

A case study from

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A Global Exchange for Scaling Up Success

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Republic of Korea: Four Decades of Equitable Growth

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Executive Summary

Korea's success in combining rapid economic growth with significant reductions in poverty is paralleled by few other countries. At the beginning of its development drive, Korea's poverty problem was as great as that of most other developing countries. What is remarkable is the speed by which, and the degree to which, Korea succeeded in bringing the problem down to an extremely manageable size. The effort had been successful by the end of the 1980s; after a hiatus in 1997–98 resulting from the East Asian financial crisis, the poverty rate again declined.

The country's achievement is even more impressive considering that less than 25 percent of the country is usable for agriculture or other economic activity and that Korea possesses very few natural resources. The country also experienced a devastating civil war in which the major part of its infrastructure was destroyed.

Korea's success was brought about almost entirely by adopting good economic policies, taking advantage of opportunities that presented themselves, and insisting on a disciplined work effort. That strategy has been maintained since the early 1960s. The primary lessons to be learned from Korea's experience are that properly designed and efficiently implemented policies are vital to economic success; that such actions can overcome even a severe shortage of natural endowments; and that the dramatic transformation of per capita incomes on the scale witnessed by Korea does not happen overnight, but demands a sustained commitment.

Macroeconomic outcomes and the incidence of poverty

In the 1990s, Korea's real GDP grew by more than 5 percent every year except 1998. Unemployment was very low until the economic crisis of 1997–98, when Korea suffered a serious economic downturn. In response to the crisis, the Korean government implemented drastic reforms to correct the structural weaknesses in its economy. Restructuring occurred in the corporate, financial, and labor sectors in order to promote transparency, efficiency, and flexibility. Since 1999, the Korean economy has shown rapid recovery.

Korea's poverty profile over the period 1975–2001 shows a spectacular decline in the absolute poverty ratio, and a high correlation between the relative poverty ratio and income distribution. Absolute poverty was alleviated by the rapid growth of income, but relative poverty was not. The government embraced the principle of "Growth First, Distribution Later."

The highest incidence of poverty in Korea occurs 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 older 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.

After a long period of rapid economic growth, Korea ran into serious difficulties in late 1997. After the 1997 economic crisis, the government undertook various antipoverty programs

designed to ease the impact of mass layoffs, including temporary livelihood protection for the many who lost jobs.

The Korean government and ministries concerned with poverty policies evolved a new model for welfare tailored to the prevailing circumstances of Korea and reflecting the desire to extend benefits to all of society and to update the older system. Known as “Productive Welfare,” the policy 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.

Productive Welfare helped overcome poverty through the National Basic Livelihood Security Act and the expansion of the coverage of social insurance. In addition, human resource development programs were introduced to enhance 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 social insurance system has drastically reduced uncovered groups, integrated the management systems of two health insurance funds, and expanded employment and industrial injury insurance coverage to all workplaces. Anyone who has an income is now covered by the national pension scheme, regardless of employment category. The health insurance system has been also made more equitable.

Thanks to the reduction of the eligible employment period requirement and expansion of qualifying workplaces, the numbers of marginal workers, who are not covered by social insurance, have decreased for the past two to three years. A substantial number of persons still do not have access to income maintenance benefits under social insurance, however.

Korea’s progrowth, antipoverty education policy

A 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. The Park regime put economic development unambiguously at the top of its priorities; it is almost a truism that Korea’s success owed more to its capacity to implement policies than to formulate plans. The country’s capacity to implement plans and projects expeditiously and within budgeted costs derived from the structure of economic decision-making and the quality of the administrative services that carried out the 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.

Rapid growth, based on an outward-looking strategy, was fuelled by rapid expansion of exports. The export-led strategy, in addition to generating resources, altered the structure of production in the direction of Korea’s comparative advantage. Competing in the world economy also forced Korea to pay attention continually to issues of human resources and productivity.

Three sets of factors largely explain Korea’s export performance: first, the government’s decision and implementation processes regarding trade liberalization and tariff reduction; second,

a set of export incentives; and third, Korea's ability to take tactical advantages of opportunities offered by the international environment.

