aid Centers* from 6 in 1997 to 161 in 2001 and in the number of social workers from 3,000 persons in 1997 to 5,500 in 2001. Along with this, the importance of the Survey of Minimum Cost was also emphasized.

The official poverty lines for the NBLSA beneficiaries are defined in Table 10. Those who meet the criteria and do not have any family support will be chosen in the selection. The range of the family supporters is limited to immediate family members, spouses, and any siblings who support them financially.⁷

TABLE 10. OFFICIAL POVERTY LINE (2003)

Number of household members	Criteria (Korean Won)
One	355,774
Two	589,219
Three	810,431
Four	1,019,411
Five	1,159,070
Six	1,307,904
Seven and more	Add 120,000 per person increased

SOURCE: Ministry of Health and Welfare, 2003

The social insurance system has undergone rapid changes since 1998. The rationale of this change is to: drastically reduce uncovered groups by applying the National Pension scheme to all people; integrate the management systems of the *Health Insurance Funds for Wage Earners* (HIFW) with the *Health Insurance Funds for Non Wage Earners* (HIFNW); and expand coverage of Employment Insurance and Industrial Injury Insurance to all workplaces.⁸ As a result, anyone who has an income is now covered by the National Pension scheme, regardless of employment category. Now, even if pension contribution is paid only once, pension payment for the disabled and survivors is permitted.⁹ In addition, the Health Insurance system has been made more equitable by integrating different management systems.¹⁰ And by abolishing limits on periods for Health Insurance services, one can get medical service throughout the year.¹¹

Since the 1997 economic crisis, economic recession and dramatic restructuring raised

the unemployment rate. Accordingly, the expansion of Employment Insurance coverage was applied earlier than previously planned, beginning March 1998, in order to provide unemployment benefits even to workers at the workplace with 5 or more persons. Considering the severe unemployment situation, the coverage was again expanded in October 1998, to include workers at the workplace with four or less persons as well as temporary or part-time workers.¹² Beginning in July 2000, membership has become mandatory in Industrial Injury Insurance, even for the workplace hiring less than 5 persons.¹³ Expanded implementation of social insurance by reducing the mandatory employment period was aimed at extending coverage to include temporary and daily workers.

Under the National Pension scheme, temporary, daily, and other part-time employees are classified as local participants.¹⁴ As for Health Insurance, since July 2001, temporary and daily workers were transferred to the workplace participant group. Upon the initial enactment, Employment Insurance was not applied to those who worked for less than a three-month period and less than 30.8 hours a week. Since October 1998, the mandatory employment period was shortened to include those who worked more than one month and more than 80 hours per month (or more than 18 hours a week).

Thanks to the relaxation of the requirement for employment period and the expansion of qualifying workplaces, the marginal workers¹⁵, who are not covered by social insurance, have decreased for the past two to three years. Despite the concentrated efforts to extend coverage of social insurance, a substantial number of persons still do not have access to income maintenance benefits under social insurance.

Temporary and daily workers employed for one month or less in all industries and those who work less than 18 hours a week are not covered by Employment Insurance. Korea's social insurance schemes had provided a protective umbrella in favor of salary and wage earners, but it didn't do the same for the lowest paid, temporary contract-based workers. Hence it is essential to figure out the types of gaps existing in the social insurance scheme and their impact on the system. It is also essential to realize that the government's efforts to expand the coverage of the four social insurance schemes for the past two or three years have not been sufficient to overcome the problem of gaps in the coverage and that the difficulty should be dealt with on multiple fronts.

IV. HOW KOREA REDUCED POVERTY

1. Commitment and Credibility of the Government

Perhaps the key factor in Korea's success was the commitment of authorities at the highest level to economic development, and the strong perception that policies that had been announced would, in fact, be implemented. Korea has never lacked plans. The Office of Planning was established under the government of President

Syngman Rhee as far back as 1948; this office duly prepared a five-year plan (never implemented), and revised it later (also not implemented). There were also numerous missions by foreign experts to advise on policies and to prepare plans (for example, the "Nathan Plan" submitted in 1953, but never adopted). A three-year plan was prepared in 1960, but was first postponed for a year and then came into effect only for a few months before the Rhee regime fell. The succeeding government of Chang Myon also directed the preparation of a five-year plan in 1960; this was made redundant by the military coup of May 16, 1961 that brought President Park Chung Hee to power.

The Park regime put economic development unambiguously at the top of its priorities; in fact, President Park (1963) maintained that, "In human life, economics precedes politics or culture." But a strategy delivers benefits only to the extent that it is actually put into effect. As Mason et al. (1980) point out, a vital lesson that other countries can learn from Korea's experience is the importance of establishing the government's credibility in the implementation of announced policies. It has now been reduced almost to a truism that Korea's success owed more to its capacity to implement policies than to formulate plans. President Park, in addition to strengthening the planning process, laid great emphasis on carrying out announced policies. Policy implementation was accomplished through a rigorous structure of rewards and punishments, including compulsion and administrative discretion.

The result was a sharp increase in the public's perception that the government meant what it said. According to a major study of businessmen's perceptions of the firmness of the government's resolve by Jones and SaKong H (1980), only 3.2 percent of the respondents indicated that under Rhee decisions were "always implemented," and 17.2 percent believed that they were "almost always implemented." Contrast this with the Park period: 78.2 percent of the businessmen responded that decisions were "always implemented and that it was impossible to avoid complying," and 16.6 percent said that they were "almost always implemented." his shift in perception also made it easier for the government to implement its policies without having to adopt extreme measures.

