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RURAL INDUSTRIALIZATION IN KOREA: A CRITICAL ASSESSMENT

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PREFACE

Rural industrialization itself is not a recent phenomenon, although policy maker's and researcher's understanding and recognition of its importance is a recent one. Rural industrialization concerns industrial development in rural areas. Development of the non-agriculture, manufacturing part of the rural economy is the major orientation of rural industrialization.

However, rural industrialization is much more than industrial development in rural areas. A simple reason is that rural industrialization prerequisites a re-orientation of industrial development policy itself: that is, a transformation of a highly polarized, urban-centered industrialization policy to a more spatially balanced one. In this sense, rural industrialization of Korea is still at its beginning stage of development.

This Korean study on rural industrialization attempted to understand the present situation and development of rural industry in the overall context of export-oriented urban-centered industrial development policy during the last two decades. One conclusion reached is the sheer fact that rural industrialization has been a residual phenomenon separated from the main stream of industrial development. Rural industrialization may not be possible without introducing a deliberate well-

coordinated multi-package policy and program under the condition of the reorientation of existing urban-and large-scale-industry-favoring policy. This reorientation is not only that of policy but also that of the philosophy of industrial development.

This Korean Study was initiated as a case study to share the Korean experience with the member countries of the Asian Productivity Organization(APO) under the support of APO and Korea Rural Economics Institute, and was presented at the APO Symposium on Multipackage Assistance for Rural Industries Organized by APO in New Delhi, India from 19th through 23rd October, 1981. This is its revised and expanded version.

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The views and opinions expressed in this study are those of the authors and don't necessarily represent those of KREI. Therefore, any part of this study is under the full responsibility of the authors.

December, 1981

Bo-Hyun Kim
President

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CHAPTER I

INTRODUCTION

1. STATEMENT OF THE PROBLEM

Rural industrialization in Korea has attracted ever increasingly the government's attention as an important policy issue in recent years like in many other Asian countries. The importance of rural industrialization has been emphasized on the ground that it can contribute to both the rural economy and the national economy. In terms of rural economy, rural industrial development is considered as a policy instrument promoting incomes of the low-income people and small farmers in the rural areas. Rural industrialization can provide rural people with more employment opportunities in rural areas. The creation of off-farm job opportunities contributes to the increase of rural farm household income, thus narrowing income gap between rural and urban households and among the farm households. From the point of view of national economy, it has been recognized that rural industrial development contributes to the balanced regional economic development. Rural industrialization can serve as one

of important policy instruments to control and disperse the urban concentration resulting from the polarized industrial-urban development.^{1/}

Under these explicit benefits from the rural industrialization, the Korean government has activated a variety of policy programs attempting to introduce manufacturing enterprises into the rural areas.

Since 1973, the so-called "Saemaul Industry" has been built in the rural areas as one component of Rural Saemaul Undong (RSU) which is better known as the Korean Model of Integrated Rural Development. By May 1, 1980, a total of 704 saemaul factories have been constructed and supported by the government. As a responsible institution accelerating the introduction of saemaul factories into the rural areas, the Korean Rural Industry Development center (KRIDC) was founded in 1973.^{2/} On the other hand as a positive measure to ease the problem of over-concentration in such major urban areas as Seoul and Pusan, the government has put the Industry Location Act into action in 1979. The Act strictly regulates the construction of new industrial plants in the already crowded major urban and sub-urban areas, while facilitating decentralization of the urban industrial facilities into provincial and rural areas. This policy directs the

^{1/} Yang Boo Choe, "Rural Industrialization in Korea: Problems and Policy Issues", Evaluation Study on IBRD Loan Project Final Report (Seoul: KREI, 1979), pp.12-13.

^{2/} The KRIDC has been amalgamated with the Small and Medium Industry Promotion Corporation from January, 1980.

industry to view the rural area as an alternative location possibility.^{3/} Besides, the various efforts have been made to support the Korean rural industries under the small and medium industry promotion policies, which are largely conducted by the diverse government-supported institutions such as the Small and Medium Industry Bank, the Small and Medium Industry Cooperation, the Small and Medium Industry Promotion Corporation, and the Agriculture and Fishery Development Corporation.

Unfortunately, however, the lack of information and research materials are delimiting our knowledge and understanding on rural industry and rural industrialization. Although the word, "rural industry" has often been used there has been no clear definition of it. It is also unclear whether what we call "rural industrialization" or "rural industrial development" means "industrial decentralization" or "relocation of industries in major urban centers" to the rural areas.^{4/} Moreover, very little is known about the effectiveness of the policy programs at the local and/or rural level, rural institutions intended to support the rural industries and their entrepreneurs. Furthermore, the problems facing the rural industries have not been well identified and publicized. Concurrently, the government has faced great difficulties in working out the appropriate policy measures against the problems arising from the rural industrialization in order to promote industrial development in rural areas.

^{3/} Ibid., p. 13.

^{4/} Ibid., p. 14.

2. OBJECTIVE OF THE STUDY

The purpose of this study is first to assess critically the character and growth of rural industry in the 1970s in Korea, during which the active policy programs for the rural industrialization were implemented. Then, emphasis is placed on the identification of the industrial development policy programs and their policy issues and on the evaluation of the effectiveness of various kinds of government programs on the industrial development at the rural area level.

More specifically, this study concerns with the following immediate objectives:

- 1) To review the character and growth of rural industry in Korea during the 1970s with special attention to the identification of the problems confronted by the rural industry;
- 2) To identify major government programs related to rural industrialization and to evaluate their effectiveness at the implementation level; and
- 3) To suggest policy recommendations for the future improvement of rural industrialization policy.

3. METHODOLOGY OF THE STUDY

1) General

This study is divided into two major parts: the macro-level and the micro-level part. At the macro-level, a brief review of the character and growth of rural

industry during the 1970s with the identification of policy programs and their policy issues is conducted. Detailed analysis of rural entrepreneurship and policy effectiveness is carried at the micro-level.

2) Macro-Level Study

A. General

In order to grasp the character and growth of rural industry during the 1970s at the national level, it is reviewed in terms of level and growth, scale and sectoral composition, locational characteristics, and types of rural industry based on the available quantitative informations.

For the study of effectiveness of the government programs at the implementation level, what is needed at the macro-level is to identify all the major industrial development policy programs and then to classify the contents of these programs into several policy categories as desired for the micro-level study. These categorized policy programs are expected to function as a guide for the micro-study.

The main tasks at the macro-level are epitomized as follows:

- i) To describe the development of the rural industry during the last 1970s in terms of quantity;
- ii) To identify major policy programs geared for the industrial development at the central level; and
- iii) To classify their contents into several desired categories.

B. Data Collection

The macro-level study is conducted basically on the basis of secondary data. Data for the description of rural industry development came from the national census on the manufacturing industry, statistics, and other related literatures. For the purpose of the identification of all the existing policy programs, a set of laws, ordinances, and codes were surveyed and documented.

3) Micro-Level Study

A. General

As already presented, the micro-level study is concentrated on the two main subjects; rural entrepreneurship and effectiveness of government programs at the implementation level. To tackle these issues, this level study is conducted as a case study by selecting and comparing two areas with each other with special reference to the key factors making their industrial development different in view of the above two concerns.

B. Selection of the Study Areas

The areas selected for this study are Youngin-Kun, Gyeonggi province and Namwon-Kun, Jeonbuk province. These two areas were selected on the ground that they were judged to have good contrast with each other in terms of industrial development. Youngin-Kun which is close (64.7 km) to Seoul, the capital of Korea, has enjoyed the rapid industry development. In contrast, Namwon-Kun which is far away from the local cities and Seoul (344.3 km) is characterized as the area of slow industry development. The location of each study areas and its boundary

is presented on Figure 1-1, 2 and 3.

C. Sampling

The study units are manufacturing factories. Twenty factories out of each area, which is thought to be manageable under the time and budget constraints, were selected randomly. Thus, a total of 40 factories were selected for this case study from the both areas.

D. Data Collection

Major data sources were the factories interviewed based upon the prepared questionnaire. The questionnaire for the factory study consists of the following sub-items: socio-economic status of the entrepreneur, general description of the factory, production and operation, location, business motivation, taxation, finance, supply of raw materials, marketing, manpower and employment.^{5/} An emphasis was given to that to what extent the rural entrepreneurs were informed and benefited from the existing government industrial development programs on the one hand and how they evaluate the effectiveness of the identified government programs and their suggestions for the needed government programs on the other.

E. Data Analysis

The data collected for this micro-level study were analyzed basically by employing the simple descriptive statistics. The detailed technique involved here is the comparative method and data were processed by the computer package program, SPSS. Nevertheless, this study made a great effort to identify the detailed cases significant

^{5/} Detailed Contents and Structure of the questionnaire, See Appendix B.

Figure 1-1. Location of the Study Areas

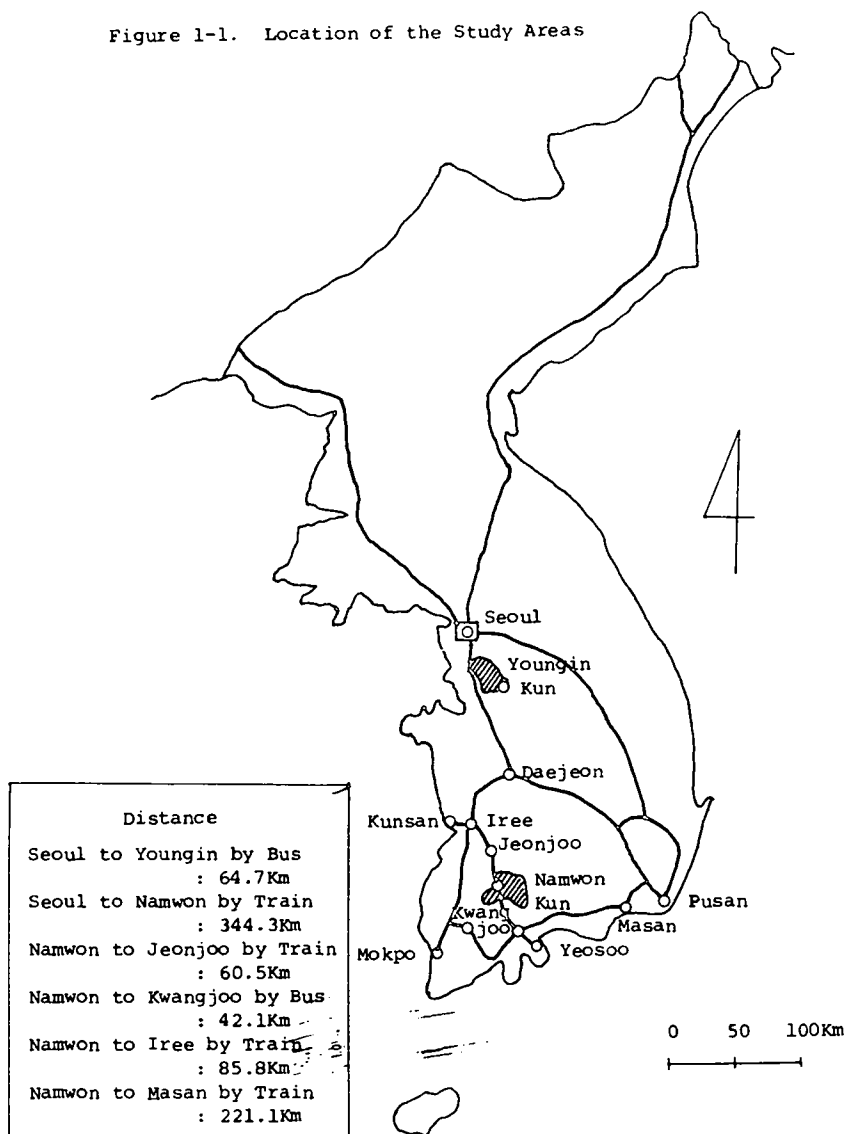
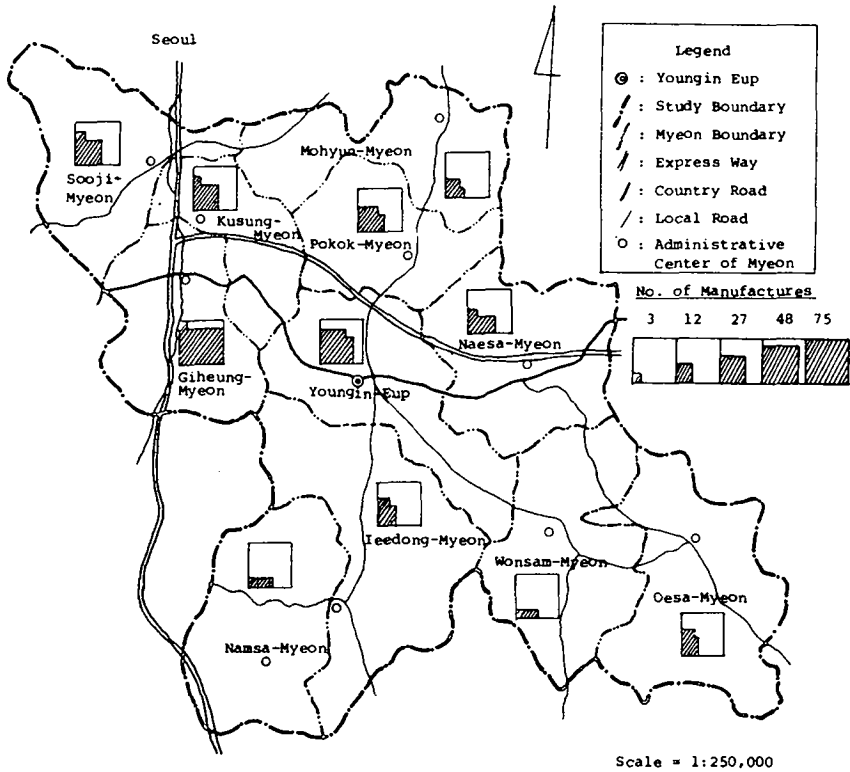


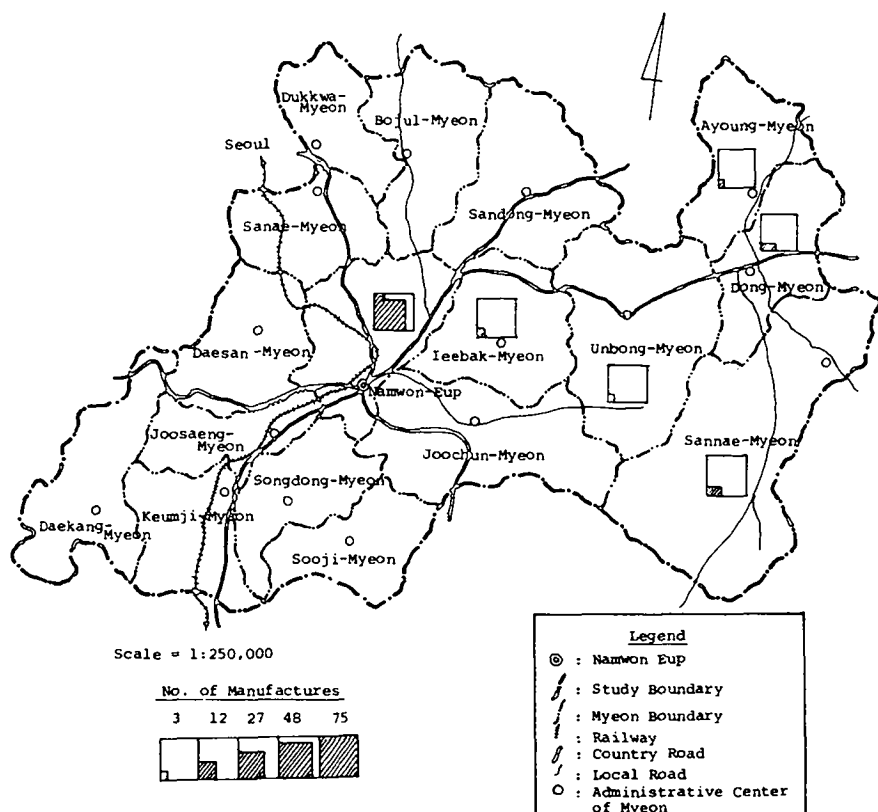
Figure 1 - 2. Boundary of Study Area, Youngin-Kun,
Gyeonggi Province and Basic Statistics



Basic Statistics

	1970 (A)	1974 (B)	1979 (C)	B/A(%)	C/A(%)
Area (Km ²)	605.0	605.0	605.2	100.0	100.0
Farmland (ha)	16,459.9	15,919.9	12,299.0	96.7	74.7
(%)	(27.2)	(26.3)	(20.3)		
Population	96,561	107,687	128,677	111.5	133.3
Farm Population	81,324	67,391	61,545	82.9	75.7
(%)	(84.2)	(62.6)	(47.8)		
Population Density(per./Km ²)	159.6	178.0	213.2	111.5	133.6
No. of Households	17,475	19,131	25,432	109.5	145.5
Farm Households	13,424	11,794	12,009	87.9	89.5
(%)	(76.8)	(61.6)	(47.2)		
No. of Manufactures	22	45	274	204.5	1,245.5
Road (Km)	223,059	245,132	244,519	100.9	109.6
Paved Road	21,940	65,103	74,600	296.7	340.0
(%)	(9.8)	(26.6)	(30.5)		
Industrial Area	-	-	0.6		

Figure 1-3. Boundary of Study Area, Namwon-Kun
Jeonbuk Province and Basic Statistics



Basic Statistics

	1970 (A)	1975 (B)	1979 (C)	B/A (%)	C/A (%)
Area (Km ²)	754.2	754.3	753.0	100.0	99.8
Farmland (ha)	19,406.4	17,109.3	18,528.3	88.2	95.5
(%)	(25.7)	(22.7)	(24.6)		
Population	179,702	175,289	162,794	97.5	90.6
Farm Population	146,361	121,581	100,620	83.1	68.7
(%)	(81.4)	(69.4)	(61.8)		
Population Density (per./Km ²)	238	232	216	97.5	90.8
No. of Households	31,509	31,193	28,735	99.0	91.2
Farm Households	25,129	21,106	19,355	84.0	77.0
(%)	(79.8)	(67.7)	(67.4)		
No. of Manufactures	52	35	67	67.3	128.8
Road (Km)	260,584	260,584	259,419	100.0	99.6
Paved Road	6,392	28,972	72,996	453.3	1,142.0
(%)	(2.5)	(11.1)	(28.1)		
Industrial Area	-	-	-		

for our understanding on how the centrally planned government programs are working at the rural implementation level.