Korea's ability to compete internationally in increasingly sophisticated items meant that the country's workforce had to be enhanced; thus investment in human resources was another important ingredient in Korea's success. One of the main achievements of the Korean government during the 1950s was the eradication of illiteracy 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. It also endowed Korea with a more productive labor force and enabled it to take advantage of export opportunities.

Another important impetus to poverty alleviation, particularly in the rural areas, came from land reform. The strategy of rapid GDP growth included the agricultural sector and soon changed the picture in rural areas. Prices were sharply raised for agricultural products relative to the prices of agricultural inputs, and new, high-yielding varieties of rice increased rice yields per acre by almost 50 percent. The resulting improvement in rural incomes was impressive.

Introduction

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 usable for agriculture or other economic activities, and that Korea possesses very few natural resources. At the same time, the country had to recover from a devastating civil war in which the major part of its infrastructure was destroyed. The success attained by the country 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 was continuously maintained since the early 1960s.

This paper brings out the success of Korea in achieving its objectives, even in the face of such heavy odds. It also underlines the important lesson that properly designed and efficiently implemented policies are vital to economic success, that such actions can overcome even a severe shortage of natural endowments, and that the dramatic transformation of per capita incomes on the scale witnessed by Korea does not happen overnight, but demands a sustained commitment.

The paper consists of mainly four chapters. The second chapter shows a summary of the main macroeconomic outcomes and the poverty reduction, using the most recent data available, and the policies for reducing poverty caused by the 1997 economic crisis and its limits. It also shows how these policies helped Korea to recover relatively quickly from the severe financial crisis of 1997-2000. In addition, this chapter also assess Korea's growth with equity.

The third chapter explains a poverty profile in Korea by age, educational attainment and gender of household head. It also describes characteristics of the poor by highlighting economic and social aspects.

The fourth chapter of the paper describes on how Korea reduced poverty with the explanation on development strategy of the country. It comments on government policies related to the poverty reduction and economic growth by starting 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 that 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 on agricultural development with land reform and expansion of employment.

The Incidence of Poverty

Overall Economic Performance

In 1990s, the real GDP grew by over 5 percent every year except for 1998. In 1990 and 1991, the growth rate for the real GDP was 9.0 percent and 9.2 percent respectively, but for the following year it fell down to 5.4 percent and it was maintained at a similar level in 1993. The year just after the peak of 1997 economic crisis recorded the highest real GDP growth rate reaching 10.9 percent

during the period. For the first half of 1990s, the CPI increase rate marked over 5 percent, then turned down to less 5 percent except for 1998 which was a year of the economic crisis peak. In 1999 and 2000, it recorded very low at 0.8 percent and 2.3 percent respectively.

The low unemployment rate in Korea has been regarded as an example case until the economic crisis was occurred in 1997. From 1999, it fell down again reaching below 5 percent and is recovering back to the level of unemployment prior to the economic crisis. In August 2000, the population over the age of 15 increased by 1.0 percent (374,000 persons) to 36,195,000 persons, and the economically active population increased by 1.4 percent (304,000 persons) to 22,071,000 persons compared to the same month last year. The number of jobless fell to 0.82 million from 1.24 million a year earlier. The unemployment rate fell to 3.7 percent, slightly higher than the previous month's level.

The amount of trade in dollars greatly increased from 1975 to 2002; however, its marginal growth rate lessened with time. The annual average growth rate of trade from 1976 to 1980 was 27 percent, but it slowed down to 13 percent in the 1980s, then, fell again to 8 percent between 1991 and 2002.

After the onset of the financial crisis, Korea suffered a serious economic downturn. However, the Korean government, on the basis of the IMF program, 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 1999, the Korean economy has shown a trend of rapid recovery. The growth rate, after dipping to -6.7 percent in 1998, was up 10.9 percent in 1999 and 8.8 percent.

General View on Poverty and Income Distribution

Table 2 displays the incidence of poverty in Korea, 1975-2001. It shows a spectacular decline in absolute poverty ratio from 21.52 percent of urban households in 1975 to only 7.41 percent in 1996. However, the absolute poverty ratio 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 ratio, estimated with the 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, then recorded 13.09 percent, 22.22 percent and 32.12 percent in 1995. While absolute poverty had been drastically reduced during the time, relative poverty had increased. From 1975 to 1995, household income increased, thus reducing the absolute poverty ratio, at the same time, income distribution deteriorated, for instance, the Gini coefficient increased from 0.340 in 1975, to 0.370 in 1995.