2. High-Growth, Outward Looking Development Strategy

The basic weapon for the rapid reduction of poverty was the acceleration in the rate of GDP growth. Between 1965-1991, the rate of growth of Korea's GDP was almost always above 7-8 percent a year in real terms, and at periods exceeded 9 percent a year. A strategy of high growth was adopted, and it was recognized that such a strategy would require a very substantial increase in the rate of investment. However, Korea lacked the resources to finance this investment; these resources would have to be borrowed from abroad. But borrowed external resources have to be repaid in foreign exchange. The only way for Korea to obtain the necessary foreign exchange was through exports. Hence, the logical corollary to the high-GDP-growth strategy

was a strategy that relied extensively on the rapid expansion of exports. Moreover, the outward looking strategy, in which Korea would have to compete vigorously in the international market, forced the country to pay continued attention to mobilizing resources efficiently and increasing their productivity.

Some comparative figures furnished in Johnson (1987) highlight Korea's achievements in carrying out its chosen growth strategy. In 1950, expressed in 1974 US dollars, Korea had a per capita income of \$146; compare this with \$203 for Egypt, Nigeria with \$150, or Mexico with \$562. By 1980, Korea's per capita income (again in 1974 US dollars) had shot up to \$1553 (an annual growth of 8.2 percent); Egypt's was \$480 (2.9 percent), Nigeria's \$670 (5.1 percent), and Mexico \$1640 (3.6 percent). Note that the last three are important oil producers. Between 1962-80, Korea's GNP grew at an annual rate of 8.5 percent in real terms. In particular sectors, the growth was even more impressive: between 1962-80 value-added in manufacturing increased at an average annual rate of 18 percent. Korea's exports grew from \$55 million to \$22 billion, giving an annual growth rate of nearly 40 percent. Not surprisingly, the composition of exports changed, from less than 10 percent accounted for by manufactures in 1962, to 90 percent in 1980. The result of this strategy was a rapid transformation of the structure of the economy, away from one dominated by the agricultural sector into one in which manufacturing predominated.

The fast growth, based on an outward-looking strategy, was fuelled by a very rapid expansion of exports. The export-led strategy, in addition to generating resources, produced two other benefits. It altered the structure of production in the direction of Korea's comparative advantage, and competing in the world economy forced Korea to continually pay attention to issues of human resources and productivity.

The word "miracle" has become something of a cliché when describing the growth and structural changes of Korea's exports. In 1962 the value of Korea's exports was only \$55 million; then came the export drive. In 1964 exports passed the \$100 million mark; in 1968, \$500 million; in 1970, \$1 billion; in 1977, \$10 billion; in 1981, \$20 billion; in 1985, \$30 billion, and in 1988, \$60 billion. In 1960 Korea ranked 101st among the world's exporters; today it is the 12th biggest. The structural change is no less impressive: according to Balassa (1984), in 1960 primary products accounted for 86 percent of merchandise exports and manufactures for 14 percent; by 1980 the shares had been completely reversed – primary products accounted for 10 percent and manufactured goods for 90 percent of exports. The export surge enabled Korea to run large surpluses on its current account since 1986 and to retire much of its substantial external debt: in 1985, Korea was the fourth most highly indebted developing country (after Mexico, Brazil, and Argentina) with an external debt amounting to \$47 billion; by 1988 that figure had dropped to \$31 billion, and as a percent of GDP or of exports had of course fallen even lower than the corresponding rate in 1985.

From the 1980s to the early 1990s, the Korean government had prepared to cope with an open domestic market by establishing a long-term plan for trade liberalization

and tariff reduction. In the 1980s import liberalization was accelerated, and the rate of import-liberalization rose to 95.4 percent in 1988. It is a result of the large-scale import liberalization in 1981 and 1982 and of the overall plan for import-liberalization after 1984. Also, the Korean government reformed policies for tariff reduction by imposing an equal tariff rate system. Since the 1997 economic crisis, the Korean government implemented a series of policies for removing or bringing down the non-tariff barrier on a great deal of items.¹⁶ In 1999 the Korean government expanded import liberalization by lifting the ban, and by reducing the subsidy program. As a result, the Korean tariff rate in 1999 could approach the level of the advanced countries as shown in Table 11.

TABLE 11. INTERNATIONAL COMPARISON OF TARIFF RATES (SIMPLE AVERAGE)

(Unit: %)

	Korea				U.S.A.	Japan
	1988	1990	1992	1999	1995	1993
Total	18.1	11.4	10.1	7.9	4.9	7.0
Agriculture	25.2	19.9	18.5	16.6		11.5
Manufactures	16.9	9.7	8.4	6.2		2.2

SOURCE: Choi Nak Gyoan (2001).

Korean policy for foreign direct investment had been rather passive until the 1980s. However, accelerated liberalization began in the early 1990s due to the Quinquennial Plan for Foreign Investment Liberalization (1993-1997). Consequently, the level of foreign direct investment liberalization recently reached that of the OECD countries. Also, according to an agreement with the IMF in 1997, foreign direct investment including financial capital and real estate has been fully permitted except in politically sensitive sectors such as culture and national defense. Foreign exchange and capital flows had been liberalizing gradually in 1990s, however, liberalization was hurried along by the introduction of the 'Freely Flexible Exchange Rate System', in response to the economic crisis in 1997.

TABLE 12. TRENDS OF FOREIGN INVESTMENT LIBERALIZATION (AS OF AUGUST 2001)

(Unit: Number of business)

Industry	Business Opened								Business Restricted still in 2001
	1994	1995	1996	1997	1998	1999	2000	2001	
Manufacture	1		6	1	2	2			0
Service	23	42	39	16	20	3	2	2	2(22)
Agriculture, Fishery, Mine	6	2	4	10			1		3(2)
Total	30	44	49	27	22	5	3	2	4(24)

NOTE: 1. Restricted business includes a category of business that totally banned the investment of foreigners but partially excludes restricted businesses.