In order to analyze the rural entrepreneur's level of awareness on the existing government industrial development programs, the Weighted Average Level of Awareness (AWA) in % was computed applying the Likert Scaling Method.^{6/}

The formulae to calculate the AWA with the pre-identified and categorized policies and their sub-programs are as follows;

$$\text{AWA with policy } x = \frac{\sum n_{ij} \cdot W_{ij}}{N \cdot W} \times 100$$

$$\text{AWA with program } X_i = \frac{\sum n_{ij} \cdot W_{ij}}{\sum n_{ij} \cdot W} \times 100$$

where,

AWA policy X is the rural entrepreneur's percentage awareness about the policy X;

AWA program X_i is the rural entrepreneur's percentage awareness about the program X_i under the policy X;

n_{ij} is the number of respondents who checked on the j th category of the i th program;

N is the total number of respondents who answered program X_i under the policy X;

W_{ij} is the weight of the j th category of the i th program;

W is the maximum weight given to the scaled category;

i ($=1, 2, \dots, l$) is the number of program under the policy X ;

j ($=1, 2, \dots, m$) is the number of scaled category.

6/ Refer to Tae Myung Kim, 'Evaluation of Low-Income Housing projects in Seoul Korea,' Master Thesis, Asian Institute of Technology, Bangkok, Thailand, 1980, pp. 29-33; A.G. Onibokun, 'Evaluating Consumer's Satisfaction with Housing: An Application of a Systems Approach', Journal of the American Institute of Planners (May 1974), pp. 189-200; Boonma Nakornint and et al, 'Housing Satisfaction: A Comparative Case Study on Din Daeng Public Housing Estate and the Slum at Suan Plu', Bangkok, Thailand, Asian Institute of Technology, 1975.

CHAPTER II

RURAL INDUSTRY OF KOREA: CHARACTER AND GROWTH

This chapter is first focused on the definitional framework of rural industry and other related concepts. In the absence of an appropriate definition framework, it may be baseless to evaluate the existing policy programs and make policy recommendations for development.

To draw a general picture of rural industry, development of Korea, an effort is made to examine the character and growth of rural industry.

1. DEFINITIONAL FRAMEWORK^{1/}

1) Rural Industry

Generally speaking, concepts on rural industry have been defined only through sporadic research activities at home and abroad, producing largely two kinds of definition. In this study one is termed "conventional

^{1/} Yang Boo Choe, *ibid.*, pp. 25-34; Idem and Hyung Mo Kim, "A Conceptual Framework for Rural Industrialization Policy," Korea Rural Economics Review, Vol. III No.1. (Jan. 1980), pp. 33-47.

concept" and the other "new concept". Major tenets of the two concepts are depicted and compared in terms of three dimensions, namely, size, location, and type as shown in Figure 2-1.

A. Conventional Concept

Conventional concept on rural industry is largely defined based on the preconception of "rural". This definition suggests that rural industry should have a certain unique character if it is to be called a rural industry.

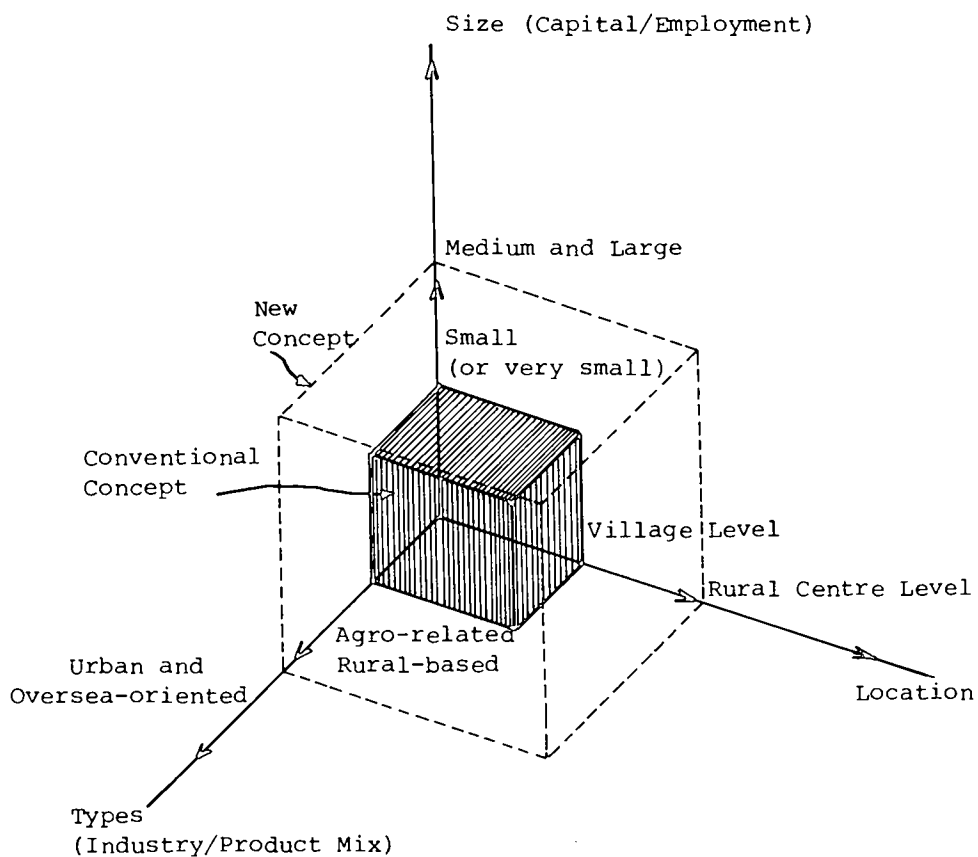
Jon Sigurdson contends that rural industry should basically be contributory to developing agricultural industry and to promoting welfare of rural residents. In this respect, rural industry should produce and supply various equipments, materials, and consumption goods necessary for the agricultural production and daily necessities for the rural residents. Rural industry should be focused on manufacturing by utilizing agricultural, marine and mineral resources supplied in the rural area. In short, rural industry should be closely linked with agriculture and rural residents. This means that rural industry should be situated in rural area and has forward and backward linkage with agriculture, rural resources and rural residents.^{2/}

This is the reason why rural industry is often called "rural-based industry" or "agro-related industry."^{3/}

^{2/} Jon Sigurdson, "Rural Industrialization in China", (Cambridge: Harvard Univ. Press, 1977), pp. 2-34.

^{3/} Asian Development Bank, "Rural Asia: Challenge and Opportunity", (Singapore: Federal Publications, 1977), p. 280.

Figure 2-1. A Conceptual Framework of Rural Industry: Conventional and New Concepts



But the conventional definition of rural industry is quite limited. For example, there are many types of manufacturing firms in rural areas which are not necessarily related with agricultural industry and rural residents. Rather, they have a close linkage with urban and oversea markets.

If rural industry has no other choice but to rely on resources developed in the rural region or has marketing channels with only rural markets, the scale, types, and structure of the rural industry will be inevitably restricted to a certain level. In addition, Singurdson's concept is based on his experiences in the People's Republic of China, where rural industry has been developed on a relatively small-scale only for rural residents because of its geographical situation and rather inconvenient transportation networks.

B. New Concept

The new concept of rural industry encompasses all the manufacturing firms participating in production activities in rural areas regardless of their relations to agriculture, rural resources and rural markets. In other words, new concept simply defines the rural industry as a manufacturing industry in rural areas including those industries characterized by the conventional definition. This definition does suggest that the manufacturing firms in rural region are not necessarily related to agriculture and that they do not necessarily produce and supply equipments and necessities required by the rural residents.

But the new concept faces two questions.

The first one is how to delimit the spatial boundary of rural area and the second how to classify manufacturing firms.

In this study, all types of manufacturing firms irrespective of their sizes and kinds of production items are included in the rural industry ranging from modern factories to handicrafts.

Next question is how to define boundary of rural area. In this study, "Eup" and smaller administrative unit "Myeon" are included in the boundary of rural areas. "Eup" is considered as "Rural Center" or as the center of agropolitan district.^{4/} The new concept of rural industry is spatially illustrated in Figure 2-2.

The diagonal area on Figure 2-2 represents the manufacturing industry needed to be reclassified from the current rural industry to urban industry in parallel with the urbanization and industrialization of rural centers in the long run.

To sum up, new concept of rural industry is more expanded in terms of location, size and type from the conventional concept. Three dimensional characteristics of rural industry along with character of entrepreneur are summarily illustrated in Table 2-1.

^{4/} In terms of the population size, those local cities and eups with the population size of less than 100,000 including myeon (sub-county) are classified into the rural areas.

Table 2-1: New Concept of Rural Industry

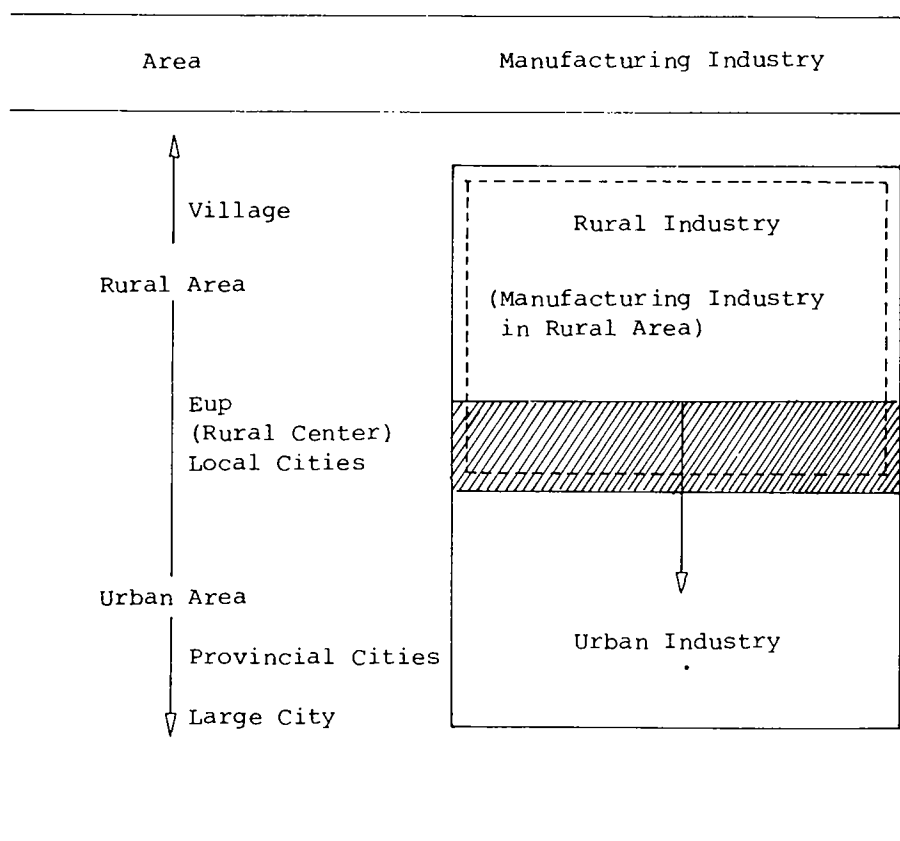
Dimensions	Conventional Concept	New Concept
Size	Small industry	Not confined to small industry
Space	Village	Rural centres
Type	. Agro-related and rural-based industries catering to local markets . Cottage, handicraft, artisan industries	. Local, urban and export market . Cottage up to modern factories
Entrepreneur	Subsistence-minded local residents	Profit-minded business men not confined to local residents

2) Rural Industrialization

For the convenience of discussions in the following Chapters, it is necessary to define some related concepts such as rural industry and rural industrial development distinguished from urban industry and industrial decentralization.

In this study, the word industrial decentralization is used simply as moving the industrial facilities concentrated in and around the big urban areas to provincial regions. The point in question is the word "region". Generally speaking, excluding major big cities, all provincial cities and rural areas in Korea are represented by the word "region". As a result, it is unclear whether "regional distribution of industry" means decentralization

Figure 2-2. Spatial Illustration of New Concept of Rural Industry*



* Adapted from and revised Figure 1 in "Rural Enterprise and Non Farm Employment Published by the World Bank", 1978, pp. 13-14.

From: Yang Boo Choe, "Rural Industrialization in Korea: Problems and Policy Issues", Korea Rural Economics Institute, December 1979, p. 30. Figure 2-1.

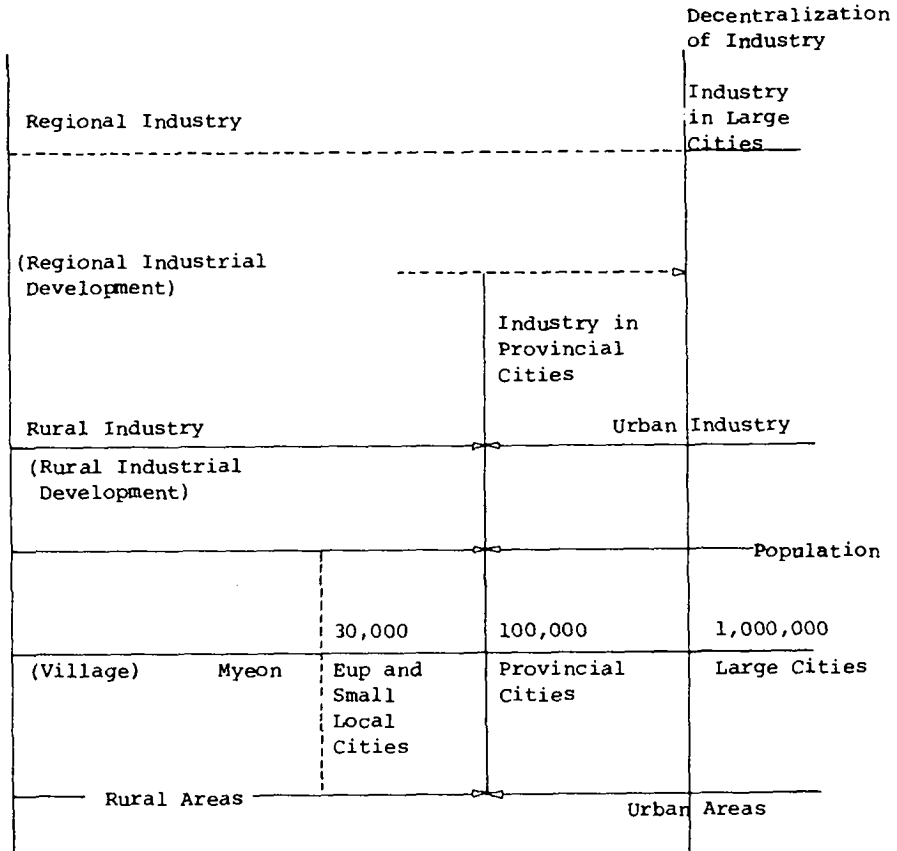
of industrial facilities to provincial cities or to rural areas, although in practice regional distribution of urban industry is limited to the provincial cities. Therefore, regional industrial development often means industrial development in provincial cities.

As illustrated on Figure 2-3, regional industry is divided into provincial urban industry and rural industry. Rural industrialization or rural industrial development does not mean only the decentralization of urban industry into rural areas. Surely, industrial decentralization specifically promoted to rural areas may help rural industrial development. However, rural industrial development requires resource adjustment between the agricultural and the non-agricultural sector within the rural economy. This agricultural resource adjustment process is a rather important, but which is often neglected element in planning and implementing rural industrial development.

The other reason for distinguishing rural industry and rural industrial development from urban counterparts is the disadvantage of rural areas for industrial location. Without providing specifically designed policy program for rural industry and/or rural industrialization, most decentralization policies with regional industrial development program tend to favor provincial urban industry. It is a pragmatic reason to transmit specific government programs to the needed rural industry.

Finally, the manufacturing facilities of rural industries are called in this study rural factories or

Figure 2-3. Definitions Related to Rural Industry and Rural Industrialization*



* Source: Yang Boo Choe and Hyung Mo Kim, "A Conceptual Framework for Rural Industrialization Policy," "Korea Rural Economics Review", Vol. III, No. 1, (Jan. 1980), P.42, Figure 3.

plants. Rural factories consist of Saemaul factories and general rural factories. As we shall see in the later discussions of this report, main difference between Saemaul and general rural factories is nominal except the fact that Saemaul factories are introduced and constructed under the Rural Industry Development Regulation of 1973.