Table 1: Overall Economic Performance

	Real GDP Growth Rate (%)	CPI Increase Rate (%)	Unemployment Rate (%)	Trade (Billion US\$)	Exchange Rate (Annual Average Won/US\$)
1965	-	13.5	7.4	-	271.8
1970	-	16.0	4.5	-	316.7
1975	6.5	25.2	4.1	12.4	484.0
1980	-2.1	28.7	5.2	39.8	659.9
1985	6.5	2.5	4.0	61.4	890.2
1990	9.0	8.6	2.4	134.9	716.4
1991	9.2	9.3	2.4	153.4	760.8
1992	5.4	6.2	2.5	158.4	788.4
1993	5.5	4.8	2.9	166.0	808.1
1994	8.3	6.3	2.5	198.4	788.7
1995	8.9	4.5	2.1	260.2	774.7
1996	6.8	4.9	2.0	280.1	844.2
1997	5.0	4.5	2.6	280.8	1415.2
1998	-6.7	7.5	7.0	225.6	1207.8
1999	10.9	0.8	6.3	263.4	1145.4
2000	9.3	2.3	4.1	332.8	1259.7
2001	3.0	4.1	3.8	291.5	1326.1
2002	6.3	2.7	3.1	314.6	1200.4

Source: Bank of Korea, National Statistical Office, Ministry of Finance and Economy, Wharton Econometric Forecasting Associates - Asia Economic Outlook.

A comparison between the absolute poverty ratio and the administrative poverty ratio (public assistance recipients' ratio) revealed a considerable gap between the two ratios because of several factors. First, the public assistance recipients must satisfy not only the income criteria, which is based on the poverty line, but also the property criteria to be eligible, so some of those who qualified by the income criteria might be excluded because their property value exceeded the property criteria. Second, even those who qualify for both income and property criteria can be excluded if they are under the livelihood support of persons legally responsible. If such excluded persons were added into the calculation, the two ratios are likely to be closer to each other.

Table 2 also shows the high correlation between the relative poverty ratio and income distribution. The relative poverty ratio and Gini coefficients both increased during 1975-1985 then the relative poverty ratios decreased until 1995, but Gini coefficients continued to increase until 1990, then decreased with the relative poverty ratios until 1995. It explains that the relative poverty ratios 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 the absolute poverty was alleviated thanks to the rapid growth of income, but the relative poverty was not reduced as the absolute poverty did due to the increase of income inequality in Korea. That is,

Korean government had took a principle called “Growth First, Distribution Later”. In fact, Korean government accelerated trade as a measure to increase people’s income level during the development. Mah (2002) examined the impact of trade on income distribution from 1975 to 1995 in Korea, and found that when foreign trade amount increases, the Gini coefficients tend to increase. The result of Mah’s analysis supports the fact that while absolute poverty reduced as income level increases through economic growth oriented policy including export-led policy, income inequality came to be aggravated.

However, Korea has been considered very often as a country that retained an equitable distribution of the initial stage in 1960s. This assessment likely stems from lack of income data of the 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 the salary and wage earners residing in cities excluding the self-employed.¹ That is, only salary and wage earners’ income inequality could be calculated, making it impossible to table out statistics regarding the high income self-employed and the unemployed hit by the economic downturn.

¹Korea has another income survey called “National Survey of Family 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 from the 1970s, the “National Survey of Family 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.