2. Numbers in parenthesis show the numbers of partially restricted business.

SOURCE: Choi Nak Gyoan (2001).

Three sets of factors largely explain Korea's export performance: first, the government's decision and implementation processes; second, the set of export incentives; and third, Korea's ability to take tactical advantages of opportunities offered by the international environment.

The effectiveness of the government's decision and implementation procedures must begin with the government's commitment to the export drive. A thorough-going commitment to boosting exports began with President Park, whose strategy called for priority in economic development but with less economic reliance on the United States. The paucity of Korea's own resource base meant that this development had to be based on industrialization (which in turn would have to be import-intensive), and the aim of reduced dependence on the United States meant that this import-intensive industrialization would have to be financed through higher exports. It is not surprising, therefore, to find Song (2003) reporting that President Park's favorite maxims were "nation building through exports" and "exports first."

In the year following President Park's seizure of power the Ministry of Commerce and Industry began setting export targets classified by commodity and destination. Exporters who reached their stipulated targets would receive favorable access to credit and other inducements; exporters who failed could swiftly suffer from economic and other sanctions. The President himself also chaired a monthly meeting of exporters during which export targets were discussed and impediments to achieving those targets were removed. The participation of the President himself in these policy discussions and in the follow-up meetings also explains the relatively small amount of corruption and interference shown by the Korean bureaucracy. The World Bank (1987) reported that exporting was identified as the criterion of resource allocation, and the performance of all the actors – firms as well as bureaucrats – was monitored against this target. Mason et al. (1980) concurred, remarking that "although it is too much to say that government officials are not amenable to corruption, their intervention rarely leads to a slowing down of production or a failure to meet prescribed targets."

The government and the business sector worked very closely. Jones and Il SaKong (1980) made it clear that the government was the senior partner. However, over time, the communication began to go both ways: over 80 percent of the 113 firms surveyed by Rhee et al. (1984), said that their annual export target was their own estimate, which was sometimes adjusted by the government. The trade associations were regularly consulted to ascertain the incentives needed to attain targets. In the discussions, much information was exchanged, and Rhee et al. reported that, "if sales in a region are not up to target, the Korean ambassadors there are recalled to find out what the problems are and what can be done to spur Korean sales." One could hardly ask for a stronger government commitment to exporting.

Korea was also very innovative regarding systems of export promotion. It could probably be said without too much exaggeration that Korea used a variant of almost

any incentive scheme for promoting exports that one can think of – Johnson (1987) reports that 38 different “export policy tools” were used before 1976. The most important and most consistently used, however, were the exchange rate, the tariff-free access to imported inputs, and the provision of bank loans (often at subsidized interest rates) for working capital.

Petri (1990) states that since the 1960s (except during the period in which the heavy and chemical industries were being artificially stimulated), the Korean government generally maintained the real value of the Won near the level needed for current account balance. This meant sharp undertaking devaluations from time to time, interspersed with fine tuning adjustments. The realistic exchange rate evidently provided exporters with a substantial incentive. A study by the World Bank (1987) showed that export performance between 1960 and 1975 was keenly responsive to changes in the exchange rate: in a seven-year period when the real exchange rate was high (in 1965 purchasing power parity terms) the average annual growth rate of exports was 43.5 percent; in the seven-year period when it was low, the average growth rate was 16.0 percent.

The government also permitted exporters unrestricted, duty free access to imported inputs. As some observers – for example, Rhee et al. (1984), Petri (1990) – noted, this created a free-trade regime for export activities. Producers of exports could thus purchase their inputs at world prices, and were not disadvantaged vis-a-vis their foreign competitors. This was very important in Korea's case, because in view of the country's limited resource base, exports had to have a large import component – Steinberg (1989) estimated it at around 40 percent for much of the period since 1960. The preferential access to credit not only facilitated the purchase of working inventories, but the subsidy also made exports more profitable relative to domestic sales.

Finally, Korea astutely exploited some special factors in the international environment. Because of the historical links with Japan, Korea maintained a strong trading relationship with that country, which also served as the source of much of its technology. In addition, Korea benefited from the relationship with the United States, in terms of US business practices, market requirements, and contracts for construction and transportation during the Viet Nam war. Korea was also fortunate that it began its export drive before other rapidly growing countries in East and South-East Asia started, and that it occurred in a situation of generally increasing world trade. Contemporary newcomers to the export drive are likely to hit protectionist barriers sooner than did Korea.

3. Enhancement of Human Resources and Productivity through Education

Korea's ability to compete in the international market in increasingly sophisticated items meant that the country's human resource base had to be enhanced. Investment

in human resources was another important ingredient in Korea's success. The contribution of education to economic growth has been the subject of much research; for example, Blaug (1966), Schultz (1961), Denison (1962), and the references cited therein. The conclusions are that education improves productivity through the promotion of skills, increases innovative ability through the advance of scientific and technical knowledge, and promotes swift adaptation of technology that has been developed elsewhere.

Education occupies a very special place in Korean culture. The Confucian ethic prevalent in the country has stressed the value of education, often for its own sake, and the literature is rife with stories of the sacrifices that families make for the education of their children. It is not surprising that one of the main achievements of the Korean government during the 1950s was the eradication of illiteracy through a rapid expansion of educational institutions. In 1945 the adult literacy rate was estimated at 22 percent. The 1970 population census measured it at 80 percent, while estimates by the World Bank in 1975 put it at 93 percent. Soon thereafter, and well before most other developing countries, Korea achieved 100 percent literacy. The continued expansion of education, especially at secondary and tertiary levels, provided avenues of upward social mobility for even the lower middle classes. It also endowed Korea with a more productive labor force and enabled it to take advantage of export opportunities.