2. THE QUANTITATIVE IMPORTANCE OF RURAL INDUSTRY

1) Data Limited

When coming to the specific job of depicting the rural industry with the clear definition of rural industry in mind, we realize that data on the rural industry is so limited. If any, this time there is no clear distinction between rural and urban industry and some are missing the concept of rural industry at all. Moreover, they have been cursory, sporadic and piecemeal. In these specific situations, the authors and their team now working on the policy-building for rural industrial development in Korea classified the 17,099 firms surveyed jointly by the Ministry of Commerce and Industry (MOCI) and the Korea Federation of Small and Medium Industry (KFOSMI) as of the end of 1977 into the rural and urban industries on the basis of the new definition discussed in the previous section for the purpose of the presently involved project.

However, this also does not represent the rural industry completely in that 17,099 firms in question were only those factories with 5 to 300 employees. This means

that those factories with under 5 employees^{5/} and over 300 employees were excluded in this classification as well. Nevertheless, what is important is that it remains the most up-dated and far-reaching data on the rural industry at present and is quite enough to have general picture of rural industry.

Thus, what we have to bear in mind in the description of rural industry by referring to this data is that the present depiction can not be but a partial one and this fact is coming up with the task that an overall and comprehensive survey should be conducted without limiting the number of employees, so that it can represent all the industries in rural areas starting from the factory with one employee up to the factory with over 300 employees.

2) Level of Rural Industry

A. Labor Force and Employment in Rural Areas^{6/}

During the period of 1970-75, the absolute number of rural population has decreased by 1.4 percent

^{5/} Yang Boo Choe and Young Mahn Lee strongly argue in their recent study on "Rural Cottage Industry: Its Situation and Problems in Korea (Seoul, KREI, 1980)" that rural factories with less than 5 employees are playing very significant roles in non-farm income increase of farm households and account for a considerable portion in number of factories in rural areas and that accordingly special policy concern should be given to them for non-farm income increase and rural development.

However, labor force (population at the age 14 and over) and the number of labor participation (economically active population) have increased by 2.1 percent and 18.8 percent respectively over the same period. In the meantime, in urban areas the remarkable increases have been recorded contrastily in labor participation (44.8%) and labor force (31.8%) as well as population (32.0%) as shown in Table 2-2.

In rural areas about 77.5 percent of total employed labors in 1975 were occupied in the farm sector^{7/} and the figure slightly increased from 76.1 of 1970. Meanwhile the ratio of the employed laborer in the non-farm sector has been decreased by 1.4%, i.e., from 23.9 to 22.5 percent in this period (Table 2-3). Accordingly this fact in turn resulted in that the non-farm sector could absorb only one-sixth of the total increased employments of 1970-75 in rural areas (Table 2-4).

Referring to Table 2-5, further understanding of the level of the rural non-farm activities can be achieved. The Table shows that absolute majority (82%) of the non-farm activities in 1975 are represented by only those activities in three sectors such as manufacturing

^{6/} Main idea of this part came from, Yang Boo Choe, "Non-Farm Income and Rural Industrialization in Korea" (Project Background Proposal), Korea Rural Economics Institute, Feb. 28, 1980, p. 3.

^{7/} Farm sector comprises agriculture, livestock, fishery, and hunting.

Table 2-2. Urban-Rural Labor Force and Participation,
1970 and 1975

	Total			Urban			Rural		
	1970 (A)	1975 (B)	B/A	1970 (A)	1975 (B)	B/A	1970 (A)	1975 (B)	B/A
Population (percentage)*1	30,882.4	34,703.2	112.4	12,709.5 (41.1)	16,792.8 (48.4)	132.0	18,172.9 (58.9)	17,910.4 (51.6)	98.6
Labor Force (percentage)*1	18,942.4	21,826.9	115.2	8,349.9 (44.1)	11,008.2 (50.4)	131.8	10,592.5 (55.9)	10,818.7 (49.6)	102.1
Participation (percentage)*1	10,377.5	13,350.6	128.7	3,929.9 (37.8)	5,682.2 (42.5)	144.8	6,454.6 (62.8)	7,668.5 (57.5)	118.8
Participation Rate (%)*2				47.0	51.6		53.0	48.4	

*1 Percentage distributions to the total population, labor force, and participation respectively.

*2 Participation Rate = Participation/Labor Force

Source: Adapted from; Bureau of Statistics, Economic Planning Board, 1970 and 1975

Population and Housing Census Report, Vol.1 and Vol.2 (Seoul: EPB, 1973 and 1978); Yang Boo Choe, "Non-Farm Income and Rural Industrialization in Korea" (Project Background Proposal), Korea Rural Economics Institute, Feb. 28, 1980, p. 4. and Annex 2.

Table 2-3. Farm and Non-Farm Employment by
Sector in Rural Areas, 1970 and 1975

Sector	Unit: 1,000				
	1970		1975		B/A(%)
	Number (A)	%	Number (B)	%	
Total Employment	6,409.3	100.0	7,532.7	100.0	117.5
Farm	4,879.2	76.1	5,840.5	77.5	119.7
Nonfarm	1,530.1	23.9	1,692.2	22.5	110.6

Source: Ibid., p. 4, Annex 2,3 and 4.

Table 2-4. Distribution of the Increased
Employments into Farm and Nonfarm
Sector in Rural Areas, 1970 and 1975

	Unit: 1,000			
	No. of Employ- ments Absorbed by Farm Sector (A)	No. of Employ- ments Absorbed by Nonfarm Sector (B)	Total Increased Employments	A/B
Employment	961.3	162.1	1,123.4	5.93
%	85.6	14.4	100.0	

Source: Ibid., Annex 3 and 4.

(27.5%), trade and commerce (28.2%), and services (26.2%) The rest 18 percent are shared by the other five sectors, i.e., mining and quarrying (4.8%), utilities (0.4%), construction (5.7%), transportation & communication (6.0%), and banking, finance and others (1.2%). The Table also says that generally there has been non substantial increase in the compositional pattern of rural non-farm activities during the period of ranging from 1970 to 1975. Rather, in case of construction, mining and quarrying, and banking, finance and others, decreases have been recorded by 29.8 percent, 5.6 percent, and 1.4 percent respectively.

However, the trend of farm and non-farm employments in rural areas should be understood at the national level. As Table 2-6 presents, during the period of 1970-1973 almost equal number of employments have been shared by these two sectors. But this sectoral balance began to break from 1974. The employments in the farm sector have been reduced at a rapid speed since 1974. Especially since 1976, even the absolute number of farm employment had started decreasing and finally this resulted in 0.5 percent reduction in 1979 comparing with that in 1970 while the non-farm employments increased by as much as 81.8% during the 1970s. It is understood that this fact has been accelerated by the urban-industry oriented development policy which characterized the government development policy for the last two decades and which is further supported by the fact that for the last 10 years about 3.6 million agricultural population

Table 2-5. Changes in the Composition of
Nonfarm Employment by Sector in
Rural Areas, 1970 and 1975

Sector	1970		1975		B/A (%)
	Number (A)	%	Number (B)	%	
	000		000		
Mining and Quarrying	85.6	5.6	80.8	4.8	94.4
Manufacturing	409.0	26.7	464.8	27.5	113.6
Utilities	6.6	0.4	7.3	0.4	110.6
Construction	137.1	9.0	96.2	5.7	70.2
Trade and Commerce	367.4	24.0	477.7	28.2	130.0
Transport & Communication	92.1	6.0	100.8	6.0	109.4
Services	410.5	26.8	443.1	26.2	107.9
Banking, Finance and Others	21.8	1.5	21.5	1.2	98.6

Total	1,530.1	100.0	1,692.2	100.0	110.6

Source: Ibid. p. 6 and Annex 3 & 4; Bureau of Statistics
Economic Planning Board, 「Population and Housing
Census Report」 Vol. 1 and Vol. 2 (Seoul: EPB,
1973 and 1978).

Table 2-6. Changes in National Farm and
Nonfarm Employment, 1970-1979

Year	Number of Employment by Sector				Growth Index(1970=100)	
	Farm	Perce- tage 1/ 1,000	Nonfarm	National	Farm	Nonfarm
	1,000		1,000			
1970	4,916	(50.4)	4,829	9,745	100.0	100.0
1971	4,876	(48.4)	5,190	10,066	99.2	107.5
1972	5,346	(50.6)	5,213	10,559	108.7	108.0
1973	5,569	(50.0)	5,570	11,139	113.3	115.3
1974	5,584	(48.2)	6,002	11,586	113.6	124.3
1975	5,425	(45.9)	6,405	11,830	110.4	132.6
1976	5,601	(44.6)	6,955	12,556	113.9	144.0
1977	5,405	(41.8)	7,524	12,929	109.9	155.8
1978	5,181	(38.4)	8,309	13,490	105.4	172.1
1979	4,887	(35.8)	8,777	13,664	99.5	181.8

1/ Percentage of farm employment to the national total employment.

Source: Economic Planning Board, EPB, "Major Statistice of Korean Economy", 1979 (Seoul: EPB, 1979), pp. 18-19; Yang Boo Choe, "Off-Farm Income and Rural Industrialization in Korea"(Project Background Proposal), KREI, Feb. 28, 1980. p. 5.

left rural areas (Table 2-7).^{8/} Jon Sigurdson and Young Chul Kim interprets that a major reason for this exodus is the lack of employment opportunities on and off the farms.^{9/}

Judging from the foregoing discussions we can reach such a conclusion that the rural non-farm sector has not been growing enough to absorb the rural-exodus, which has brought out a large amount of migration of rural manpower to the large cities.

B. Number of Rural Industry

The results of the author's classification of 17,099 firms as of the end of 1977 reveals that 13,613 firms accounting for 79.6 percent were located in urban areas and the remaining 3,486 firms equal to 20.4 percent in rural areas (Table 2-8).

The Ministry of Home Affairs (MOHA) categorized 6,805 factories into the rural industry^{10/} as of April 1, 1977. Of which 5,310 (78.1%) were grouped into small-scale firms, 403 (5.9%) Saemaul factories, and 1,086 (16%) handicrafts (Table 2-9).

^{8/} Ministry of Agriculture and Fisheries, "Year Book of Agriculture and Forestry Statistics", 1980, p. 22.

^{9/} Jon Sigurdson and Young Chul Kim, "Relationship Between Farm Mechanization, Rural Industrialization and Saemaul Movement in Korea", International Research Seminar on the Saemaul Movement December 7-13, 1980, Korea, Inst. of Saemaul Undong Studies, Seoul National University, p. 27.

^{10/} The term, rural industry used here is not based on the factual definition framed by the author.

Table 2-7. Number of Farmhousehold and
Agricultural Population by Year

Unit: 1,000

Year	Farm Household	Agricultural Population	Growth Index(1970=100)	
			Farm Household	Agricultural Population
1970	2,483	14,422	100.0	100.0
1971	2,482	14,712	99.9	102.0
1972	2,452	14,677	98.6	101.8
1973	2,450	14,645	98.7	101.5
1974	2,381	13,459	95.9	93.3
1975	2,379	13,244	95.8	91.8
1976	2,336	12,785	94.1	88.6
1977	2,304	12,309	92.8	85.3
1978	2,224	11,527	89.6	79.9
1979	2,162	10,883	87.1	75.5

Source: Ministry of Agriculture and Fisheries,
「Year Book of Agriculture and Forestry Statistics」,
1980, p. 22.

Table 2-8. Urban-Rural Distribution of
Small & Medium Industries, 1977

Area		No. of Industries (%)	
Urban	Large Cities (Seoul & Pusan)	7,076	(41.4)
	Local Cities	6,537	(38.2)
	Sub-Total	13,613	(79.6)
Rural	Eup	1,382	(8.1)
	Myeon	2,104	(12.3)
	Sub-Total	3,486	(20.4)
Total		17,099	(100.0)

Source: Yang Boo Choe, Rural Industrialization in Korea: Problems and Policy Issues (final Report, December 1979), Korea Rural Economics Institute, p. 38, Table 2-2.

Table 2-9. Type of Rural Industry as of April 1, 1977

	Number	%
Small and Medium Factory	5,310	78.1
Saemaul Factory	403	5.9
Handicraft/Cottage	1,086	16.0
Total	6,805	100.0

Source: Ministry of Home Affairs, "Programs for the Increase of Off-Farm Income" (Tentative Action Plan). 1979, p. 86; Rearranged from Yang Boo Choe "Rural Industrialization in Korea: Problems and Policy Issues" (Final Report, December 1979), Korea Rural Economics Institute, p. 37. Table 2-1.

3) Growth of Rural Industry

Relying on the establishment years of 3,486 factories categorized into rural industry in Table 2-8, it is noted that only 9.7 percent were founded before 1960. Up to 1970, 35.6 percent accounting for 1,239 were built and the remaining 64.5 percent had been established for 7 years ranging from 1971 to 1977. This table accordingly shows that the rapid rural industrialization has been accelerated since 1970. This fact is easily justified by the fact that 12.5 percent, 435 factories were established only in one year, 1977 (Table 2-10).

Table 2-10. Year of Establishment of Rural Industry, 1977

Year	No. of Factories	%	Cum. %
Before 1960	337	9.7	9.7
1961 - 1970	902	25.9	35.6
1971 - 1976	1,812	52.0	87.6
1977	435	12.5	100.0

Total	3,486	100.0	

Source: Yang Boo Choe, "Problem and Situation of Rural Industry in Korea" (IBRD Loan Project Interim Report, December 1978), Korea Rural Economics Institute, p. 19, Table 2-6.

Another survey result conducted by the Bank of Korea in 1964 allows us to have the idea about the growth of rural industry during the last 13 years (Table 2-11).^{11/}

According to this Table, the number of rural industry occupying 10.5 percent of the total industries in 1964 has increased to 20.4 percent in 1977, which has resulted in 9.9% increase for 13 years. Almost two times increase was registered over this period.

Increase in employee number presents that the rural industry has grown up so fast. Average employee number of 1964 with 12.5 has soared up to 40.8 in 1977. More than three times increase has been recorded for the same period.

In annual operation rate, rapid growth is also noticed. It has increased from 61.7% to 73.3% during this period. About 12% augmentation was achieved.

The above three aspects show that the rural industry has developed so quickly in absolute terms for the last 13 years though the present situation is still under the small-scale in relative terms.

^{11/} In interpreting the Table, we should bear in mind the fact that the rural industry defined in the survey of 1964 is different from that of 1977. The former survey confined its survey objects to the factories with 5 to 50 employees while the latter to the factories with 5 to 300 employees. However, taking into consideration the fact that the rural industry at that time was relatively very small and its average number of employees was only 12.5, it is accordingly judged that very few with more than 50 employees situated in the rural areas. In this regard, almost all rural factories were covered in the survey and it is thus considered to be quite enough to be compared with that of 1977 in having the general growth of rural industry.

4) Scale of Rural Industry

Average number of employee of the rural industry in 1977 was 40.8. More than 50 percent (1,802 factories) had less than 19 employees and the factories with 20 to 49 employees accounted for 25.8 percent (900). Meanwhile, the industries with more than 50 employees were only 22 percent (Table 2-12).

Table 2-11. Growth of Rural Industry
During the Period of 1964-1977

Item/Year	1977 (A)	1964 ^{1/} (B)	Difference (A-B)	A/B
Percentage of Rural Industry to National Industry	20.4 ^{2/}	10.5	9.9	1.9
Average No. of Employees	40.8 ^{3/}	12.5	28.3	3.3
Annual Operation Rate	73.3 ^{4/}	61.7	11.6	1.2

Source: ^{1/} Calculated by the authors from the data Source: The Bank of Korea, 'Korean Rural Industry, 1964', (Seoul: The Bank of Korea, June, 1964), pp. 14-15, Table 1-1.

^{2/} Yang Boo Choe, 'Rural Industrialization in Korea: Problems and Policy Issues', (IBRD Loan Project Final Report, Seoul: KREI, 1979), p. 38, Table 2-2.

^{3/} Idem, 'Problem and Situation of Rural Industry in Korea', (IBRD Loan Project Interim Report, December 1978), Korea Rural Economics Institute p. 20, Table 2-7, p. 26, Table 2-14.

^{4/} Calculated from: Ibid., p. 26, Table 2-14.

Reviewing from the side of annual production, Table 2-13 shows that the average annual production as of the end of 1977 is 157.3 million won (US\$ 253,226) and almost 42 percent fall under the production of 30,000,000 won (US\$ 48,387).

Turning to the capital size, almost half (1,718) of 3,486 factories fell between 10 million won (US\$ 16,130) and 50 million won (US\$ 80,650). Firms with more than 50 million won accounted for 25.3 percent and 25.4 percent equal to 884 firms proved to have small-scale capital, namely less than 10 million won (Table 2-14).

Table 2-12. Distribution of Number of Employees, 1977

Number of Employees	No. of Factories (%)
Person	
5 - 9	1,026 (29.4)
10 - 19	776 (22.3)
20 - 49	900 (25.8)
50 - 99	429 (12.3)
100 - 199	235 (6.7)
200 - 299	105 (3.0)
300 and over	15 (0.4)

Total	3,486 (100.0)

* Average Number of Employee is 40.8

Source: Yang Boo Choe, "Problem and Situation of Rural Industry in Korea" (IBRD Loan Project Interim Report, December 1978), Korea Rural Economics Institute, P.20, Table 2-7.

Table 2-13. Annual Production of Rural Industry, 1977

Production*	No. of Factories (%)
million won	
3	59 (1.7)
3 - 5	146 (4.2)
5 - 10	387 (11.1)
10 - 30	867 (24.9)
30 - 50	471 (13.5)
50 - 100	594 (17.0)
100	960 (27.5)
<hr/>	
Total	3,486 (100.0)

* Average Production is 157.3 million won.