Table 2: Poverty ratios and Gini Coefficients² (percent)

	Absolute Poverty Ratio		Relative Poverty Ratio			Gini
	Estimated Poverty ratio ³	Administrative Poverty Ratio	40 percent	50 percent	60 percent	
1975	21.52 ¹⁾	-	9.73 ¹⁾	18.68 ¹⁾	28.93 ¹⁾	0.340 ¹⁾
1980	15.25 ¹⁾	4.8 ⁴⁾	13.82 ¹⁾	21.88 ¹⁾	31.80 ¹⁾	0.354 ¹⁾
1985	18.50 ¹⁾	5.6 ⁴⁾	17.51 ¹⁾	25.35 ¹⁾	33.63 ¹⁾	0.384 ¹⁾
1990	15.74 ¹⁾	5.3 ⁴⁾	17.22 ¹⁾	24.44 ¹⁾	33.29 ¹⁾	0.395 ¹⁾
1995	8.47 ¹⁾	3.9 ⁴⁾	13.09 ¹⁾	22.22 ¹⁾	32.12 ¹⁾	0.370 ¹⁾
1996	7.41 ²⁾	3.3 ⁴⁾	-	-	-	0.377 ²⁾
1997	7.67 ²⁾	3.1 ⁴⁾	-	-	-	0.369 ²⁾
1998	14.28 ²⁾	3.2 ⁴⁾	-	-	-	0.390 ²⁾
1999	13.67 ³⁾	4.1 ⁴⁾	-	-	-	0.398 ³⁾
2000	10.39 ³⁾	3.6 ⁴⁾	-	-	-	-
2001	9.84 ³⁾	-	-	-	-	-

Note: The poverty ratios 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

Given that this study is aimed at estimating poverty status from the 1970s, the “National Survey of Family 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) are adopted.

² The poverty ratios were measured by using the urban households’ income data only. Gini coefficients were also calculated by using the same data. As a poverty index, the poverty headcount ratio was used, which is the most popular in the related research fields.

³ 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.

In connection with the income inequality of Korea, one must consider that much of South Korea's planning and policy-making has been formulated in the shadow of what was happening, or said to be happening, in the North. It is said that South Korea had, from the very beginning of its planning, to pay much more attention to questions of equity and poverty alleviation than perhaps other countries had to do, because the rhetoric, at least, from North Korea was that they were developing an equitable and classless society. It is true that the first plan 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 not equity but escaping from absolute poverty through rapid economic growth. At the beginning of economic development in the 1960s, South Korea had already very equalized income and assets due to land reform and total destroy of industrial facilities during the Korean war. So the most important objective in South Korea was an increase in income. Also, another reason of why South Korea was not interested in North Korea's economic equality is that most of Korean having 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 to questions of only economic growth. Economic principle of "Growth-First-Distribution-Later" could be found also in macro-economic policy with high inflation and fiscal policy with regressive income tax rate.

Although income inequality aggravated during the economic development, the size of pie was drastically multiplied. Park (1992) reports that as the income level of middle and low income households increased to such an extent or over extent of income inequality that they could tolerate, it can be said that in Korea, the rapid economic growth raised welfare level despite of income inequality aggravation from 1960s to 1990s.

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 ratios rose sharply from 7.67 percent in 1997 to 14.28 percent in 1998 due to the 1997 economic crisis. The poverty ratios have decreased since 1999, however, the poverty ratio in 2001 was still higher than that in the years prior to the economic crisis.

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.”

Box 1. The Meaning and Measurement of Poverty

It is impossible to give a unique definition of what constitutes poverty because this condition has many facets. Poverty can be related to income level, with the poor being defined as those who live below a designated threshold of income, generally called a “poverty line.” Poverty lines can be absolute, relative, or subjective. *Absolute poverty lines* are anchored in a cost-of-basic-needs concept. The usual approach is to define an absolute food poverty line in terms of the estimated cost of a food bundle that provides a stipulated energy intake, deemed essential or minimum by the standards of a given society, and is based on consumption patterns of the lower expenditure groups in that society. The food poverty line is then augmented by an allowance for non-food consumption.⁴

Relative poverty lines recognize the interdependence between the poverty line and the rest of the income distribution. As Fields (2001: 91-93) points out, this concept covers two separate ideas. In the first type of relative poverty measures, a relative poverty line is the income level that cuts off the lowest x percent of the population in the national income distribution; the World Bank, for example, uses the lowest 40 percent. Anand (1997: 244-245) raises two objections to this method of defining the poor: (a) it prejudices the extent of poverty (it is x percent by definition); (b) poverty in this sense can never be eradicated, because there will always be a lowest x percent in the income distribution. In the second sense of relative poverty, a higher poverty line is used the richer is the country in which poverty is being measured. Examples of such relative poverty lines are half the mean income (as used by the European Union) or two-thirds of the median income (as used occasionally by the World Bank). With relative poverty lines specified in this manner, it is no longer true the poverty cannot be eliminated.