In addition to the cultural pressures, the rewards attached to increased education played an important part. For much of the period until the end of the 1980s, wage differentials largely reflected education levels. Cho (1994) shows that for this period, workers with less than a middle school education earned lower wages than those who had attended high school who, in turn, earned less than workers with a junior college education, who earned less than those holding a college or university degree. In the 1990s, there was some discussion about the labor force having become "overeducated," in the sense that declining returns to scale may have set in for education and that wage differentials less accurately reflected differences in education.

In a careful study of the contribution of education to Korean growth in the period 1960-74 (the years of the "takeoff"), Kim (1980) estimated a lower bound for the contribution of education. He calculated that over this period as a whole, education contributed 8.4 percentage points to the growth rate. The biggest contribution came in 1960-66, when its contribution was estimated at nearly 15 percent. Kim judged that the actual contribution of education throughout the period under study was probably much higher, but could not be accurately estimated because it could not be separated from the contribution of some of the other sources of growth.

However, this does not mean that there was a straightforward correlation between growth of education and the contribution of productivity to economic growth. In fact, the rise in productivity contributed less than did the increase in factor inputs.

This apparently resulted from heavy investment in capital-intensive industries in the late 1970s. The overall conclusion about the contribution of total factor productivity to economic growth in Korea is that it was a very important but not the dominant factor (see Table 13).

TABLE 13. SOURCES OF KOREAN GDP GROWTH, 1963-95

	1963-73	1973-86	1979-95
Real GNP growth rate	9.5	7.8	8.0
1. <i>Contribution of inputs</i>	5.4	4.1	4.4
Labor	3.2	2.2	2.6
Capital	2.2	1.9	1.8
2. <i>Total factor productivity</i>	4.1	3.7	3.6
Advances in knowledge	1.4	1.6	1.7
Improved resource allocation	1.0	0.6	0.4
Economies of scale	1.7	1.5	1.5

SOURCE: Sung (2003)

4. Attention to Agricultural Development and Rural Equity

The fourth important impetus to poverty alleviation, particularly in the rural areas, came from the land reform. Studies in several countries have shown that a major cause of income inequalities in rural areas is the distribution of ownership of rural assets, principally agricultural land. Korea was able to undertake a thoroughgoing land redistribution between 1945 and 1950 for rather special reasons. During their occupation of Korea (1910-45), the Japanese authorities confiscated much of the country's arable land, and at the end of the period about 40 percent of agricultural land was in their hands. With the defeat of Japan in World War II and the end of the occupation, this land became available for distribution. Moreover, as Mason et al. (1980) express it, "Korean landlords ... also carried the taint of collaboration with the Japanese, at least in the eyes of most of their countrymen, and these landlords, as a result, were not in a politically strong position." Thus there was little need to distribute the former Japanese-held land to existing Korean landowners, and the land that recovered from the Japanese owners was in the main allotted to the landless or to those with very uneconomic holdings.

The redistribution of land previously owned by the Japanese was supplemented by a land reform that the government put through in 1949, limiting holdings to approximately 3 hectares. The owners of the land that was thus obtained were offered only minimal compensation, effectively equal to only 1.5 times the average annual product of the land. While there probably was some evasion of these limits by illegal registration of land under the names of different family members, the reform was

an overwhelming success. Ban et al. (1980) reported that tenancy, which had been 48.9 percent in 1945, fell to 5.2 percent in 1964, while ownership jumped from 13.8 percent to 71.6 percent between the two years. Steinberg (1982) commented that, "If income is more equally distributed today in Korea than in many developing societies, the primary reason is to be found in these land reforms."

In the early years following the Second World War, the rural areas in Korea suffered from acute poverty. A survey revealed that in the period just before the harvest, numerous farmers had to rely on roots and bark in order to survive. The budgets of many farm households were continually in deficit, leading to severe problems of rural indebtedness at high rates of interest.

The strategy of rapid GDP growth also included the agricultural sector, especially from the late 1960s, and soon changed the picture in rural areas. The main policy change was to sharply raise prices in 1969 for agricultural products (particularly rice and barley) relative to the prices of agricultural inputs. Moreover, since the 1970s the government encouraged and supported the introduction of new, high-yielding, varieties of rice (the "green revolution"), which increased rice yields per acre by almost 50 percent. The government also stepped up investment in rural development, a particular instance of which was the launching of the Saemaul Undong (New Community Movement) in 1971. According to Song (2003), in the mid-1970s almost 10 percent of total national investment was allocated annually to rural areas through the Saemaul Undong. This, of course, was in addition to private investment in agriculture and to public investment in agricultural and rural infrastructure.

The resulting improvement in rural incomes was impressive. For example, farm household income increased from \$413 in 1965 to \$15,391 in 1990, rising further to \$25,280 in 1994. However, since the growth strategy laid primary emphasis on industrialization and urbanization (the population living in urban areas increased from 28 percent in 1960 to 78.5 percent in 1995), it is not surprising that urban incomes rose more rapidly, and that according to Park the per capita income of Seoul was 1.8 times higher than that of rural areas, while average income in other cities was higher than rural income, both per household and per capita, by a factor of 1.5. The implication of these developments, as Park points out, is that the relative income of farm households compared to urban wage earner households has worsened since the 1960s, so that by 1990 farm household income was only about 70 percent of that of urban wage worker household income. However, while this might indicate a worsening of relative poverty between rural and urban households, it does not carry the same implication regarding absolute poverty. Moreover, it appears that the distribution of incomes within urban areas is more skewed, so that a larger proportion of households fall below the poverty line.