Source: Ibid., Table 2-11.

Table 2-14. Distribution of Capital Size, 1977

Capital Size	No. of Factories (%)
Million won	
< 3	150 (4.3)
3 - 10	734 (21.1)
10 - 50	1,718 (49.3)
50 - 500	845 (24.2)
500 ≤	39 (1.1)
<hr/>	
Total	3,486 (100.0)

Source: Ibid., p. 22, Table 2-8.

Coming to the yearly operation situation as of the end of 1977, Table 2-15 says that 36.8% (1,282) of 3,486 factories were in operation at the level of 70-90%. It is also noted that there were 22.7% enterprises with more than 90% operation rate. On the other hand, firms with less than 50% operation rate accounted for 10.5%. Thus, 40% of total industries were in operation at the level of less than 70%. Therefore, it can be said that rural industries are generally in low operation.

The rural industry reviewed in terms of number of factories, number of employees, annual production, capital size and annual operation rate is enough to understand that it is still characterized by the small scale.

Table 2-15. Annual Operation Rate, 1977

Operation Rate	No. of Factories (%)
percent	
< 50	366 (10.3)
50 - 70	1,028 (29.5)
70 - 90	1,282 (36.8)
90 ≤	791 (22.7)
Others	19 (0.5)
<hr/>	
Total	3,486 (100.0)

* Average Operation Rate is about 73.3%.

Source: Ibid., p. 26, Table 2-14.

3. SECTORAL COMPOSITION OF RURAL INDUSTRY

When looking into the sectoral composition of rural industry, we can grip the substance of rural industry in the concrete.

Table 2-16 shows that out of 3,486 factories, 966 factories accounting for 28.6% were in the sector of textiles, wearing apparel and leather, which was the largest sector. The next (17.5%) was in the field of food and beverage, and 13.1% in nonmetallic mineral productions; 11.2% in chemicals, petroleum, coal, rubber and plastic products; 10.2% in fabricated metal products and machinery in this order. This fact clearly says that majority of rural manufactories are the labor-intensive light industries based on cheap rural labour forces and on agricultural products as main raw materials.

Table 2-16. Sectoral Composition of
Rural Industry, 1977

Sector	No. of Factories (%)	
Food and Beverages	611	(17.5)
Textiles, Apparel and Leather	996	(28.6)
Wood and Wood Products	248	(7.1)
Paper and Paper Product	292	(8.4)
Chemicals, Petroleum and Plastics	389	(11.2)
Non-metallic Mineral Products	458	(13.1)
Primary Metal	42	(1.2)
Fabricated Metal Products and Machinery	357	(10.2)
Others	92	(2.6)

Total	3,486	(100.0)

Source: Ibid., p. 28, Table 3-1.

Table 2-17. Locational Distribution of Small and Medium Industries by Province and Area of Rural/Urban, 1977

Province	Area		Total
	Urban	Rural	
Seoul	4,584 (33.7)	-	4,584 (26.8)
Pusan	2,492 (18.3)	-	2,492 (14.6)
Gyeonggi	1,385 (10.2) (61.1)	880 (25.2) (38.9)	2,265 (13.2) (100.0)
Gangweon	300 (2.2) (59.8)	202 (5.8) (40.2)	502 (2.9) (100.0)
Chungbuk	164 (1.2) (46.1)	192 (5.5) (53.9)	356 (2.1) (100.0)
Chungnam	644 (4.7) (57.8)	470 (13.5) (42.2)	1,114 (6.5) (100.0)
Jeonbuk	394 (2.9) (64.4)	218 (6.3) (35.6)	612 (3.6) (100.0)
Jeonnam	715 (5.3) (68.4)	330 (9.5) (31.6)	1,045 (6.1) (100.0)
Gyungbuk	2,205 (16.2) (73.6)	789 (22.6) (26.4)	2,994 (17.5) (100.0)
Gyungnam	671 (4.9) (67.6)	321 (9.2) (32.4)	992 (5.8) (100.0)
Jeju	59 (0.4) (41.3)	84 (2.4) (58.7)	143 (0.8) (100.0)

Total	13,613(100.0) (79.6)	3,486(100.0) (20.4)	17,099(100.0) (100.0)

Source: Yang Boo Choe, "Rural Industrialization in Korea: Problems and Policy Issues" (Seoul: KREI, December 1979), p. 39, Table 2-3.

4. LOCATIONAL CHARACTERS

Referring to the location by province and by urban and rural, the ecological development characteristics of those factories are able to be identified.

According to Table 2-17, out of 3,486 rural factories, 2,139 (61.3%) factories were concentrated in three provinces such as Gyunggi (25.2%), Gyungbuk (22.6%), and Chungnam (13.5%). This fact may be explained in the sense that industrial development has been accelerated in parallel with the rapid urban development of the big cities which links Seoul to Pusan.

This table also shows that more than 60% of the factories surveyed in each province were located in urban areas throughout all the provinces except Gangwon, Chungbuk, Chungnam and Jeju. Table 2-18 shows that even in case of rural industry, as many as 47.6% of the factories were located on the suburban areas. Rural industries locating on the non-suburban areas only account for about 10.7% (1,827).

Table 2-18. Location Breakdown of Rural Industries, 1977

Type of Area	No. of Factories	%
Suburban	1,659	47.6
Plain	374	10.7
Semimountaineous	1,216	34.9
Mountaineous	237	6.8
<hr/>		
Total	3,486	100.0

Source: Ibid, p. 41, Table 2-4.

These urban-oriented locations of rural industries are thought to be attributed to the easy access to urban service systems and facilities and to marketing of products.

5. TYPES OF RURAL INDUSTRY

This research, as stated before, is chiefly based on newly elaborated concept of rural industry. A classification of the type of rural industry was designed to review the factual situation of the above definitions. The type of industry is classified according to the degree of relations between rural industry and rural economy. Sources of supplies of major raw materials and sales markets are utilized as operational variables.

The rural industries which rely on rural areas for their supplies of raw material resources can be viewed as having closer relationships with rural economy than the others. The industries which depend on rural markets for their sales activities are also observed as maintaining closer relations with rural economy than the firms having marketing channels mainly with urban markets or overseas markets.

On Table 2-19, the rural industries are classified according to their dependence on rural areas, urban districts and overseas for their supplies of major raw materials over 50 percent. Another analysis is on their dependence for their marketing on rural areas, urban markets and overseas markets. The analysis is based on a survey of 268 rural factories conducted in 1979.

On Table 2-20, rural industries are classified into Group I and Group II according to their relationships

with rural economy. Group I includes the industries which depend on rural areas for their supplies of resources and marketing. Group II covers the industries which depend on urban and overseas markets in terms of the supplies of raw materials and sales of final products although their plants are located in rural regions.

Table 2-19 and Table 2-20 show that among the total 268 factories, 38.8% are included in Group I and a whopping 61.2% in Group II. Only 4.9% or 13 factories depend on rural areas for their supplies of resources and marketing. This statistics represent the fact that majority of industries located in rural areas is not the agro-related and/or rural-based industry.

Table 2-19. Classification of Rural Industry
by the Origin of Raw Material and
the Major Sales Market

Unit: No. of Factory				
Origin of Raw Material	Major Sales Market			Total
	Rural	Urban	Abroad	
Rural	13(4.9)	46(17.2)	32(11.9)	91(34.0)
Urban	9(3.3)	71(26.5)	53(9.8)	133(49.6)
Abroad	4(1.5)	11(4.1)	29(10.8)	44(16.4)
<hr style="border-top: 1px dashed black;"/>				
Total	26(9.7)	128(47.8)	114(52.5)	268(100.0)

Source: Yang Boo Choe, 'Rural Industrialization in Korea: Problems and Policy Issues', (Seoul: KREI, December 1979), p. 44, Table 2-7.

Table 2-20. Two Types of Rural Industry

Types	No. of Factories	%
Rural Oriented (Group I)	104	38.8
Rural Market & Rural Raw Materials	13	4.9
Rural Market	13	4.9
Rural Raw Materials	78	29.0
Non-Rural Oriented (Group II)	164	61.2
City-Oriented	71	26.5
Abroad-Oriented	29	10.8
City and Abroad- Oriented	64	23.9
<hr style="border-top: 1px dashed black;"/>		
Total	268	100.0

Source: Ibid., p. 41, Table 2-8.

CHAPTER III

GOVERNMENT POLICIES AND ISSUES : A MACRO-ANALYSIS

In the previous Chapter II. We reviewed the character and growth of rural industry in 1970s during which various industrial development programs had been established and implemented in Korea. Now we turn our focus to the government policies and issues for a macro-analysis. In this Chapter as already mentioned in Chapter I, our main concern is to identify what kinds of policies and programs have been established and executed for the last twenty years for the industrial development and then to classify them into several policy fields as desired. After that we review and assess those policies and programs in terms of rural industry development. Namely, what are the pressing issues of these existing policies and programs in ensuring the efficient rural industry development? That is the major theme of this chapter.

1. GOVERNMENT INDUSTRIAL DEVELOPMENT POLICIES AND PROGRAMS

The government industrial development policies implemented during the last two decades are generally represented by urban and export industry oriented policy and categorized into five major fields. These major fields of industrial development policies are: small and medium industry promotion policy; industrial location development policy; financial support policy; tax incentive policy; and institution building policy and accordingly characterized by a multipackage assistance policies. These multipackage industrial development policies are mutually and closely related, and illustrated in Figure 3-1.

1) Small and Medium Industry Promotion Policy

The Small and Medium Industry Promotion Policy formulated and implemented can be categorized into three subpolicy fields as summarized in Figure 3-2, which are accompanied by detailed programs: subpolicy for strengthening and modernizing the structure; subpolicy for management modernization and technology improvement; subpolicy for improvement of managerial environments. Each program is reviewed and discussed under the category of subpolicy field.

(1) Strengthening and Modernizing the Structure

This subpolicy has been pursued and tackled by the five specific programs such as specialization and systematization, support of professional mechanical workshop, support of facility modernization, encouragement

of affiliation, and mutual cooperation. Our concern is then to know how this program has been implemented in detail.

Figure 3-1. Five Fields of Multipackage Industrial Development Assistance Policies of Korea

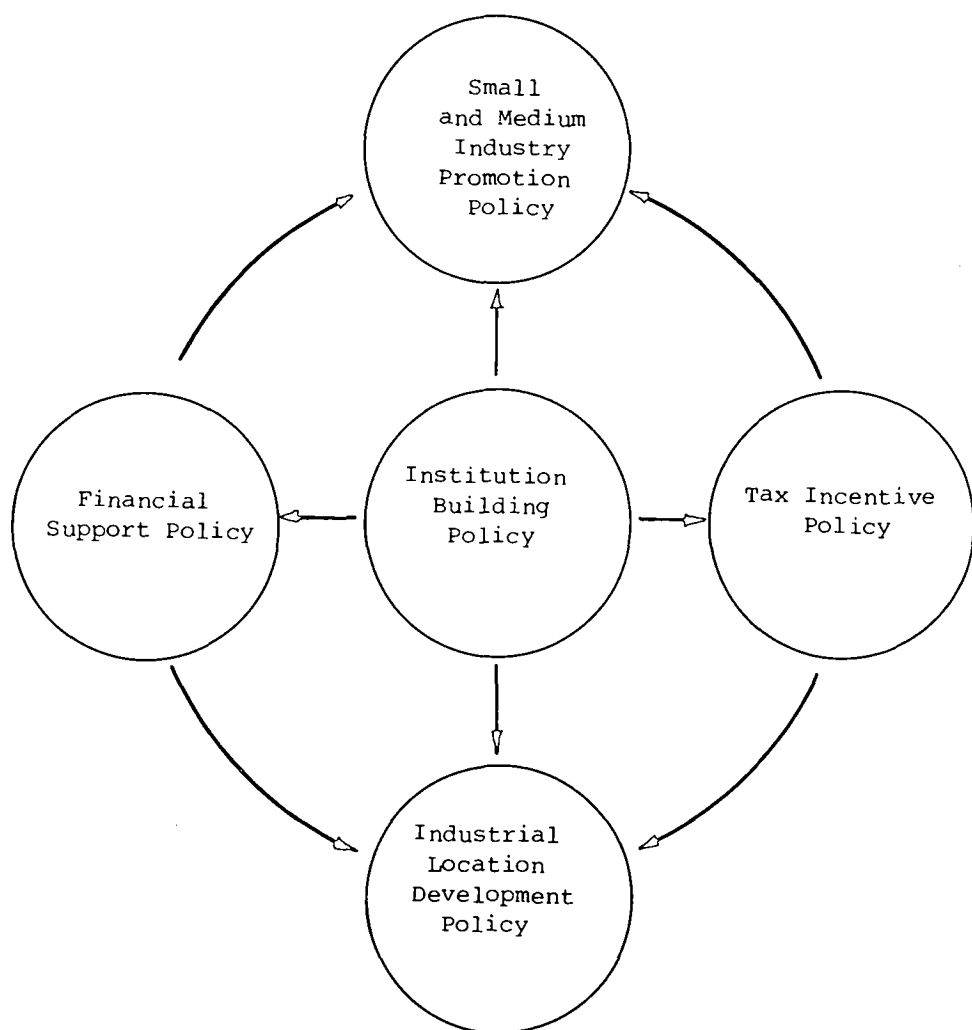
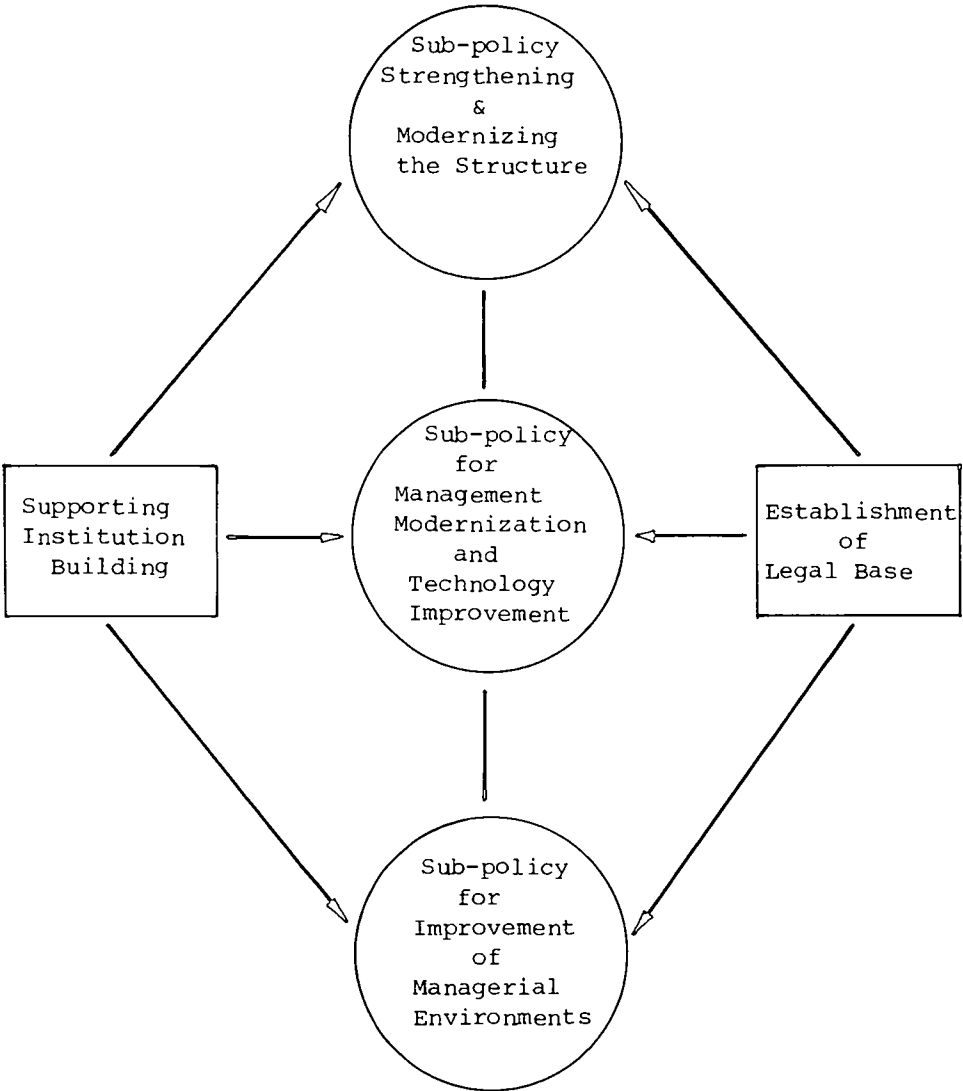


Figure 3-2. Three Sub-policy Fields of Small and Medium Industry Promotion Policy



A. Specialization and Systematization

To assure the specialization and systematization of the small and medium industries, the government first established the legal base by enacting the Small and Medium Industry Systematization Promotion Law in 1975. This law was designed to increase the investment efficiency and to ensure the high level of industrial structure by achieving the enlargement of the business fields of the small and medium industries, cost reduction and quality improvement through the inducement of the technically mutual-aid relationships and the establishment of the specialization systems in production between the large industries and small industries. The detailed strategic method specified in the law to accelerate specialization and systematization are as follows:

a. Formation Criteria of Systematization: The Ministry of Commerce and Industry sets up the formation criteria of systematization to be kept by the industries concerned regarding the following fields:

- o Clarity of ordering and ordering method of the mother industry
- o Facility modernization, technology improvement, and quality betterment of the contractor industry
- o Price-decision method, inspection method of products, and betterment of terms of trade, etc

b. Specification of Systematization Fields: Specification was made on such five special business fields as automobile parts and finished automobile, bicycle, electronics, farming machinery, and metalcutting machines.