Subjective poverty lines define poverty in terms of individual perceptions of what constitutes a socially acceptable minimum standard of living in that society. Poverty measures according to this approach tend to be an increasing function of income, because individuals with higher incomes set higher thresholds for minimum standards of living.

A more comprehensive way of evaluating poverty is based on the premise that economic growth is a means to promoting human development, and not an end in itself. This view of poverty, sometimes called “capability deprivation,” follows from the work of Amartya Sen. According to Sen (UNDP 1996):

A society’s standard of living should be judged not by the average level of income, but by people’s capabilities to lead the lives they value. Nor should commodities be valued in their own right—they should instead be seen as ways of enhancing such capabilities as health, knowledge, self-respect, and the ability to participate actively in community life.

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.

⁴ See the discussion in Fields (2001).

Box 2. Poverty Ratio

To gauge the status of poverty in a society, a poverty line must first be set up. The poverty line used in this study is the one set by the Korea Institute for Health and Social Affairs (KIHASA) in 1994, adjusted for inflation.⁵ To grasp national poverty status, the most widely used method is the head-count ratio (HR), which represents the ratio of the number of poor households to the total households, under a given income level.

$$HR(x_i, \pi) = q/n$$

HR refers to the poverty ratio, q refers to the number of households under the poverty line, and n refers to the number of total households. X represents household income and π stands for the poverty line.

This paper analyzes changes in the poverty ratio according to characteristics of household heads such as age, academic background, and gender. This analysis establishes a stepping stone to identifying the class hit hardest by the economic crisis and to provide counter measures for them.

Two government surveys—“Family Income and Expenditure Survey” and “National Survey of Family Income and Expenditure”—are exceptionally useful for assessing the poverty ratio. The “National Survey of Family Income and Expenditure” has been carried out every 5 years since 1991. The latest survey was conducted in 2001. It presents the most accurate data for one-member households, households in rural areas, and other households. These data are excluded in the “Family Income and Expenditure Survey.” Given that this study is aimed at comparing poverty status prior to and after the economic crisis, the “National Survey of Family Income and Expenditure” could not be utilized. Therefore, the primary data for this study has been derived from the “Family Income and Expenditure Survey.”

However, “Family Income and Expenditure Survey” has its limits, as incomes of one-member households and households with no income earner are not compiled in the Survey. Mindful of this, poverty studies up to the present have estimated poverty ratios for households whose income data are available. However, households with laid-off workers due to the economic crisis were treated as other households. Only salary and wage earners’ households would be calculated, making it impossible to table out statistics regarding households hit hardest by the economic downturn. 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.

Most assessments concur that Productive Welfare, regarded as a major pillar of national policies, did contribute significantly in enabling society to overcome the difficult situation. The main policies through which the ideology of Productive Welfare was implemented were the National Basic Livelihood Security Act (hereinafter 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.

⁵ Korea Institute for Health and Social Affairs divides urban minimum living cost into minimum living cost in large cities and minimum living cost in mid and small-size cities. This study applied minimum urban living cost with the difference of the two considered.

The National Basic Livelihood Security Act

Among the reforms of anti-poverty system, the introduction of the National Basic Livelihood Security Act (hereinafter NBLSA) was a major change.⁶ The NBLSA started since October 2000 as a replacement of the Livelihood Protection Act, and guarantees minimum living standards to all of the low income family whose incomes are below the official poverty line, without considering their ability to work. Hence all low-income earners with the ability to work also become eligible for benefits, unlike the previous system. The introduction of the NBLSA tripled the number of livelihood payment beneficiaries from 540,000 in 1999 to 1.51 million in 2001.

Livelihood payments under the NBLSA are designed to provide supplementary payment to households whose income do not meet the official poverty line, and the amount of support is equal to the difference between household income and the official poverty line. Civil rights were also enhanced through acknowledging the NBLSA as 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. The importance of the Survey of Minimum Cost of Living to protect the poor was also emphasized.