Table 14 shows changes in the contribution of agriculture and a comparison of rural and urban household incomes.

TABLE 14. SHARE OF AGRICULTURE AND THE INCOME OF RURAL AND URBAN HOUSEHOLDS, 1955-2000

	Share of agriculture in GDP (%)	Share of Farm Population in Total (%)	Household Income (thousand won)		
			Rural (A)	Urban (B)	Rate (A/B)
1955	43.9	61.9	na	na	na
1960	36.5	58.3	na	na	na
1965	37.6	55.8	112.3	112.6	99.7
1970	26.8	45.9	255.8	381.2	67.1
1975	24.7	13.2	872.9	859.3	101.6
1980	14.4	28.9	2693.1	2809.0	95.9
1985	13.5	21.1	5736.2	6046.4	94.9
1990	8.7	15.5	11025.8	11319.3	97.4
1995	6.6	10.8	20315.8	20415.6	99.5
2000	4.6	8.7	23072.1	28642.8	80.6

SOURCE: Song (2003)

5. Expansion of Employment

The fifth important factor in Korea's ability to alleviate poverty rapidly was the expansion of employment. It has been said that the expansion of education improves the supply side of the labor equation; unless the demand side expands simultaneously, the result will only be a large number of educated unemployed who will remain frustrated. It is clear that Korea was able to do both: the strategy of high growth based on exports created the demand, while the push for more education and training improved the supply. Table 15 shows developments in the unemployment rate during 1963-2000.

TABLE 15. UNEMPLOYMENT RATE, 1963-2000

	Unemployment Rate (percent)		
	Total	Male	Female
1963	8.2	-	-
1965	7.4	-	-
1970	4.5	-	-
1975	4.1	-	-
1980	5.2	6.2	3.5
1985	4.0	5.0	2.4
1990	2.4	2.9	1.8
1995	2.1	2.3	1.7
2000	4.1	4.7	3.3

SOURCE: Korea National Statistical Office *Annual Report on the Economically Active Population Survey* (1964-2002)

Unemployment dropped from 8.2 percent of the labor force in 1963 to only 2.1 percent in 1995. In fact, it is likely that the figures for earlier years somewhat understate the actual rate of unemployment because of some familiar problems, such as the “discouraged worker” effect. The decline was fairly steady, although there were one or two blips. In particular, the decline was arrested in 1980, when the Korean economy was hit by the second oil price increase. However, the expansion of the GDP and the consequent increase in demand for labor rapidly resumed. The expansion in employment was a major factor in increasing incomes and reducing poverty.

6. Strengthening the Apparatus for Implementation and Coordination

The best-laid plans and the best-meaning policies are not of much use if they are not implemented effectively. The sixth important factor behind Korea's success in poverty reduction was the country's capacity to implement plans and projects expeditiously and within budgeted costs. This ability derived from the structure of economic decision-making and the quality of the administrative services that carried out the policies.

Although Korean planning had begun in the 1950s, it really became effective only after the accession to power of President Park Chung Hee. In 1961, Park established the Economic Planning Board (EPB) to deal with economic planning, national budgeting, foreign capital management, and statistics. In 1963, the Minister in charge of the EPB was designated Deputy Prime Minister and given the overall responsibility for all economic ministries. The budget was also put under the EPB. While economic policy proposals were generally initiated by the ministries concerned with the areas on which the policies chiefly impacted, the proposals were reviewed by other economic ministries that might have an interest in these matters. The coordination of economic policies was therefore given a more formal structure. The economic ministers met regularly in the Economic Ministers Consultation Meeting, which formalized policy proposals to be submitted to the Cabinet. A similar meeting of economic vice ministers was also held; this group dealt with more technical issues and then submitted their proposals to the ministers' meeting. The authorities also created specialized research institutions that supported the economic and other ministries; the Korea Development Institute (KDI) under the EPB is perhaps the best-known of such institutions.

Two other institutions that played a major role in economic development were the Office of National Tax Administration and the Office of Labor Affairs. The former was important in mobilizing sufficient resources to finance the development of the public sector. According to a document, President Park would himself check progress on meeting tax collection targets on a daily basis. The Office of Labor Affairs was important because it was responsible for maintaining labor peace so that Korea could continue to enjoy cost competitiveness in exports. The Office not only enforced labor standards, but also protected workers' rights in such areas as industrial disablement and organized vocational training programs to help workers acquire the skills needed

for industrial development.

Economic policies, formulated in this manner, were then effectively implemented by a well-trained civil service. President Park's regime undertook a major reform of the civil service, both by the purging the bureaucracy and by reforming recruitment procedures. The higher civil service in Korea has traditionally been an enormously prestigious profession, and entrance into it remains fiercely competitive. Thus, Cheng et al. (1999) reported that in 1949 there were 100 exam-takers for every successful applicant. These figures rose steadily, and in 1956 only one out of 200 applicants managed to enter the service, while in 1957 there were 315 applicants for every successful entrant. The civil service was also made more professional by reducing the number of lateral entrants, i.e., persons who did not come through the normal entry examinations, and the number of internal promotions, largely governed by merit, were also drastically increased. For example, Cheng et al. (1999) quote figures to the effect that under the administration of President Rhee only 4 percent of higher civil servants entered the bureaucracy through merit-based examinations, but under President Park more than 20 percent entered this way; moreover, the number of internal promotions, governed largely by merit, also increased at the top ranks. It thus enables well-qualified individuals to join the government, because those who pass the high civil service examinations can start at a higher grade, with larger responsibilities and a corresponding higher income.