B. Support of Professional Mechanical Workshop

In order to accelerate the specialization of the small and medium industry, a plan was established, aiming at selecting 500 professional mechanical workshops and supporting them concentratively during the period of 1976-1981. The plan has been conducted as follows:

- a. Selection of the Professional Mechanical Workshop
 - o Target Number of Selection - 500 Units
 - o Units Selected (1976-1978) - 201 Units
 - o Units Selected in 1979 - 117 Units
- b. Support Schedule
 - o Financial Support
 - Support of facility fund through national investment fund & foreign loan and
 - Support of working capital through special low-interest fund
 - o Guidance in Management and Technology by making use of machine and technology research corps.

C. Support of Facility Modernization

Financial Support: To promote the facility modernization, the long-term facility loan is now being extended for the substitution of the old and obsolete facilities and for the new facility investment. Especially special loan extension was made concentratively on the oldest textiles business facilities.

D. Encouragement of Affiliation

The affiliation was encouraged by establishing a tax support system to exempt the income tax and special value added tax on the incomes accruing from transferring the fixed assets for business through the affiliation.

E. Mutual Cooperation

- a. Enactment of a Law: The Small and Medium Industry Cooperative Law enacted in 1961 specially is geared for achieving the following objectives through the cooperatives:
 - o Complement of small scale and economic weakness
 - o Ensurance of mutual cooperation
 - o Structural betterment and strengthening of competitive power
- b. Various Joint Projects Start: Diverse joint projects have been undertaken in production, manufacturing, purchase, sale, etc.
- c. Support Institution Building: Mutual cooperative projects were designed to be facilitated and supported more actively by establishing the Small and Medium Industry Promotion Cooperation in 1979.

(2) Management Modernization and Technology Improvement

Productivity increase and quality improvement through the subpolicy of management modernization and technology improvement have been originally formulated and implemented only for the export promotion of the small and medium industries. For this purpose, many institutions and organizations have been structured.

A. Institutions in Management and Technology Guidance

This was first conducted by Small and Medium Industry Bank from 1962; National Federation of Small

and Medium Industry Cooperatives from 1964; and Korea Credit Guarantee Fund from 1976. In addition, presently many other institutions such as the Small and Medium Industry Promotion Corporation, The Industrial Advancement Administration, the Korea Federation of Small and Medium Industry, the Korea Chamber of Commerce and Industry, and the Citizens National Bank are involved.

B. Joint-Guidance by Small and Medium Industry Bank and UNDP

From 1967 to 1975 the Bank in collaboration with UNDP had contributed a lot to the improvement of management and technology.

C. Small and Medium Industry Promotion Cooperation

In 1979, the Small and Medium Industry Promotion Cooperation was built and has been exclusively involved in the projects for the management and technology guidance only for the small and medium industries.

D. Korea Design & Package Center

In 1970, the Institute was established especially for the development and improvement of the design and package of the exports goods as one leg for the high quality of exports goods and the increase of international competition power.

(3) Improvement of Managerial Environment

This subpolicy has been tackled by such two programs as business coordination and protection of contractor.

A. Business Coordination with Large Industries

a. Establishment of Legal Base: In 1978, the government revised and complemented the Small and Medium Industry Business Coordination Law with an aim to controlling the excessive competition among the small and medium industries and to regulating the large industries' entry into the business fields of the small and medium industries.

b. Protection of the special business fields of the Small and Medium Industries: The law prohibits the large industries from entering into the special business fields of the small and medium industries encouraged by the government like motor parts and carmaking, bicycle, TV set, agricultural machines, metal cutting machines.

c. Petition for Mediation to the Government: The small and medium industries are entitled to make a petition for a mediation to the government even though the other business fields except for the above business fields are affected seriously by the large industries.

B. Protection of Contractors

a. Establishment of Legal Base: Small and Medium Industry Contractors are made to be protected institutionally by making the Small and Medium Industry Systematization Promotion Law of 1975.

b. Financial Support: Both the industries systematized in the special business items specified and the Small and Medium Industry Cooperatives are made to be supported long-term fund with a low interest and administrative help preferentially.

c. Exchange of a Written Contract: When making a contract, the mother industry should give a written agreement containing consignment terms, total amount of money, payment method, payment date, inspection method, and other necessary terms.

d. Limitation of Payment Period: Payment for the goods received by the mother industry should be made within 60 days after receiving the goods.

e. Mediation of Dispute: When a dispute takes place between the industries contracted, it is made to be arbitrated by the Minister of MOCI upon the request.

f. Building an Inquiry Council: To review and investigate the systematization formation at the request of the Minister of MOCI, the inquiry council with one chairman and fourteen members is made to be established in the MOCT.

2) Industrial Locational Development Policy

During the last decade, quite many programs for the industrial locational developments have been formulated and implemented. When reviewing the characters of these programs, they are classified into three sub-policy fields, i.e., industrial decentralization; industrial development promotion; and efficient land use. The industrial location development policy has been conducted with the balanced regional development in mind

and for which each program is supported by the specifically introduced legal frames. The subpolicy fields are illustrated in Figure 3-3.

(1) Industrial Decentralization

This subpolicy has been pursued mainly by two programs, i.e., regional industry development and industrial relocation program.

A. Regional Industry Development Program

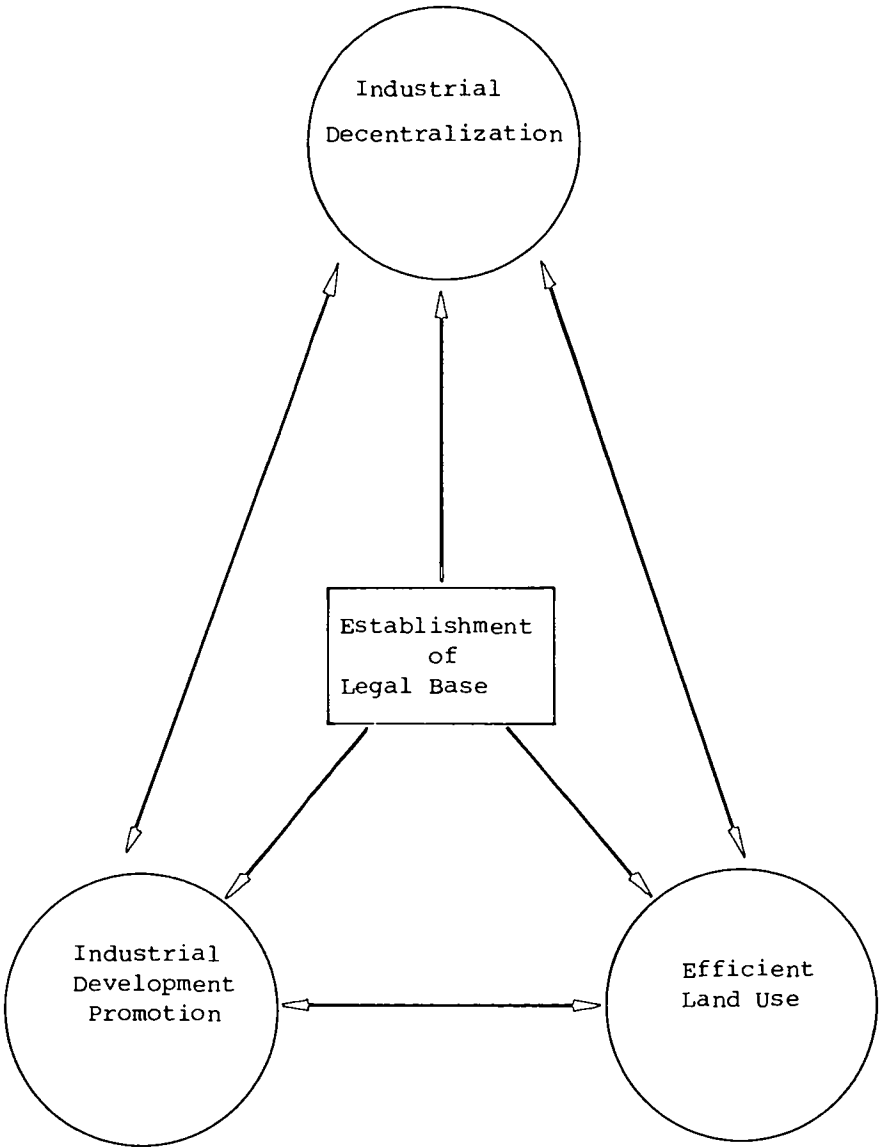
a. Objective: this program was established to promote the proper decentralization of the industries densely populated in and around the large cities.

b. Establishment of Legal Base: For the program objective, Regional Industry Development Law was established in 1970.

c. Designation of Industrial Development Encouraged Area: Specially for the purpose pursued, the industrial development encouraged area is designed to be appointed by the Minister of the Ministry of Construction (MOC) directly or at the request of provincial governor through the Minister of the Ministry of Home Affairs (MOHA) among the industrially depressed areas with the appropriate locational conditions after the discussion with the other ministers related. The required area size to be designated is not less than $100,000\text{m}^2$ for the inland estate and $200,000\text{m}^2$ for the coastal estate. The total number of areas designated as of March, 1979 were 15 areas as shown in Table 3-1.

d. Building of an Inquiry Council: When the Minister of the MOC wants to appoint an area as an industrial

Figure 3-3: Three Sub-policy Fields of Industrial Location Development Policy of Korea



development encouraged area, the Minister has to put a prospective area on discussion at the Inquiry Council of the Regional Industry Development specially built for the purpose concerned in the MOCI.

e. Construction of a Factory: Those who want to construct the factories on the industrial development encouraged area should get a location appointment by the provincial governor.

f. Tax Support: To induce many industries, the industries located on the encouraged area are designed to be favored tax reduction in acquisition tax, property tax, registration tax and corporation tax within 5 years (Table 3-2).

B. Industrial Relocation Program

a. Objective: The main objective of this program is to prevent industries from concentrating on some certain & specific areas and in some large cities excessively through encouraging relocation.

b. Establishment of Legal Base: To achieve the program objective, Industrial Location Law was built in 1977.

c. Industrial Location Plan and Designation of Accommodation Area: According to the above law the minister of Ministry of Commerce and Industry (MOCI) is to make an industrial location plan on the whole country and to appoint the area needed to be accommodated concentratively among the areas with the suitable locational conditions as an accommodation area through the discussion of the related ministries. On the other hand, for the accommodation area, the law prescribes the regional

Table 3-1. Regional Industry Development Encouraged
Areas Designated as of March 1979.

Industrial Estates	Location	Date Designated	Urban/Rural	
			Urban (City)	Rural (Eup, Myeon)
Chuncheon	Chuncheon-city Kangwon	May, 1973	0	
Wonjoo	Wonjoo-city, Kangwon	"	0	
Kwangjoo	Kwangjoo-city, Jeonnam	"	0	
Mokpo	Mokpo-city, Jeonnam	"	0	
Cheongjoo	Cheongjoo-city Chungbuk	August, 1978	0	
Daejeon	Daejeon-city Chungnam	August, 1975	0	
Jeonjoo	Jeonjoo-city Jeonbuk	"	0	
Iree	Iree-city, Jeonbuk	January, 1976	0	
Suncheon	Seo-myeon, Seungjoo-gun Jeonnam	April, 1977		0
Jinjoo	Jinjoo-city, Gyungnam	December, 1977	0	
Yangsan	Mulgeum-myeon, Yangsan-kun, Gyungnam	"		0
Kunsan	Kunsan-city, Jeonbuk	June, 1978	0	
Yeosoo	Yeosoo-city, Jeonnam	July, 1978	0	
Banwol	Banwon-myeon, Shiheung-gun, Gyunggi	August, 1978		0
Nongong	Nongong-myeon Dalsung-gun, Gyungbuk	March, 1979		0
Total			11 (73.3%)	4 (26.7%)

Source: EPB, "Selection of Prospective Inland Industrial Estates and
A ppointment of Regional Industrial Development Encouraged Areas
(Tentative Action Plan)", Annex 4, 1979.

Table 3-2. Details of Tax Support Program for
Industrial Development Encouraged Area

	Tax Reduction		Remarks (Tax Reduction and Exemption Act)
	Shifted Factory	Newly Constructed Factory	
Acquisition Tax	100% exemption for the property acquired within 5 years	100% exemption for the property acquired within 2 years	Item 2, Article 10
Property Tax	100% exemption for the property acquired for 5 years	100% exemption for the property acquired for 5 years	Item 6, Article 9
Registration	100% exemption for 5 years	100% exemption for only one registration	Item 2, Article 5
Corporation Tax (Income Tax)	100% exemption within 3 years and 50% reduction within the next 2 years		Item 8, Article 4

Source: MOCI, "Selection of Prospective Inland Industrial Estates and
Appointment of Regional Industrial Development Encouraged Areas
(Tentative Action Plan)" Annex 2, 1979

Industry Development Encouraged Areas already appointed by the program of regional industry development program may be considered as the Accomodation Areas.

d. Measures for the Densely Concentrated Area of the Industries: The minister first classified the densely concentrated areas into two areas, i.e., shift-promotion area, and limitation and rearrangement area.

e. Order to Shift and Limitation of Factory Construction: The minister selects the so-called non-urban type industries on the shift-promotion areas which needs to be shifted and order them to shift to the Accomodation Area or to the other areas. In the area of construction limitation and rearrangement, factory construction and expansion is strongly prohibited. A total of non-urban type 75 factories on the shift-promotion areas, i.e., 74 from Seoul and 1 from Gyunggi have been ordered to shift to the Banwol Industrial Development Encouraged Area as of Mar. 30, 1979.^{1/}

f. Tax Support: Shifting of the factories located in the shiftpromotion area, limitation & rearrangement area, and the special rearrangement area of the industry is further urged by the tax reduction in acquisition tax, property tax, registration tax and corporation tax (Table 3-2).

^{1/} Industrial Location Inquiry Council, MOCI, "Factory Shift Order Plan for the Factories Contracted to Locate in Banwol Industrial Area (Tentative Action Plan)", March 30, 1979.

g. Financial Support: The shifting of industries are also made to be supported financially if necessary regarding the following expenses subject to the Fund Management Special Regulation:

- o Factory site building expenses
- o Factory shifting expenses
- o Factory construction expenses
- o Other expenses caused by shifting

h. Building an Industrial Location Inquiry Council: To review and examine the crucial problems resulting from the prescription of this law like factory relocation and locational adjustment, a special inquiry council named Industrial Location Inquiry Council is designed to be built in the MOCI.

(2) Industrial Development Promotion

The industrial development subpolicy in relation with locational development has been pursued by three programs such as heavy industry development program, export-oriented industry development program and rural industry development program.

A. Heavy Industry Development Program

a. Objective: The ultimate purpose of this program is to promote such heavy industries as steel-making, ship-building and oil-refining.

b. Enactment of Industrial Site Development Promotion Law: For the accomplishment of the objective stated above, the program was designed to be supported institutionally by establishing "Industrial Site Development Promotion Law" in 1973.

Table 3-3. Industrial Site Development Areas
Appointed as of May 31, 1979

Industrial Bases	Area	No. of Factories Constructed	Remarks
	1,000 pyung*		
Changwon	6,450	122	
Yeocheon	5,510	17	
Onsan	5,419	14	
Kumi	3,782	204	
Pohang	6,070	50	
Ulsan	11,460	104	
Okpo	1,380	1	Under Expansion (1978-1981)
Jukdo	1,500	1	
Bukpyung	3,600	6	
Total	45,171	519	

* 1 pyung is approximately $3.3m^2$

Source: EPB, "Problems and Situation of Industrial
Estate Development Institutions (Unpublished)",
July 16, 1979, p. 11.

c. Designation of Industrial Site Development Area: Accordingly the area exclusively geared for fostering the heavy industry was made to be appointed as an Industrial Site Development Area by the Minister of MOC. As of May 31, 1979, Industrial Base Development Areas have been appointed and developed (Table 3-3).

d. Establishment of Industrial Site and Water Resources Development Corporation: To carry out the objectives in question like industrial site development projects and water resources development projects more efficiently, a special organization named Industrial Site and Water Resources Development Corporation has been organized since 1974.

e. Tax Support: This policy program is also designed to be promoted by supporting the developers through the tax reduction subject to the Tax Reduction and Exemption Act. When the developed land or supporting facilities are transferred to the others, acquisition tax and registration tax are also made exempted subject to the Act.

B. Export-Oriented Industry Development Program

a. Objective: Though the government has put diverse efforts to promote and encourage exports in many ways and especially through this program more systematic and efficient export-promotion policy has been aimed. The program is designed to be implemented by the following details:

b. Enactment of Free Export Zone Development Law: The objectives of this program were also made to be attained by the establishment of the Free Export Zone Development

Law in 1970.

c. Appointment of Free Export Zone: To increase agglomeration effect and to induce foreigner's investment, a free export zone is planned to be appointed on a specific area bordering the sea. Appointment of free export zone is made by the Minister of MOCI among the prospective areas selected by the minister of MOC in cooperation with the Minister of MOHA. So far, two free export zones, i.e., Masan Free Export Zone and Iree Free Export Zone have been appointed (Table 3-4).

d. Limitation of Factory Construction: On the zones, only the factories producing the goods for the export and the factories invested by a foreigner alone or joint-ventured are allowed to be constructed.