The official poverty lines for the NBLSA beneficiaries are defined in Table 3. Those who meet the criteria and do not have any family support will be chosen in the selection. The range of the family supporters are limited to immediate family members, spouses, and any siblings who support them financially.⁷

Table 3. Official Poverty Line (2003)

Number of household member	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

⁶ 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.

⁷ 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.

Expansion of Social Insurance Coverage

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* (hereinafter HIFW) with the *Health Insurance Funds for Non Wage Earners* (hereinafter 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, opening an era of universal National Pension. Now, even if a pension premium 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

⁸ 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 work place. 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

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

grand consolidation of Health Insurance taken on October 1998. As the second step, the plan integrated HIF-WE 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 438,000. 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 ratio of contribution income to benefit payment recorded 139 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 ratio 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 (43.5 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

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).

Limit of Poverty Reduction Strategy

Thanks to the reduction of the eligible employment period requirement and 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 paying temporary contract-based workers. Hence it is essential to figure out the types of uncovered zones 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 excluding some from their coverage and that the difficulty should be dealt with on multiple fronts.

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 whom 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.

¹⁵ 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.

A Poverty Profile

Poverty Ratios by Characteristics of Household Head

Age

Table 4 shows current income-poverty ratio by ages of household heads.¹⁶ Prior to the economic crisis, poverty ratio of households headed by heads aged 60 or more was the highest, and remained the highest until 2001. Until 1998, households with the lowest poverty ratio were headed by those in their 50s. Beginning in 1999, households led by those in their 40s were found to have the lowest poverty ratio.

Between 1996 and 1997, the poverty ratio 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 other age groups, recorded increases in poverty ratio.

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 4: Current Income-Poverty Ratios by Age of Household Head (percentage of 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	14.38	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 ratio 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 ratio 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 ratio.

Educational Attainment

The review of current income-poverty ratio based on educational attainments clearly shows that the more educated, the lower poverty ratio. (See Table 5). In other words, college graduates are

¹⁶ Current income-poverty ratio means poverty ratio estimated with current income.

less likely to be poorer than high school graduates, and high school graduates are less likely to be poorer than middle school graduates.

Between 1997 and 1998, or prior to and after the economic crisis, the trend continued and the poverty ratio diminished as the educational level increased. During the same period, poverty ratios among middle school graduate-headed households increased from 11.23 percent to 19.68 percent. Poverty ratio among high school graduates increased from 8.36 percent to 13.87 percent. Poverty ratio among elementary school graduate-headed households increased from 20.35 percent in 1997 to 28.87 percent in 1998.

When viewed from the standard of educational attainments, households headed by elementary school graduates suffered the most severe 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 attainments did not change. However, ripple effects of economic downturn were most vivid in households headed by middle school graduates, and then by high school graduates.

Table 5: Poverty Ratios by Academic Backgrounds of Household Head (percentage of all households)

	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)

Gender

The poverty ratio varied considerably between male-headed and female-headed households. Table 6 shows that the poverty ratio 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. Poverty in female-headed households was more serious than that in male-headed households.

Table 6: Poverty Ratio by Gender of Household Head (percentage of all households)

	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	23.18	1.66
2000	10.95	18.37	1.68
2001	10.41	18.07	1.74

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

Characteristics of the Poor¹⁷

Economic Characteristics

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

Among economically active recipients, the employment rate consists of 69.3 percent of household heads and 64.5 percent of household members. The unemployment rate among economically active recipients is 30.7 percent for household heads and 35.5 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. The high unemployment rate may cause or aggravate their economic situation. The details are displayed in Table 7.

Table 7: Economically Active Recipients, 1996 (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.

Social Characteristics

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.

¹⁷ To examine the characteristics of the poor in Korea, the profile of the public assistance recipients was reviewed.

Table 8: Health Status of Recipients (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 are indispensable elements in finding a job. Most 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-middle school education. A total of 80 percent of all household members have no more than a junior-middle 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 9: Educational Level of Recipients, 1996 (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.