However, Korean civil servants were not well rewarded in terms of salaries compared with the private sector. Until the mid-1990s, the average monthly salary of civil servants was only about 60 percent of what an individual with equivalent education and experience would receive in non-government sectors. Perhaps the most important incentive provided to civil servants was the social respect, which was imbedded in Korea's culture. Such non-material factors have to be taken into account in judging how much of the experience of Korea was *sin generis*, and how much of it can be regarded as generic and the lessons from which can be translated to other countries.

An important responsibility assigned to the EPB and some other agencies was that of attaining consensus on the government's plans and policies. In fact, three mechanisms by which consensus on economic policy was obtained and its implementation monitored. The first was a monthly economic briefing held at the EPB at which the President, all ministers, other senior government figures, and the heads of big business and financial organizations attended. The second was the quarterly meetings of the Trade Promotion Conference. This meeting was attended by the President, ministers, high government officials, as well as the heads of almost all the large trading firms in the country. The Ministry of Trade and Industry would submit reports on the progress towards achieving export targets and the problems and difficulties that industries faced in meeting their export goals. The President was himself involved in offering comments, suggestions, and orders on handling these problems. The third mechanism was an annual meeting between the President and senior officials of individual ministries. In these meetings, every ministry reported to the President on its plan

of activities for the current year as well as its performance over the previous one. The president then commented on the successes and failures, on the plans for the coming year, and authorized the ministry to proceed with the plan or to make adjustments. The importance of these meetings lay in the clarity that they imparted to the Ministry concerning the President's views on the direction of policy for the coming year, and on the unequivocal nature of the President's involvement in economic management.

A feature of government intervention in the planning and management of the economy has been its pragmatism. A particularly clear example of this flexibility was seen in the transformation of the role of planning and of the Economic Planning Board as the economy became increasingly complex. The formulation of the Sixth Five-year Plan was undertaken with even greater participation of the private sector; in fact, almost half the membership of the committees that prepared the initial proposals for the plan was drawn from non-government sources. Thereafter, the role of the EPB moved increasingly towards analysis, coordination, and advice until the Bureau was subsumed under the Ministry of Finance. The management of the economy is now increasingly indirect and conducted largely through fiscal and monetary signals, rather than through direct orders. The authorities, therefore, have shown that they are prepared to constantly adapt the administrative apparatus to the needs of the economy, and thus to ensure the continued efficacy of the institution.

V. CONCLUDING REMARKS

This case study analyzed how Korea achieved rapid economic growth with increasing equity and poverty alleviation. Korea's achievements are particularly impressive considering that less than 25 percent of the country is suitable for agricultural or other economic activities and that Korea possesses few natural resources. Moreover, the country had to recover from a devastating civil war that destroyed most of its infrastructure. Korea's success was due almost entirely to adopting the right economic policies, taking advantage of opportunities, and maintaining a disciplined work ethic.

In Korea, dramatic poverty reduction during such a short period was possible thanks to the rapid increase of mean income by equally rapid economic growth. Korean GDP per capita increased 110 times and absolute poverty rate decreased from 48.3 percent to 9.8 percent between 1961 and 2001. Of course, increase of income does not necessarily result in poverty alleviation as evidenced in many developing countries. However, it is true to say in the Korean case that the most effective measure in reduction of the absolute poverty level has been to make the national economic pie bigger. It was called growth-first-distribution-later principle, which brought about economic success by overcoming a severe shortage of natural endowments.

Also, income augmentation by industrialization is more effective to alleviate poverty, because industrialization raises a portion of the salary and wage earners in total population, and then it makes it possible to expand welfare system on the basis of the salary

and wage earners' contribution under the social solidarity. The expansion of welfare reduces again the poverty level. Therefore, sound GDP growth is a locomotive engine for poverty reduction.

The Korean government prioritized certain development-led industries in order to accelerate economic growth. It was called "imbalanced development strategy" and assessed as being more effective than "balanced development strategy" within the limited budget for economic development. Although income inequality became aggravated during economic development, the size of the pie was drastically increased. The income level of middle and low income households increased to such an extent that much income inequality could be tolerated. It can be said that in Korea, rapid economic growth raised welfare levels during the period between the 1960s to the 1990s even as income inequality worsened.

After a long period of rapid economic growth, Korea ran into serious economic difficulties in late 1997. The poverty rates rose sharply from 7.67 percent in 1997 to 14.28 percent in 1998. The Korean government undertook various anti-poverty programs designed to ease the impact of mass lay-offs. The government implemented a new public assistance program (the National Basic Livelihood Security) and expanded the coverage of social insurance. In addition, human resource development programs were introduced that enhanced the access of the vulnerable class to the labor market by laying stress on labor welfare, taking measures to protect irregular employees, and extending the application of the minimum wage system to all industries. The introduction of the new public assistance program tripled the number of livelihood payment beneficiaries from 540,000 in 1999 to 1.53 million in 2001. Expansion of social security coverage brought about drastic reduction of the group excluded from the social security schemes. As a result, anyone who has an income could be covered by the National Pension scheme, one can get medical service throughout the year, and all regular workers in all types of workplaces could be covered by employment insurance. Thanks to these efforts of the government, the poverty rates decreased since 1999. However, the poverty rate in 2001 was still higher than that in the years prior to the economic crisis, because it is assessed that the government's efforts to reduce poverty level during the period of economic crisis had not been sufficient to overcome the problem of excluding some from their coverage and that the difficulty should be dealt with on multiple fronts.