Table 3-4. Free Export Zones Appointed as of May 31, 1979

Free Export Zones	Areas	No. of Factories Constructed
	1,000 pyung	
Masan	260	97
Iree	106	16
<hr/>		
Total	366	113

Source: EPB, "Problems and Situation of Industrial Estate Development Institutions (Unpublished Study)", July 16, 1979, p. 11.

C. Rural Industry Development Program

a. Objective: The immediate objective of this program is to increase the farm household income by accommodating industries in rural areas.

b. Establishment of Rural Industry Development Regulation: In 1973 to institutionalize this program, the regulations were made and have been in effect.

c. Construction or Appointment of a Saemaul Factory: A Saemaul factory is newly constructed or appointed among the existing factories which meet the terms and conditions of qualification by the minister of MOCI at the request of a provincial governor. A total of 704 factories have been constructed or appointed as of May 1, 1980 (Table 3-5)

d. Limitation of Business Field: To increase the spread effect, special concern is placed on the field of business. Subsequently the factory should deal with one of the following business fields in which

- o the raw materials can be supplied directly from the rural areas;
- o the production process is simple and labor-intensive;
- o systematization can be made with large factory; and
- o other prospective business fields promising to ensure rural income increase.

e. Location of the Factory: More than one Saemaul Factory can be constructed in one "myeon" or "eup" administrative unit. In case, however, the myeon or eup is judged to be unsuitable locationally, it is excluded. In principle, the saemaul factory should be built in rural

Table 3-5. Saemaul Factories Appointed by Year
and Province as of May 1, 1980

Province/Year	1973	1974	1975	1976	1977	1978	1979	1980	Total	(%)
Pusan	1	-	2	1	-	-	-	-	4	(0.6)
Gyunggi	27	22	45	52	23	30	34	9	242	(34.4)
Gangwon	7	4	2	4	4	1	8	-	30	(4.3)
Chungbuk	5	10	2	1	2	9	13	-	42	(6.0)
Chungnam	12	10	2	5	8	13	16	1	67	(9.5)
Jeonbuk	7	3	3	6	2	2	4	2	29	(4.1)
Jeonnam	4	11	2	-	7	8	26	7	65	(9.2)
Gyungbuk	29	12	19	21	7	14	18	3	123	(17.5)
Gyungnam	17	26	10	8	5	13	17	2	98	(13.9)
Jejoo	1	1	1	-	-	-	1	-	4	(0.6)
Total	110	99	88	98	58	90	137	24	704	(100.0)

Source: Korea Rural Industry Development Center, 「List of Saemaul Factories」, May 1980, P. 3.

areas, so that the following areas are excluded:

- o City with more than 200,000 people
- o Area where industrial development areas are limited
- o Industrial Site Development Zone
- o Area specially reserved by the governor upon the approval of the Minister of MOCI

f. Qualification of Saemaul Factory: To be appointed as a saemaul factory, terms and conditions of qualification vary depending upon whether it is an already established factory or a newly established one. Terms and conditions of appointment are given as follows

Existing Factory

- o An export-goods producing factory which exported more than 0.5 million U.S. dollars in the preceding year or promised to export
- o A domestic market oriented factory which recorded more than 0.2 billion won in sales confirmed by the Tax Office concerned in the preceding year and judged to be no deficit in management for the last three years

New Factory

- o A factory with the approval of joint-venture by the Minister of EPB
- o A factory confirmed by an official financial organization to have the ability to supply fund and to manage.

Others

A factory other than one of the above factories which already proved to be a sound one by the Minister of MOCI.

g. Government Support: To construct and manage a saemaul factory, the followings are supported:

- o Loan of facility fund and working capital needed in factory construction and management (Table 3-6).
- o Aid of construction cost of the saemaul factory to be constructed in an exemplary saemaul village
- o Support of skilled manpower training and technology development.
- o Reduction in property tax and acquisition tax (Table 3-7).
- o Other preferential administration supports such as farm land transformation for factory site, factory construction, electricity, communication, raw material, marketing in home & abroad, technology and design development, and others.

h. Establishment of the Korea Rural Industry Development Center (KRIDC): To administer all the details of the program exclusively and to tackle all the issues and problems resulting from the saemaul factories more efficiently, KRIDC was founded, but which has been affiliated into the Small and Medium Industry Promotion Corporation since January, 1980.

Table 3-6. Financial Support Schedule of
Saemaul Factory

Fund Source	National Investment Fund	
Kinds of Fund	Facility Fund	Working Capital
Loan Period	Repayment within 8 years with 3 year grace period	Repayment within 3 years with one year grace period
Interest	12% p.a.	12% p.a.
Loan Amount	Up to 70% of the needed fund but less than 0.1 billion won	Up to 50% of the needed fund but less than 30 million won
Loan Agent	Small and Medium Industry Bank, Seoul Trust Bank, Agricultural Cooperative, Local Bank, and Other Banks.	

Source: KRIDC, "Guideline of Saemaul Factory Construction," 1979, p. 51.

(3) Efficient Land Use

There are two specific industry location development programs specially geared for assuring land use efficiency. One is for efficient country land use and management and the other for urban land use. To ensure the successful achievement of the objectives specified, these policy programs have also been further reinforced by the establishment of legal base.

Table 3-7. Tax Support Schedule of
Saemaul Factory

Legal Base		1. Item 1 & 2, Article 7, Local Tax Law
		2. Tax Ordinance No. of the Ministry of Home Affairs: 181.5-669 (Mar. 30, 1973)
		3. Ordinance of Each City & Province
Tax	Property Tax	100% Exemption up to Dec. 31, 1976
	Acquisition Tax	100% exemption in the starting year and 50% exemption for the next 3 years.

Source: KRIDC, 「Guideline of Saemaul Factory Construction」,
1979, p. 72.

A. Efficient Country Land Use and Management Program

a. Objective: The objective of this program is to assure the balanced country land development and to keep our environment sound and comfortable through the efficient land use catering to the specific conditions and characteristics of the region and the conservation of surroundings, giving its first priority to public welfare because the country land is so limited resource and living base for her people all as well. Hence, this is an efficient land use planning for the whole country land, which in turn serves as a basic guideline to all the other land use programs.

b. Enactment of Country Land Use and Management Law: This policy program has been effective since 1973 with the establishment of Land Use and Management Law.

c. Type of Land Use: According to the program, the country is made to be designated one of the following six types of land use on the basis of the close analysis of the whole country. According to this law, industrial region for the concentrative industry development is made to be developed separately.

- o Urban region
- o Agricultural region
- o Forestry region
- o Industrial region
- o Conservation region
- o Reserved region

d. Country Land Use Planning: Overall Country land use planning is made by the Minister of MOC complying with the Country Land Construction Comprehensive Plan.

Then, a detailed land use planning of the region is made by the provincial governor concerned and finalized by the confirmation of the Minister of MOC.

As of the end of 1980, 35% of the total land had been plan-affected. Details of the country land use planning are presented on Table 3-8.

B. Urban Land Use Program

This program is a detailed land use plan about the urban area appointed by the Country Land and Management Law.

a. Objective: It is therefore the purpose of this program to make and keep our city pleasant and comfortable to live in under the situations in which the city is

sprawling disorderly enough to be uncontrollable.

b. Enactment of Urban Planning Law: Accordingly the necessity of efficient urban land use was highly emphasized. Finally in response to the necessity, the Urban Planning Law was established in 1971.

Table 3-8. Type of Country Land Use Plan by the Country Land Use and Management Law as of Dec. 1980.

Type of Country Land Use Plan	Planned Area (B)	Total Country Land (A)	B/A (%)
Agricultural Region	8,221 ^{km²}		8.3
Forestry Region	15,819	98,955 ^{km²}	16.0
Industrial Region	20		0.02
Urban Region	8,724		8.8
Conservation Region	11,596		1.6
Reserved Region	148		0.15

Total	34,528	98,955	34.9

Source: MOC (Unpublished Tentative Data), 1980.

c. Area to be affected by the law: "City" and "Eup" are made to be planned subject to this law.

d. Type of Urban Land Use Plan: According to the Law, urban land is made to be utilized as one of the four land uses taking the characteristics of the area

into consideration by the Minister of MOC:

- o Residential area
- o Commercial area
- o Industrial area
- o Green-belt area

As a result, industrial area is made to be appointed and developed separately in a city or an eup in terms of efficient urban land use and comfortable & sound city construction.

The industrial estates developed by the Law as of May 1979 are such four estates as Incheon, Sungnam, Daegu, and Pusan (Table 3-9).

Table 3-9. Industrial Estates Made by the Urban Planning Law as of May 1979

Estates	Area	No. of Factories	Remark
	1,000 pyung		
Incheon	361	41	
Sungnam	484	141	
Daegu	1,507	515	
Pusan	4,678	1,152	Sasang, Janglim, Shin Pyung
<hr/>			
Total	7,030	1,849	

Source: EPB, "Problems and Situation of Industrial Estate Development Institutions (Unpublished)", July 16, 1979, p. 11.

e. Target Area of the Law: In principle, "City" and "Eup" administrative units are made to be subject to the Law. The areas other than "City" and "Eup" are also affected by the Law when the Minister of MOC judges they are necessary to be urban-planned or at the request of the major of the city or the head of eup concerned.

f. Urban Land Use Planning: Urban Land Use Planning is made by the major or the head of eup concerned, or by the Minister of MOC when necessary in relation with the country land use planning.

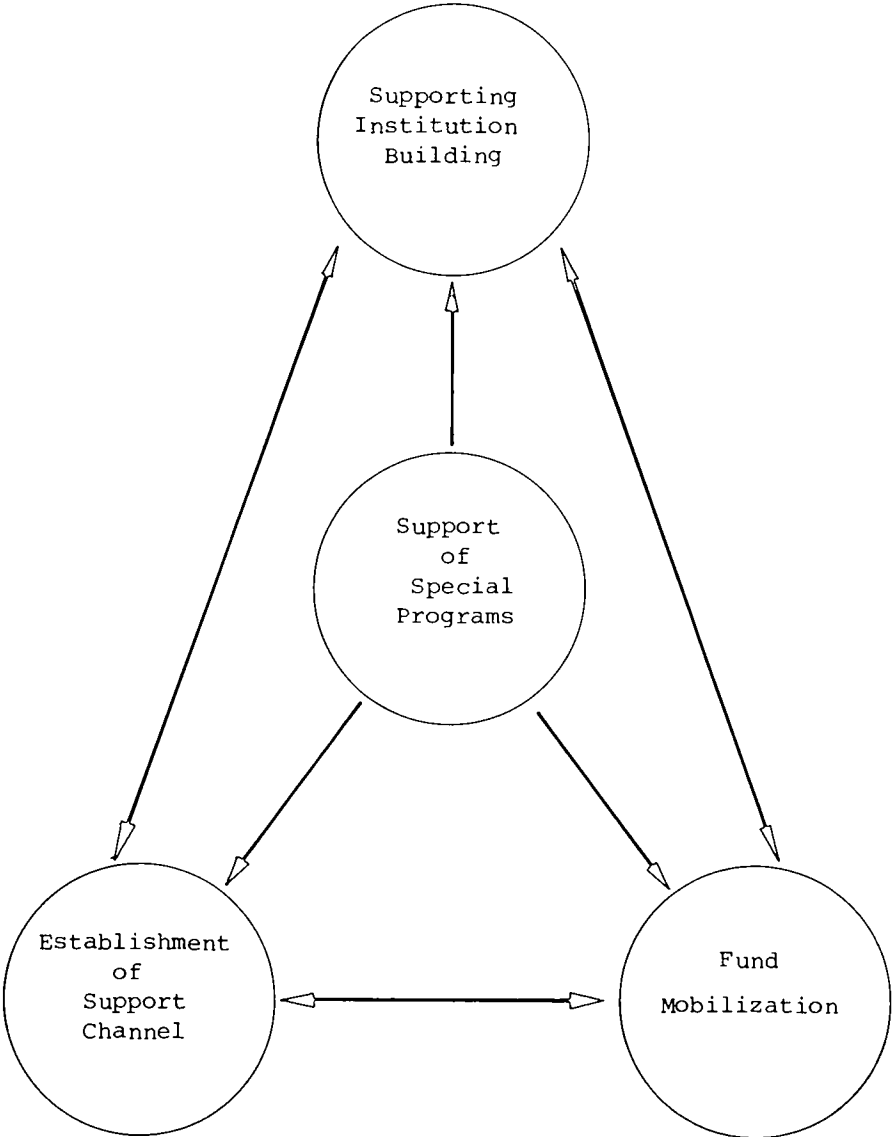
3) Financial Support Policy

Through the foregoing review, it has been noted that almost all policy programs are supported financially. When reviewing, however, these financial support systems, it is characterized that the financial support policy is administered on the basis of the closely-linked four subpolicy fields: supporting institution building; establishment of support channel; fund mobilization and support of special programs (Figure 3-4).

(1) Supporting Institution Building

To administer financial support programs, four special supporting institutions have been established. In 1961, the Small and Medium Industry Bank was established in 1962, the Citizens National Bank; in 1976, Korea Credit Guarantee Fund; and in 1979, the Small and Medium Industry Promotion Corporation.

Figure 3-4. Four Sub-policy Fields of Financial Support Policy



(2) Establishment of Support Channel

Through these fund supporting institutions building, a fund support channel have been established. The independent economic activities and the stability of the small and medium industries have been upgraded by the establishment of Small and Medium Industry Bank. The Citizens National Bank was established to deal with small loan with an aim to complementing and supporting the capital pettiness of the small and medium industries, which in turn will assure the economic growth and improvement of the working classes and will lay a foundation of the small and medium industry financial support system.

In 1965, general city banks were urged to participate positively in small and medium industry by making them loan more than 30% of their total advanced (local bank, 40%) to the small and medium industries.

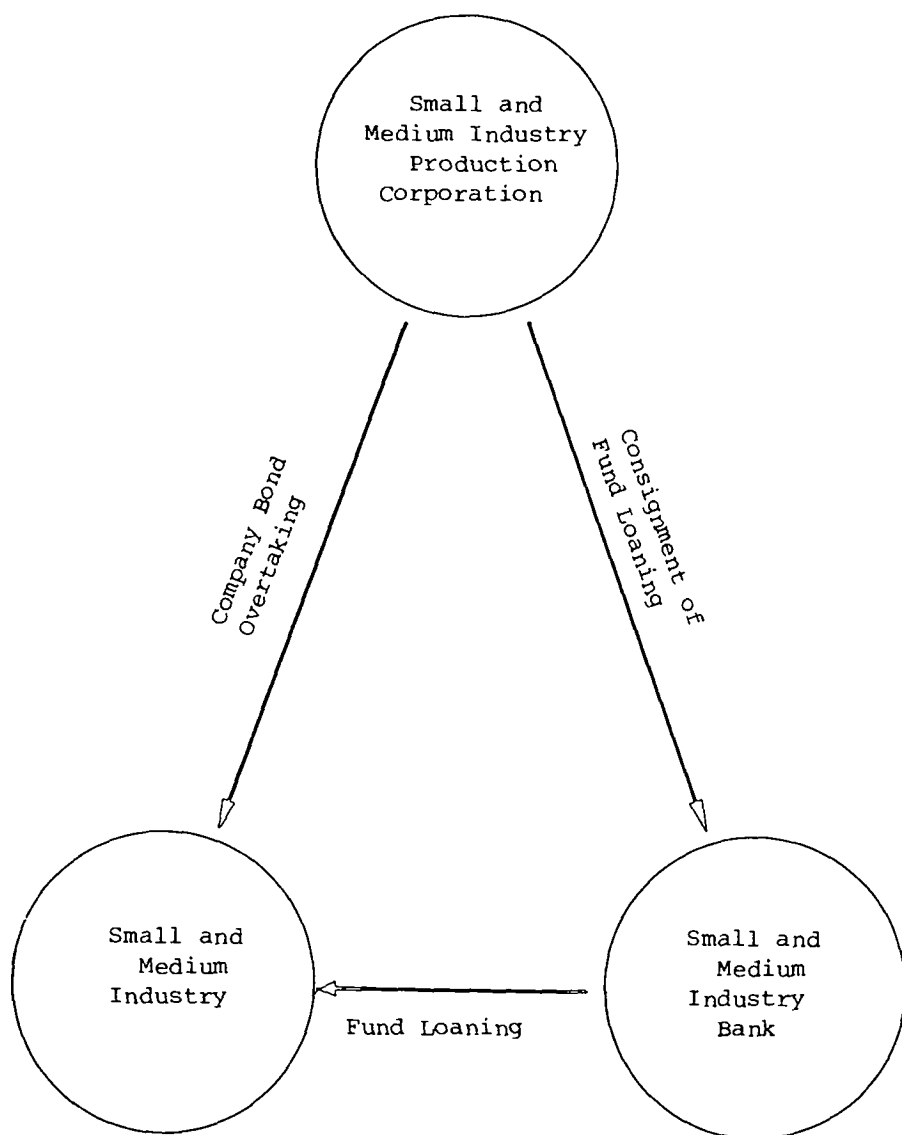
In 1976 to facilitate and expand the credit guarantee system, Korea Credit Guarantee Fund was founded. Financial supports are extended in the form of fund-loaning by the Small and Medium Industry Bank and company-bond overtaking by the Small and Medium Industry Promotion Corporation. This fund supply channel is illustrated in Figure 3-5.