Causes of Poverty

The most common cause of poverty in Korea is the lack of working capacity. As Table 10 shows, this can arise because of age (too old or too young), illness, disability, and not having a father in the family (66 percent). Aging, sickness, disability and fatherless families are the main factors of poverty. The second major cause is the 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, working experience and skills are required. Persons without those elements have difficulty finding jobs and their chances of becoming poor are 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 is 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.

To sum up. The highest incidence of poverty in Korea occurs 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.

Table 10: Major Causes of Poverty in Korea, 1996 (percent)

Major Causes of Poverty	Proportion
Age, Disease, Disability, Fatherless (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.

How Korea Reduced Poverty

At the beginning of its development drive Korea suffered from as great a problem of poverty as virtually any other developing country. What is remarkable is the speed by which, and the degree to which, Korea succeeded in bringing the problem down to an extremely manageable size. Essentially, the effort had been successful by the end of the 1980s, (which is why some of the data series in this paper are not continued beyond the early 1990s), but there was a short jump in 1997-98 resulting from the financial crisis that hit some of the countries of East Asia. Thereafter, the poverty rate again declined.

How did the Korean experience in poverty reduction compare with that of several Asian countries? A summary is provided in Table 11.

Table 11: Reduction in Poverty: Headcount Index, 1970-90 (percentage of total and rural population)

	Incidence of Absolute Poverty					
	1970		1980		1990	
	Total	Rural	Total	Rural	Total	Rural
China	33	97	28	96	9	95
Indonesia	69	82	29	80	15	66
Korea	23	84	10	37	5	20
Philippines	35	85	30	75	24	77
Thailand	26	94	17	94	16	94

Source: Kwon (1998)

Notes: (1) 1990 or most recent year. (2) Korea figures for "1990" are actually for 1985.

It should not be necessary to stress the difficulties of comparing poverty rates across countries. Obviously, different countries use rather different methodologies and so the results will not be strictly comparable. However, the table indicates the orders of magnitude, and shows how much more rapid was the reduction in absolute poverty in Korea compared with those of its neighbors.

How did Korea achieve this? Rapid poverty alleviation in Korea was brought about by a number of factors. The chief ingredients can be identified briefly as follows.

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 for 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 Il (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." This shift in perception also made it easier for the government to implement its policies without having to adopt extreme measures.

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. An indication of the speed of structural transfer mission that occurred in Korea compared with the experience of the major developed countries can be gauged from Table 12. Changes in the share of agriculture in aggregate employment and production occurred in almost one-third to one-sixth the time that it took for similar changes to come about in the major developed countries of the world.

Table 12: Speed of Structural Transformation

	Agricultural Employment Ratio			Agricultural Share of Production		
	Year of 40 percent	Year of 16 percent	Elapsed Time	Year of 40 percent	Year of 7 percent	Elapsed Time
Britain	<1800	1868	70	1788	1901	113
Netherlands	1855	1950	96	1800	1965	165
Germany	1897	1957	60	1854	1960	106
United States	1900	1942	42	1866	1958	92
Denmark	1920	1962	42	1850	1969	119
France	1921	1965	44	1878	1972	94
Japan	1940	1971	31	1896	1969	73
Korea	1977	1991	14	1965	1991	26

Source: Park (1998).

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 ratio 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.¹⁸

Table 13: International Comparison of Tariff Rates (simple average, percent)

	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 Gyoon (2001)

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 13.

¹⁸ See Park and Lee(2003)

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 14: Trends of Foreign Investment Liberalization, August 2001
(number of businesses)**

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	-	2(2)
Total	30	44	49	27	22	5	3	2	4(24)

Source: Choi Nak Gyoon(2001)

- 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.

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—Chalmers 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—Frank et al. (1975) and 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.

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; see 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 might have 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 literacy 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.

Table 15 shows the rapid increase in education at all levels. The most significant increases, from the point of view of contributions to economic development, occurred at the level of the secondary and tertiary schools. Another impressive series of gains occurred in the enrolment of the female population at all levels of education.