This study has led us to several tentative but useful lessons to be applied to other developing countries. First, it is necessary to establish a clear objective of development and the commitment of authorities is a prerequisite. Korea had two representative mottos "escape from the vicious circle of poverty" and "modernizing the fatherland". The key factor in Korea's success was the commitment of authorities at the highest level to economic development, and the strong perception that policies that had been announced would, in fact, be implemented. A lesson that other countries can learn from Korea's experience is the importance of establishing the government's credibility in the implementation of announced policies.

Second, a perceptive selection of representative locomotive engines for rapid economic growth and properly designed management are necessary. The fast growth of Korea was fuelled by a very rapid expansion of exports. Three sets of factors largely explain Korea's export performance: first, the government's decision and implementation processes; second, the set of export incentives; and third, ability to take tactical advantages of opportunities offered by the international environment.

Third, investment in human resources is important ingredient for poverty reduction. As the most common cause of poverty in Korea and even other developing countries is the lack of working capacity: poor physical condition or lack of education, working experience and skills, education and training are key factors to reduce the poor. Education occupies a very special place in Korean culture. The Confucian ethic prevalent in the country has stressed the value of education, often for its own sake, and the literature is rife with stories of the sacrifices that families make for the education of their children. One of the main achievements of the Korean government during the 1950s was the eradication of literacy through a rapid expansion of educational institutions. The continued expansion of education, especially at secondary and tertiary levels, provided avenues of upward social mobility for even the lower middle classes. Also, nationwide network for job training had provided the concerned people with an easy access and opportunities to build their capacity and especially training programs offered in the army were assessed to be particularly effective.

Fourth, fair land reform and rural development are the important impetus to poverty alleviation. Studies in several countries have shown that a major cause of income inequalities in rural areas is the distribution of ownership of rural assets, principally agricultural land. Korea was able to undertake a thoroughgoing land redistribution between 1945 and 1950. This land reform would be the primary reason of the more equally distributed income in Korea than in many developing societies. The government also stepped up investment in rural development, a particular instance of which was the launching of the Saemaul Undong (New Community Movement) in 1971. In the mid-1970s almost 10 percent of total national investment was allocated annually to rural areas through the Saemaul Undong. This, of course, was in addition to private investment in agriculture and to public investment in agricultural and rural infrastructure.

Fifth, job creation and expansion of employment are the important factors to alleviate poverty. It has been said that the expansion of education improves the supply side of the labor equation: unless the demand side expands simultaneously, the result will only be a large number of educated unemployed who will remain frustrated. It is clear that Korea was able to do both: the strategy of high growth based on exports created the demand, while the push for more education and training improved the supply. Unemployment dropped from 8.2 percent of the labor force in 1963 to only 2.4 percent in 1991, and the expansion in employment was a major factor in increasing incomes and reducing poverty.

Sixth, the important factor to poverty reduction is the country's capacity to implement

plans and projects expeditiously within budgeted costs. This ability could derive from the structure of economic decision-making and the quality of the administrative services that carry out the policies. Economic policies should be effectively implemented by a well-trained civil service. The higher civil service in Korea has traditionally been an enormously prestigious profession, though Korean civil servants were not well rewarded in terms of salaries compared with the private sector. Perhaps the most important incentive provided to civil servants was the social respect, which was imbedded in Korea's culture. Such non-material factors have to be taken into account in judging how much of the experience of Korea was *sui generis*, and how much of it can be regarded as generic and the lessons from which can be translated to other countries.

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ENDNOTES

Korea has another income survey called "National Survey of Household Income and Expenditure". It presents the most accurate data for one-member households, households in rural areas, and other households. However, it has been carried out every 5 years since 1991 and the latest survey was conducted in 2001. Given that this study is aimed at estimating poverty status before 1991, the "National Survey of Household Income and Expenditure" could not be utilized. Therefore, the primary data for this study has been derived from the "Family Income and Expenditure Survey". The study attempts to estimate the poverty level of all households by qualifying the income of non-wage households by income order, under the assumption that the consumption functions for the wage earning households and that of non wage households are the same. As for incomes of other households, given that the "Family Income and Expenditure Survey" does not include the data, the results estimated by Park (1999) has been adopted.

The poverty rates were measured by using the urban households' income data only. As a poverty index, the poverty headcount rate was used, which is the most popular in the related research fields.

In Korea, official survey of minimum cost of living had been conducted in 1988 and 1994. So we estimated minimum cost of living of the years from 1975 to 2001 on the basis of the minimum cost of living measured in 1994 according to the change rate of urban household expenditure for the years from 1975 to 1995 and the change rate of CPI for the years from 1996 to 2001.

To examine the characteristics of the poor in Korea, the profile of the public assistance recipients was reviewed.

Current income poverty rate means poverty rate estimated with current income.

Legislated in September 7, 1999 and enacted in October 1, 2000, the NBLSA, which is one of the public assistance programs, has improved the nation's welfare system greatly.

The supporters are further divided into three groups based on their assets and income: those able to support, those who have difficulty in supporting and those unable to support. Only in the latter two cases are their poor families eligible for the benefit. If the combined income or asset of an applicant's household and his financial supporter's household is over 120 percent of income criteria or property criteria of the official poverty line, the supporter under question is regarded as an official supporter. If the applicant is unable to work and have no income, but owns a house, then the combined income level is raised to over 150 percent of the official poverty line.