(3) Fund Mobilization^{2/}

To extend financial support, five kinds of fund are mobilized. They are Small and Medium Industry Promotion Fund, Small and Medium Industry Special Fund, Foreign Loan

^{2/} Small and Medium Industry Promotion Corporation, Korea Small and Medium Industry, June 1979, pp. 35-41.

Figure 3-5. Fund Supply Channel



Source: Small and Medium Industry Promotion Corporation, 「Korea Small and Medium Industry」, June 1979, P.35, Figure 10.

Fund, National Investment Fund, and Credit Guarantee Fund.

A. Small and Medium Industry Promotion Fund

This fund, for which the government has started investing since 1979, is specially mobilized for the modernization and mutual cooperation projects of the small and medium industry. As of June 1979, 26.5 billion won had been mobilized i.e., 20 billion by the government and 6.5 billion by the private. The fund extension of 1979 is presented in Table 3-10.

B. Small and Medium Industry Special Fund

This fund have been extended to accelerate the government policy of small and medium industry promotion more strongly. To this end, this fund is again divided into three funds such as policy fund, special low-interest fund, and general small and medium industry fund. The support schedule of each fund is given on the following Table 3-11, 3-12 and 3-13.

c. Foreign Loan Fund

Small and Medium Industry fund is also financed by the active introduction of foreign loan fund of the small and medium industry bank to promote the modernization and international competitive power of the small and medium industries. The loan schedule of this fund is shown on Table 3-14.

D. National Investment Fund

The fund has been specially extended to the 500 selected small and medium sized professional mechanical

Table 3-10. Loan Schedule of Small and Medium Industry
Promotion Fund in 1979

Field of Support	Support Scale	Fund Use	Fund Limit Per Unit	Loan Period	Annual Interest Rate	Object to be Loaned
	Million won		Million won			
Professional Small and Medium Mechanical Workshop	8,000	Working Capital	50	2 year Lump-sum Redemption	15	Units Appointed (A total of 266 Units)
Systematization- Appointed Industry	2,700	"	20	"	"	Unit Systematized and Approved by the Minister of MOCI
Exemplary Industrial Estate Construction in Small and Medium City	1,438	Land Procurement & Construction	600.13 for Chunahn; 400.47 for Jung Eup; 300.78 for Najoo	8 Two equal repayment every year for 8 years with 3-year grace period	11	Industrial Estates Selected (Chunahn, Jung Eup, and Najoo)
Saemaul Factories	2,000	Working Capital	30	2 Lump-sum Redemption	11	Only the Units Producing Exports Goods and Daily Necessities Excluding the Units in Cities
Traditional Handicraft Producing Industry	1,000	Facility Fund	50	8 Two equal Repayments every year for 8 years with 3- year grace period	13	Units Meeting the Special terms Spec- ified by Small and Medium Industry Promotion Corporation among the Appointed Units
Export Raw Stone Storage	2,000	Raw Stone Procurement	Fund Needed for procuring 3 month	0.5 Lump-sum Redemption	10	Units Joined in Jewelry Cooperative in Iree Industrial Estate

Source: Small and Medium Industry Promotion Corporation, "Korea Small and Medium Industry", June, 1979, pp. 35-36.

Table 3-11. Loan Schedule of Special Low-Interest Fund

Field of Support	Fund Use	Fund Limit Per Unit	Loan Period	Annual Interest Rate	Responsible Bank
		Million won	Years		
Export Facility	Facility Fund	1.5	5 with 2 Year Grace Period	15.0% Up to 3 Years	Small & Medium Industry Bank
Industrial Units on the Banwol Industrial Estate	"	2	8 with 2 Year Grace Period	16.0% Between 3 and 8 Years	"
Welfare Factory in the Veterans Community	"	1	3		"

Source: Small and Medium Industry Promotion Corporation, "Korea Small and Medium Industry", June 1979,
P. 37, Table 28.

Table 3-12. Loan Schedule of General Small and Medium Industry Fund

Field of Support	Fund Use	Fund Limit Per Unit	Loan Period	Annual Interest Rate	Responsible Bank
		M lion won	Year		
Export Facility	Facility and Capital Fund	1.5	5-year Equal Redemption with 2-year Grace Period	18.5 within three years	Small and Medium Industry Bank, The Citizens National Bank, 5 Other City Banks, 10 Local Banks
Welfare Factory in the Veterans Community				19.5 in Between 3-8 Years	
Others	Capital Fund	1 for Facility 0.5 for Capital	3 years for Facility Fund; 2 Years for Capital Fund	18.5	

Source: Small and Medium Industry Promotion Corporation, "Korea Small and Medium Industry", June 1979,
P. 37, Table 29.

Table 3-13. Loan Schedule of Policy Fund

Field of Policy	Fund Use	Fund Limit Per Unit	Loan Period	Annual Interest Rate	Qualification	Responsible Bank
		Million won	Year			
Export Facility	Facility Fund; Capital Fund for Cooperative	1.5	5 Years with 2 Year Grace Period for Facility Fund; 3 Years for Capital Fund	15% Within 3 Years; 16% in Between 3-8 Years	Member Industry of Small and Medium Industry Cooperative	Small and Medium Industry Bank
Business Transfer from Affiliation	"	"	8 Years with 3 Year Grace Period for Facility Fund	"	"	"
Application of New Technology	"	"	"	"	"	"
Promotion of Systematization	Facility Fund	2.0	8 Years with 3 Year Grace Period	"	"	"
Cooperative Project	Capital Fund	Changeable to MOCI Notice 10661		"		
Successful Unit in Industry Saemaul Undong	Facility Fund	2.0	8 Years with 3 Year Grace Period	"	Unit Recommended by the Minister of MOCI as a successful unit	"

Source: Small and Medium Industry Promotion Cooperation, 'Korea Small and Medium Industry', June 1979.
P. 37, Table 30.

Table 3-14. Loan Schedule of Foreign Loan Fund

Field of Support	Fund Use	Fund Limit Per Unit	Loan Period (Grace Period)	Annual Interest Rate	Responsible Bank
Export Industry	Facility and Parts Import	90% of the Estimated Fund	7 Years (2-4 Years)	Up to 3 Years Libo + 0.75%	Domestic Foreign Currency Dealing Banks
Defense Industry Oriented Planned Shipbuilding	"	"	10 Years (2-4 Years)	3-7 Years Libo + 0.875%	Foreign Bank Branches
				Over 7 Years	General Finance Companies
Others	"	"	7 Years (2-4 Years)	Libo + 1.0%	Korea Industry Bank

Source: Small and Medium Industry Promotion Corporation, "Korea Small and Medium Industry", June 1979,
P. 39, Table 31.

factories as one leg of concentrative promotion of the mechanical industry. In addition, this fund is preferentially extended to Saemaul factory, export facility, and general machinery and plant manufacturing industries.

E. Credit Guarantee Fund

This fund has been initiated with special emphasis on strengthening and complementing the weak mortgage ability of the small and medium industry, so that the fund can be efficiently extended on the basis of credit guarantee to the relatively small industries which are weak in mortgage ability. The ceiling of the credit guarantee for a unit is 0.3 billion won.

(4) Support of Special Program

Moreover, the government established a legal base of "Small and Medium Industry Fund Usage Rule" in 1975 in order to make the fund extended to the small and medium industries being supported by the government special policies and to control the fund more efficiently by legislating it. As a result, the rule prescribes the fund to be used in the following policy programs for the small and medium industries:

- A. Specialization and systematization
- B. Appropriateness of the firm scale
- C. Export-industrialization
- D. Management improvement and development
- E. Cooperatives projects
- F. Estate-building and facility modernization
- G. Management Stability

- H. Business Transformation
- I. Application of the new technology
- J. Promotion of the specialization business items

4) Tax Incentive Policy

In case of tax incentive policy, it is also recognized that they have been worked out to administer and push the government policy programs more efficiently. The government efforts related with tax incentive policy are characterized by Figure 3-6. They are "enlargement of tax reduction objects", "revision of taxation laws", "support of the government special programs" and "Support of Special Programs".

(1) Enlargement of Tax Reduction Objects

In order to make more industrial units benefit from the tax support programs, the legal range of the small and medium industry has been enlarged up to 0.3 billion won and 300 employees in total assets and employee scale respectively.

(2) Revision of Taxation Laws

In necessary in implementing and conducting the government policy, it is made that the law concerned can be revised.

(3) Support of Special Programs

It is general phenomena that the government special policy programs have been further accelerated in almost all cases in close relation with the tax support programs. These are introduced as follows:

Figure 3-6. Four Sub-policy Fields of Tax Incentive Policy

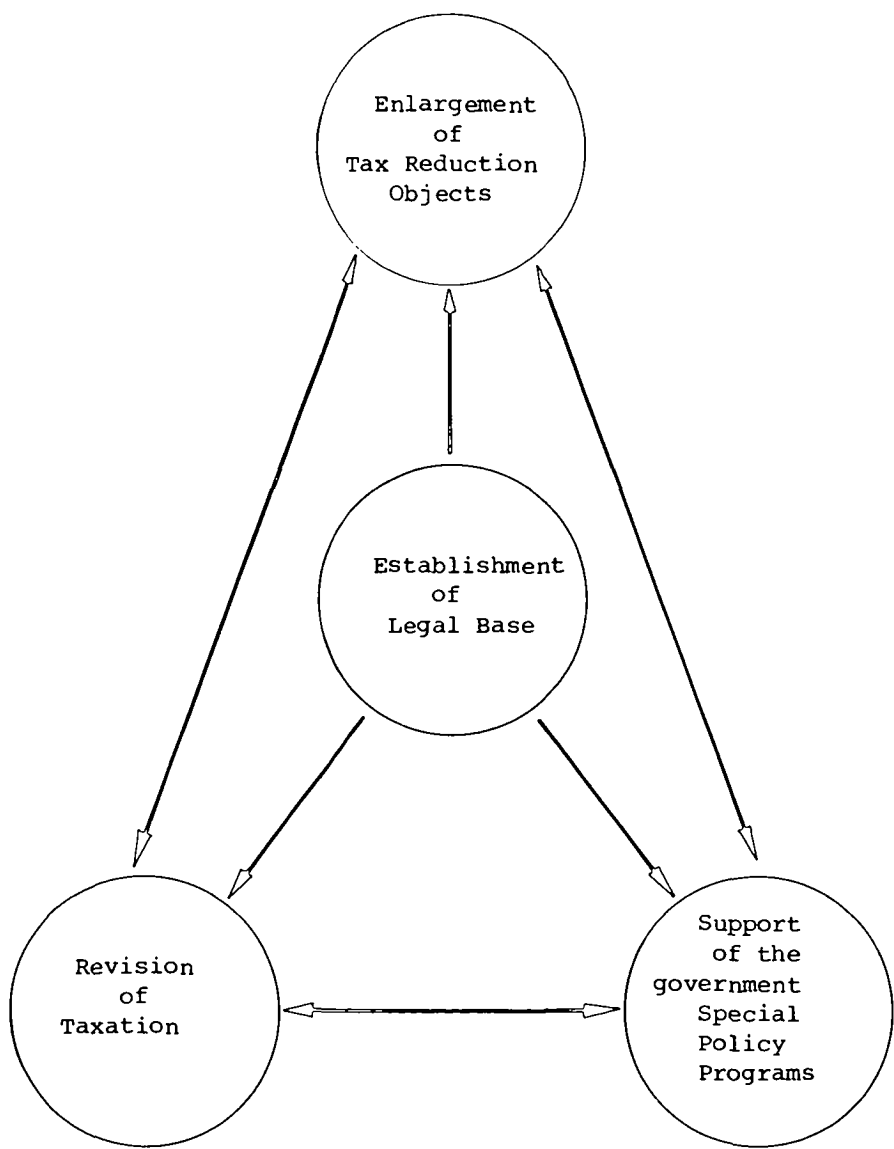


Table 3-15. Loan Schedule of National Investment Fund

Field of Support	Fund Use	Fund Limit Per Unit	Loan Period (Grace Period)	Annual Interest	Responsible Bank
Million won					
Professional Mechanical Workshop	Facility Fund	2.0	8 Years (3 Years)	Up to 3 Years 15.0% 3-8 Years 16.0	All Banks except for the Citizens National Bank and the Housing Bank
Saemaul Factory	"	1.0	"	"	
Export Facility	"			"	
General Mechanics	"	2.0	5 Years (3 Years)	"	
Plant	"	10.0	8 Years (3 Years)		

Source: Small and Medium Industry Promotion Corporation, "Korea Small and Medium Industry", June 1979,
P. 39, Table 32.

a. Facility replacement reserve fund system:

If a unit reserves some fund for the facility replacement, the fund equivalent is deducted from the total income of the year concerned.

b. Increase of Depreciation Rate: Investments of the small and medium industries are promoted and encouraged more positively than ever by increasing the special depreciation rate of the machines up to 50%.

c. Overseas Market Development Reserve Fund:

Two percent which was one percent previously of the total amount of exports or overseas projects are made to be reserved for the overseas market development, which in turn is deducted from the total income of the year concerned

d. Reduction of Corporation Tax: Reduction schedule of corporation tax is given as follows;

Less than 3 million won - - -

15% of the taxation standard amount;

In between 3 million won and 5 million won - - -

(0.45 million won + residual amount after 3 million won is abstracted) x 25%

Over 5 million won - - -

(0.95 million won + residual amount after 5 million won is abstracted) x 35%.

e. Reduction of Invested Income for Capital: The amount equivalent to the loan interest of the increased capital is abstracted from the total income of the year concerned up to 1981.

f. Support of Affiliation

Income tax and special value added tax on real estate transfer income resulting from affiliation of small and medium industries are exempted to encourage affiliation.

g. Support of Individual Unit's Incorporation

In order to encourage the incorporation of the small and medium industries, acquisition tax, registration tax, real estate transfer tax, and special value added tax are exempted when an individual unit is incorporated.

h. Support of Small and Medium Industries' Cooperatives

When the surplus money of the small and medium industries is allotted, the present income tax rate of 25% is reduced to 5% and the dividend income of the cooperative is deducted from the total income.

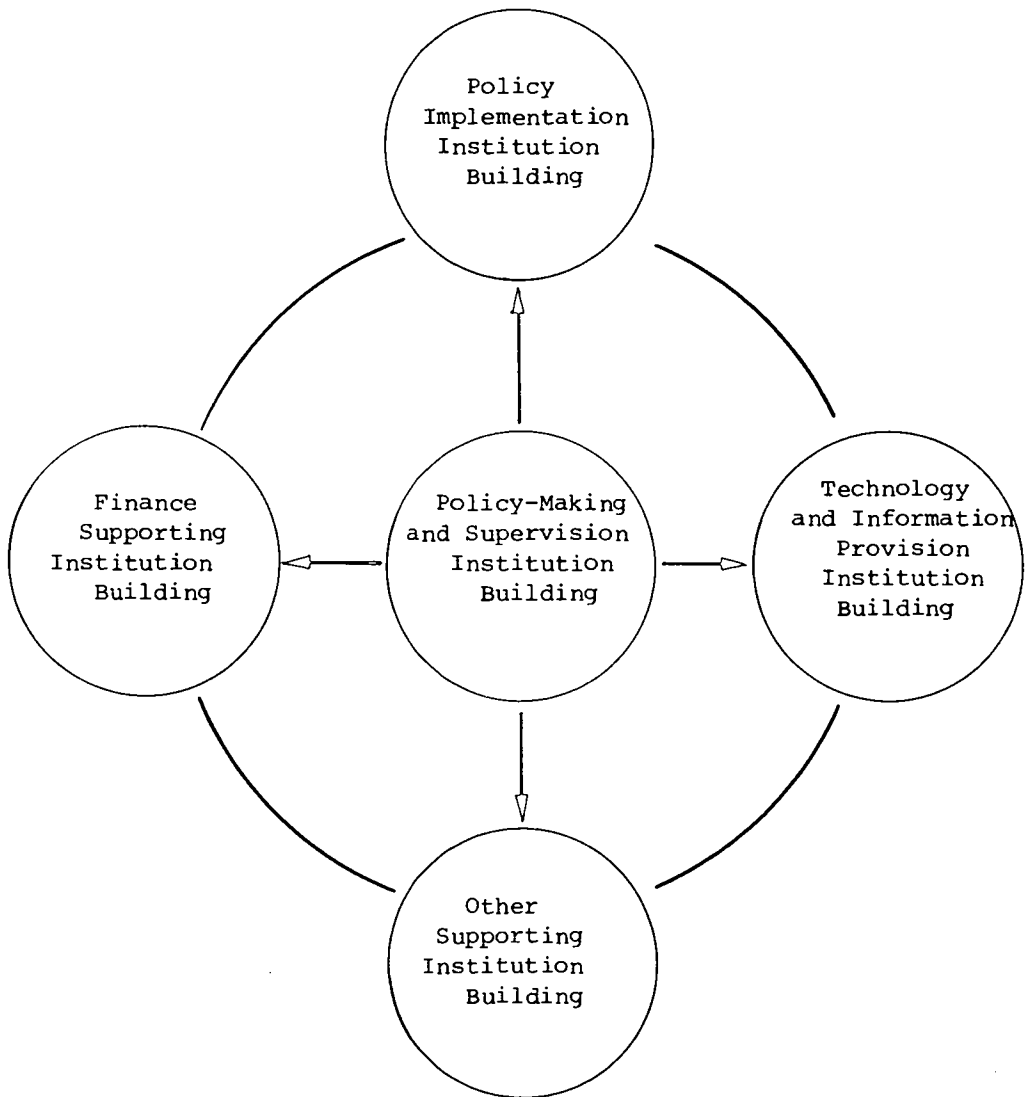
(4) Establishment of Legal Base

Special tax reduction and exemption schedules for the promotion and encouragement of a policy program and prescribed institutionally by Tax Reduction and Exemption Regulation Act.