Table 15: Main Education Indicators, 1961-1993

Level of Education	1961	1966	1972	1981	1987	1993
Primary Schools (000s)	3853	5165	5807	5586	4772	4336
Enrolment Ratio	97	103	107	103	102	101
Percent Female	45	46	48	48	48	48
Secondary Schools (000s)	940	1257	2416	4397	4896	4480
Enrolment Ratio	30	36	49	59	65	99
Percent Female	28	36	39	45	47	48
Tertiary Schools (000s)	140	167	218	746	1270	1566
Enrolment Ratio	54	57	65	192	305	355
Percent Female	19	25	25	24	27	31
Average Years of Schooling	...	5.0	6.1	7.8	9.0	10.1

Source: Adelman (1997)

Notes: (1) Enrolment ratio indicates the percent enrolled of school age population. (2) The enrolment ratio in tertiary schools is per 10,000 population.

In addition to the cultural pressures, the rewards attaching 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 a Middle School and lower education earned lower wages than those who had attended high school who, in turn, earned less than workers within education at the level of the junior college, who earned less than those holding degrees from a college or a university. In the 1990s, there were 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, Kim and Park (1985) found that the rise in productivity contributed less than did the increased 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 appears to be that it was a very important, but not the dominant factor; see Table 16.

Table 16: Sources of Korean GDP Growth, 1963-95

	1963-73		1973-86		1979-95
Real GNP growth rate	9.5		7.8		8.0
<i>1. Contribution of inputs</i>	<i>5.4</i>		<i>4.1</i>		<i>4.4</i>
Labor	3.2		2.2		2.6
Capital	2.2		1.9		1.8
<i>2. Total factor productivity</i>	<i>4.1</i>		<i>3.7</i>		<i>3.6</i>
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: Song (2003)

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 thorough-going 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. Park (1998) reports a survey by the Ministry of Internal Affairs in 1957, which found that over 15 percent of the country's farmers were short of food. Another 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 NCM (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 NCM. 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. Park (1998) reports that 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 17 shows changes in the contribution of agriculture and a comparison of rural and urban household incomes.

Table 17: 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 (000 won)		
			Rural (A)	Urban (B)	Ratio (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	11 319.3	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)

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 18 shows developments in the unemployment rate during 1963-91.

Table 18: Unemployment Rate, 1963-2002

	Unemployment Rate (percent)		
	Total	Male	Female
1963	8.2	-	-
1964	7.7	-	-
1965	7.4	-	-
1966	7.1	-	-
1967	6.2	-	-
1968	5.1	-	-
1969	4.8	-	-
1970	4.5	-	-
1971	4.5	-	-
1972	4.5	-	-
1973	4.0	-	-
1974	4.1	-	-
1975	4.1	-	-
1976	3.9	-	-
1977	3.8	-	-
1978	3.2	-	-
1979	3.8	-	-
1980	5.2	6.2	3.5
1981	4.5	5.7	2.4
1982	4.4	5.5	2.5
1983	4.1	5.2	2.2
1984	3.8	4.8	2.2
1985	4.0	5.0	2.4
1986	3.8	4.9	2.1
1987	3.1	3.9	1.8
1988	2.5	3.0	1.7
1989	2.6	3.1	1.8
1990	2.4	2.9	1.8
1991	2.4	2.7	2.0
1992	2.5	2.8	2.1
1993	2.9	3.3	2.3
1994	2.5	2.8	2.0
1995	2.1	2.3	1.7
1996	2.0	2.4	1.6
1997	2.6	2.8	2.3
1998	7.0	7.8	5.7

1999	6.3	7.2	5.1
2000	4.1	4.7	3.3
2001	3.8	4.3	3.1
2002	3.1	3.5	2.5

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 2.4 percent in 1991. 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.

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. Whang (1991) reports that four major instruments were employed to implement economic planning. These were the national budget, public enterprises, regulations, and inducements (generally of a financial nature, such as the provision of credit at subsidized interest rates).

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 Kim and Leipziger (1997), 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's 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. Looking at a longer time period, Kim and Leipziger (1997) report that between 1963 and 1985, about 157,000 persons sat the high civil service examination, and only a little more than 2600 (1.7 percent of the total) succeeded. The authors also point out that Korea's professional bureaucracy is a two-tier system, which allows exceptional people to begin at advanced levels. 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 *sui 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. Kim and Leipziger (1997) highlight 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 organisations 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.

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CASE STUDIES IN SCALING UP POVERTY REDUCTION

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