Major changes brought by the amendment of the National Pension Act in January 1999 are as follows. First, the self-employed in urban areas were included into the scheme beginning in April 1, 1999. The beneficiaries of the scheme are divided into two groups: wage earners employed by workplaces and local scheme members. Persons insured through the workplaces refer to employees aged between 18 and 60, who are either employees or employers at a workplace with five or more full time workers. Those 18 or younger are able to join the workplace pension plan with employer consent. Those 60 or older can have the extended contribution period to age 65 if their insured period is less than 20 years. However, excluded from the coverage of the National Pension Scheme for the workplace are those who have temporary work with contracts of 3 months or less, those who have seasonal work with periods of three months or less, and those who often move from workplace to workplace. Temporary and part-time workers are also excluded from coverage of the National Pension Scheme for the workplace. But those who are

excluded from coverage of the National Pension Scheme for the workplace are nevertheless insured through the Local scheme of National Pension.

- ⁹ The new National Pension scheme strengthened pensioners' rights and sought for livelihood stability. The minimum contribution period was shortened from 15 years to 10 years. Pension installment is provided for those who turn 60 after divorce or those who divorce after 60 in case marriage has lasted for five years or more (But benefit provision is terminated when they are remarried). Deferred payment for pension contribution arrears is permitted for those obligated with child rearing and military service, as well as for students and those serving prison terms. A legislation is being formulated to provide loans to unemployed for livelihood stability.
- ¹⁰ Since the introduction of Health Insurance in 1977, it has gone through several phases before maturing into a universal Health Insurance scheme. However, the Health Insurance system had inherent problems. Specifically, Health Insurance Funds did not have the same premium calculation systems. As a result, the insured could have ended up paying different premiums if they belonged to different Health Insurance Funds, although their income and asset levels were the same. This caused equity problems and at the same time, widened the financial gap among Health Insurance Funds. The independent management of small-size Funds also brought up operational inefficiency. Because previously, the Health Insurance system was divided into Health Insurance Corporations for Employees of Government, Private School, Military, HIFW, and HIFNW. To resolve the problems, the government consolidated the HIFNW and Health Insurance Corporations for Employees of Government and Private Schools. It was the first step towards the grand consolidation of Health Insurance taken on October 1998. As the second step, the plan integrated HIFWE into the already consolidated comprehensive Health Insurance Funds, to be the National Health Insurance Corporation. The new universal Health Insurance Corporation has the integrated management system for the insured but classifies them into two groups: HIFW and HIFNW. Those who are covered by HIFW, consist of employees and employers at the workplace with 5 or more people, employees of government and private schools, who earn monthly wages. Those who are covered by HIFNW, consist of the self-employed and employees at the workplace with four or less people. The new system applies the same premium rates in line with income level, regardless of which Health Insurance Funds in charge of the coverage. The new Health Insurance system has shifted its focus from treatment-orientation to prevention, rehabilitation and health promotion.
- ¹¹ The Health Insurance system abolished the regulation of limiting the period covered by Health Insurance to a certain level. Instead it promises unlimited Health Insurance coverage year-round beginning July 1, 2000. Previous Health Insurance laws covered only disease, injury, and death excluding pre-natal care from coverage. The new Health Insurance expanded the scope of coverage to include preventive care, diagnosis, rehabilitation, health promotion, not to mention treatment and death.
- ¹² Since its introduction and implementation in 1995, Employment Insurance has become the primary social safety net for the unemployed during the economic crisis when the jobless rate surged. The number of recipients of Employment Insurance was estimated at 50,000 throughout 1997, but in 1998, the number surged to 148,000. Unemployment benefit provision also skyrocketed to 799.1 billion Won, 10 times that of 1997 of 78.7 billion Won. Likewise, the sharp increase in the number of beneficiaries for 1998 is attributable to the expanded scope of coverage, a string of bankruptcies and closures of firms, lay offs, early retirement, the reduction of minimum coverage period, and the implementation of special expanded payments. In the end, the contribution income of 1998 worth 576 billion won was exceeded by unemployment benefits expenditure worth 799.2 billion won. In other words, the rate of contribution income to benefit payment recorded 189 percent. Unemployment benefit serves the primary social safety net with extended coverage scope, eased eligibility criteria, extended coverage period and extended average coverage period. But despite the eased beneficiary standards, the rate of unemployment benefit recipients to the total jobless is 10.5 percent, which is significantly lower in comparison to those of advanced nations such as Japan (27.8 percent, 1992), Germany (45.5 percent, 1990), the US (36.0 percent, 1990), and Britain (30.0 percent, 1998).
- ¹³ Industrial Injury Insurance was the first social insurance to be adopted in Korea. In the initial stage of introduction, its implementation scope was limited to mines or manufacturing factories with 500 or more people. In industrial injury insurance, employers are fully liable for the contributions, which is different from other social insurances. The premium per person is determined by multiplying the premium rate and the total amount of salaries. In 1999, a major legal amendment was made to the industrial injury insurance system. The amendment was made to enhance the fairness by setting maximum and minimum coverage limits with the aim to narrow the benefit gap. Thanks to the amendment, new insurance payments were introduced, and more small and medium size firms were included into the system, thereby strengthening its role as a social safety net.
- ¹⁴ National Pension classifies workers between 18 and 60, at workplaces with five or more employees, and daily or temporary workers who work for more than three months, into workplace pension groups. Those between 18 and 60 who are not workplace workers or insured under the special occupation pension schemes are classified as local pension participant groups. Full time workers employed for 3 months or less, part-time workers at workplaces with five or less workers, all workers at workplaces with five or

less employees, and the self-employed can join the National Pension but many of them are believed to be delinquent contributors to the insurance.

*Marginal workers of this paper refers to full time workers at the workplaces with four or less employees as well as 'part-time workers' including temporary daily workers. They share the common ground: their employment status is incomplete and they are excluded from national welfare or company welfare benefits.

"See Park and Lee (2003)