5) Institution Building Policy

To administer and deal with the above enumerated policy programs, various organizations and institutions have been organized and established. They are summarized into mainly five subpolicy fields in support institution building such as "policy making and supervision institution building", "policy implementation institution building", "financial support institution building", "technology and information provision institution building", and "other support institution building". Their inter-relationships are presented on Figure 3-7.

Figure 3-7. Five Sub-policy Fields of Supporting Institution Building and Their Inter-Relationships



(1) Policy Making and Supervision Institution Building

Policy making and supervision institutions vary from policy to policy. In implementing the industrial related policy programs, mainly five ministries and three offices are involved. Such as Ministry of Construction Ministry of Commerce and Industry, Ministry of Agriculture and Fisheries, Economic Planning Board, Ministry of Finance, Office of Forestry, Office of National Tax Administration, and the Industrial Advancement Administration. As far as the industrial development is concerned, Ministry of Construction is in charge of industrial location development; Ministry of Commerce and Industry, promotion of small and medium industries, industrial location development, and management of industrial estate; Ministry of Agriculture and Fisheries, Conservation of farm land; Economic Planning Board, investment planning for the industrial location development and the promotion of the small and medium industries; Ministry of Finance, planning for fund provision; Office of Forestry, Conservation of Forestry; Office of National Tax Administration, rules and regulations for taxation; and Office of Industry Promotion, guidance of technology.

(2) Policy Implementation Institution Building

A. Small and Medium Industry Promotion Corporation

This corporation has been built in order to administer the supporting policy business efficiently as a policy implementation institution. The main activity of the corporation for the small and medium industry is given as follows:

- a. Modernization and Mutual Cooperation Projects
- b. Provision of Necessary Information
- c. Guidance of Management and Technology
- d. Manpower Training
- e. Fund Support

B. Korea Chamber of Commerce and Industry

This chamber is mainly involved in management improvement, technology development, technology guidance, quality improvement, and quality control.

C. Industrial Estate Management Corporation

This corporation has been established to manage, maintain, and control the industrial estates more efficiently.

D. Agriculture and Fishery Development Corporation

The corporation has been built to be in charge of fund support, quality control, and construction & management of the facilities for storing, processing, and manufacturing agricultural products.

(3) Financial Support Institution Building

A. Small and Medium Industry Promotion Corporation

The corporation is extending the fund specially for the projects of the modernization and mutual-cooperation

B. Small and Medium Industry Bank

The Bank is playing a window role to extend small and medium industry support fund.

C. National Citizens Bank

The Bank deals with small-loan finance to complement and support the capital pettiness of the small and medium industries.

D. Korea Credit Guarantee Fund

This fund was founded specially to have the industrial fund extended to the relatively small industries by guaranteeing the poor mortgage ability of the small and medium industries.

(4) Technology and Information Provision Institution Building

New technology, information, and industrial economy can be accessed by such institutions as Small and Medium Industry Promotion Corporation, Korea Scientific & Technological Information Center (KORSTIC), Korea Advanced Institute of Science and Technology (KAIST), and the like.

(5) Other Supporting Institution Building

A. Korea Design & Package Center

This center is fully involved in developing the design and package to strengthen the international competitive power of the small and medium industries and to improve the quality of the exports goods.

B. Korea Trading Co. Ltd.

This company is the agent to export the goods produced by the Saemaul factories on behalf of them as an export window.

2. POLICY ISSUES AND PROBLEMS

So far we have identified the government policies and programs concerned and described them in some detail. Now, our concern is given to their analysis

to draw out the issues and problems inherently existing between them. The analysis is conducted in two parts. One is overall assessment and the other the assessment from the point of rural industry development.

1) Overall Assessment

The focus of this assessment was placed on the policy issues immediately related with the government ministries and offices. As a result, the issues found by this study are summarized as follows:

(1) Lack of Coordination

As has been incessantly noticed in the foregoing policy identification, the policy programs for the small and medium industries are multipackage assistance programs. Accordingly a program is often shared by some ministries and offices and mutual-cooperation is in turn highly emphasized. Nevertheless, it is general situation that there is a lack of coordination among the authorities involved.

In fact, a program is designed to be executed in collaboration with the ministries and offices concerned. However, they are prone to take exclusive care of their own parts competitively paying high attention to their achievements as is often the case in a highly compartmentalized bureaucratic government. In these circumstances, there is little concession and cooperation between them. Rather, competition is high among them.

(2) Lack of Policy Consistency

Another aspect noticed is the lack of policy consistency. Under a government policy target, many programs are closely linked with one another. Consequently, implementation principles and rules have to be made in close consultation of the authorities concerned and they should be implemented in close co-operation with one another. But in reality they lack cooperation among them, so that policy consistency tends to be lost frequently. For instance in case of Industrial Location Act, taxes related are made to be reduced or exempted subject to Tax Reduction and Exemption Act. In reality, however, there is no such prescription in Tax Reduction and Exemption Act.^{3/} Such is also the case with Industrial Site Development Promotion Law.

For an another example, the locational development authority is presently distributed among MOC, MOCI, and SMIPC. Namely, MOC is authorized to develop industrial locations like Industrial Region by Country Land Use and Management Law, Industrial Site Development Area by Industrial Site Development Promotion Law and Industrial Area by Urban Planning Law, Industrial Development Encouraged Area by Regional Industry Development Law, Free Export Zone by Free Export Zone Building Law; MOCI, Accommodation Area by Industrial Location Law; and SMIPC, Small and Medium Model Industrial Estate by Small and Medium Industry Promotion Law. Therefore, there is high

^{3/} EPB, "Problems and Situation of Industrial Estate Development Institutions (Unpublished)", July 16, 1979, P.8.

possibility of losing policy consistency in the national development policy when they commit to the job of industrial location development individually under the situation of lack of cooperation.

(3) Lack of Clear-Cut Administrative Boundary Line

As pointed out in the previous part, one policy program is accompanied by an institution building which is in turn controlled by the Ministries concerned. Moreover many organizations are involved in the same or similar program or policy. In these circumstances, it is obvious fact that the administrative businesses of the authorities related are overlaped and collide against each other. It is therefore very difficult to ensure a clear-cut administrative boundary line among them.

(4) Too Many Rules and Regulations

As have been clearly shown before, almost every program is supported by a legal base. As a result, there are too many rules and regulations. Therefore, these rules and regulations collide against each other, which in turn make the authorities concerned be in a position to have a conflict against the other authorities. Moreover, when one policy program is closely related with the interests of a ministry, the ministry is very reluctant to concede.

In these situations, the activities of the industrial units are so limited. Especially, the relatively weak small and medium industries in rural areas are greatly affected by the rules and regulations. Relying on an official study on administrative procedure of a non-

saemaul factory construction in rural areas, construction of a factory takes a total of 392 days to be finished administratively. Factory construction must get 15 kinds of approvals prescribed by 11 laws and to which 129 documents should be attached. It is surprising to know that 89 government departments are independently involved in this job to decide the approval of the construction (Table 3-16).

(5) Complexity and Inefficiency

Under the above four issues, what is apparently noted is that the government policies are so complex and inefficient that they are not carried out as aimed.

(6) Insufficient Industrial Location Data System

In decentralizing the crowded urban factories and developing the local industry, in the first place a close industrial location survey throughout the country should be undertaken, so that the government, i.e., MOC should have the locational information. Furthermore, this information can be accessed easily at any time. Nevertheless, the total area affected by Country Land Use and Management Law as of Dec., 1980 accounted for only about 35% of the country land and the industrial region appointed was negligible 0.02% (Table 3-8). In this situation, the government authorities concerned and the factories willing to move are in a position to keep away from the industrial location information. Resultantly they do not know where to locate.

Table 3-16. Administrative Procedure for
a Non-Saemaul Factory Construction

	Laws Concerned	Laws Related	Approvals	Departments Related	Documents Attached	Days Taken
Total	11	26	15	89	129	392
Site- Security	6	16	10	76	94	288
Construction	4	9	4	12	24	89
Registration	1	1	1	1	11	15

Source: MOHA, "Simplification Proposal of Individual Factory Construction
(Tentative Action Plan)", October, 1979, P. 14.

2) Assessment in Terms of Rural Industry Development

The assessment of this part is made on the basis of review and examination of the industrial locational development programs because of the lack of the urban and rural base data on small and medium industry promotion policy programs, financial support policy programs, tax support policy programs, and institution buildings. Accordingly each industrial location development policy is reviewed and examined one by one.

(1) Regional Industry Development Program

This program is basically geared for the promotion of the proper regional distribution of the industries for the balanced regional development. Accordingly for this policy attainment, Industrial Development Encouraged Area is made to be appointed in the region.

Then what is meant by the region? The word, region is not clear whether it means the provincial cities or genuine rural areas as already discussed in definital frame work of Chapter II. It is understood that this word generally means the provincial cities when reviewed 15 Industrial Development Encouraged Areas appointed by this program as of March 1979. Referring to Table 3-1, about 73% of the Areas appointed locate in the provincial cities.

(2) Industrial Relocation Program

This program was initiated specifically for the prevention of the excessive concentration of the industries on the large cities. For this policy target, the factories in the crowded area were classified into the urban or

non-urban oriented factories and the latter were ordered to shift to the Accomodation Area.

For the Accomodation Area, the Industrial Development Encouraged Areas designated by Regional Industry Development Law are prescribed to be regarded as the Accomodation Areas.

Therefore, it can be said that this program was initiated for the rearrangement and the development of the urban industry not for the rural industry development, which resulted in the regional urban industry development.

(3) Heavey Industry Development Program

As manifested in the objective of the Industrial Site Development Promotion Law, this program mainly concerns with the promotion of the national key industries like steel-making, ship-building, oil-refining and the like. Referring to not only the objective of this program but also the industry field, it is easily noticed that this program is conducted not for the rural industry development but for the specific national development strategy.

(4) Export-Oriented Industry Development Program

When recalling the fact that two Free Export Zones were developed for the accomplishment of this program (Table 3-4) and that only the export-oriented goods producing factories and joint-ventured or foreigner factories are allowed to be constructed on the zones, it is easily judged that this program was set up not for the general rural industry development but for the country's export promotion policy.

(5) Efficient Country Land Use and Management Program

As the program itself says, this program was established in order to ensure the efficient country land use and management. This program is originally focused on the balanced country development not on the urban or rural industry development. It is therefore judged that this program mainly concerns with the efficient country land use not with the industrial development.

(6) Urban Land Use Program

According to urban planning law for this program, "Eup" which is regarded as rural area in this study is made subject to this law like city. Accordingly, industrial development area is made to be appointed in "Eup" areas by this law. However, the main part of rural area, "Myeon" is missing in this law. So the rural area is partially influenced by this law. Moreover, when reviewed the industrial areas developed by this law as of May 1979, there were only such four estates as Incheon, Sungnam, Daegu, and Pusan (Table 3-9). This program has not contributed properly to location development for not only the rural industry development but also the urban industry development.

(7) Rural Industry Development Program

This program represented by saemaul factories can be said rural industry development program in reality as well as in name. But this program is a

selective rural industry development program, so that this rural industry development program does not comprise all the rural industrial activities. In other words, there are other type of factories like small and medium factories and handicraft except for Saemaul factories in rural areas. Saemaul factories accounted only for 6% of the total industries as of April 1, 1977 (Table 2-8).

To analyze the location of the Saemaul factories by province, 65.5 were located in three provinces with 34.3% in Gyeonggi; 17.4% in Gyeongbuk; and 13.8% in Gyeongnam. This fact implies that Saemaul factories have been established mainly on the suburban rural areas taking into consideration their marketability in and rapid transportation to the large cities (Table 3-17).

The analysis of ratio between number of farm households per Saemaul factory gives us a broad idea about the employment supply in rural areas. Table 3-17 shows the ratio in each province. A Saemaul factory in Gyeonggi covers 974 farm household, which is the most desirable and in Jeonbuk and Jeonnam except Jejudo island 8,129 and 6,034 respectively, the most undesirable. With their still rather less diversified agriculture the needs for off-farm income may be greater but at the same time conditions for establishing factories may be less favourable than in most other provinces.^{4/}

^{4/} Jon Sigurdson and Young Chul Kim, Op. Cit., P. 38.

Table 3-17. Location and Number of Saemaul Factories (May 1, 1980)

Province	No. of Factories (%)	Population 1980 Million	No. of Farm Households	No. of Farm Households per Saemaul Factory
Gyeonggi	242(34.4)	4.9	235,825	974
Gangweon	30(4.3)	1.8	124,461	4,149
Chungbuk	42(6.0)	1.4	146,787	3,495
Chungnam	67(9.5)	3.0	276,241	4,123
Jeonbuk	29(4.1)	2.3	235,731	8,129
Jeonnam	65(9.2)	3.8	392,199	6,034
Gyeongbuk	123(17.5)	5.0	381,383	3,101
Gyeongnam	98(13.9)	3.3	297,866	3,039
Jeju	4(0.6)	0.5	53,356	13,339
Pusan	4(0.6)	3.2	8,188	2,047

Total	704(100.0)	29.2	2,152,037	

- Source: 1. Korea Rural Industry Development Center,
「List of Saemaul Factories」, May, 1980, p.3.
2. 「Agricultural Census Advance Report」, Dec. 1980,
MOAF
3. 「Preliminary Count of Population and Housing
Census」, Nov. 1980, EPB.

Rearranged from, Jon Sigurdson and Young Chul Kim,
Op. Cit., P. 37, Table 9.

To be short it goes without saying that Saemaul factory construction program is the only rural industry development program among the industrial location development programs and has contributed a lot to the creation of the job opportunities in rural areas and to non-farm income increase as well. However, the program is selective rural industry development program, so that it is insufficient to promote the development of the overall rural industry and does not include all the rural factories.

Saemaul factories account for only about 6% of the total rural industrial activities and about 66% concentrate in three provinces like Gyeonggi, Gyeongbuk, and Gyeongnam. The most job opportunities were created in Gyeonggi and the least in Jeonbuk and Jeonnam except Jeju island.

To sum up the analysis results of the government policy programs with special emphasis on locational development programs in terms of rural industry development, we can come to the following some conclusions:

Urban-Oriented Policy

What is distinctly noticed through the analysis of the policy, programs is the fact that the programs are urban-oriented.

As already pointed out, the Regional Industry Development Program is geared for local cities. About 73% of the industrial estates developed by this program located in the local cities.

Industrial Location Program is also specifically initiated for the crowded urban factories. It is the

rearrangement and relocation program of the urban industries in the crowded urban areas. In brief, there is no rural industry development concern in this program, for in this program the shifted factory is made to be accommodated on the industrial estates developed by the Regional Industrial Development Program.

Accordingly, this program is made to result in shifting the urban industries to the local cities.

Though the rural center, "Eup" is made to have industrial area in it by the Urban Planning Law, the industrial areas developed by the Law are only four areas in the huge cities such as Pusan, Daegu, Incheon which are the second, third and fourth largest city respectively in Korea, and Sunghnam which is a satellite city to Seoul.

Even the Saemaul factories which is known better as a rural industrialization program, about 66% of the industries are concentrated in such three highly-industrialized provinces as Gyeonggi, Pusan and Gyeongbuk containing Seoul, the second largest city Pusan, and Daegu, the third largest city.

Lack of Legal Base for Rural Industry Development

There is no industrial development program originally initiated for rural industrial development except for Saemaul factory construction program. Even the Saemaul factory construction program has been identified that it has some problems in developing rural industry as a whole. The terms and conditions of Saemaul factory designation is very rigid for the small-size characterized rural factories. In fact, they are kept away from the program. Which is explained by the facts that the saemaul

factories are bigger in terms of employment than the average size of industrial units covered by the 1977 industry census and they have been more important in generating export earnings than in providing employment and income in rural areas.^{5/}

Rural Industrial Activity is Strongly Limited

Under the situations where the rural industry development programs are so limited and negligible in terms of rural industry development as a whole, the rural industrial activities are too regulated by the non-industrial programs closely linked with the interests of the ministries and the offices concerned like Farm Land Conservation and Its Use Law, Forestry Law, Environment Conservation Law, and Building Code. The construction of an industrial unit in rural areas takes about 392 legal days to be officially finished and is regulated by 11 laws and 15 approvals.

^{5/} Jon Sigurdson and Young Chul Kim, Op. Cit., P. 35.

CHAPTER IV

EVALUATION ON THE POLICY EFFECTIVENESS AT THE IMPLEMENTATION LEVEL: A MICRO-ANALYSIS

Through Chapter III, we have identified all the industrial development programs and reviewed them in terms of overall assessment and rural industry development at the macro-level. Now we in this chapter evaluate these policy programs in light of policy effectiveness at the implementation level as a micro-analysis.

Evaluation on the policy effectiveness is made from two points of view, i.e., one from the supplier's point and the other from the user's point. From the supplier's point of view, emphasis is given to the analysis on the reality of the industrial administration at the local level under the policy programs and issues identified at the central level. What is the situation of the industrial administration at the local government offices and how are the policy programs handled? The government-institution-related problems will be analyzed. From the user's point of view, policy effectiveness is evaluated based on such operational variables as entrepreneurship, level of awareness, and attitudes toward the government's policies. What is entrepreneur's business and location

motivation? To what extent do they know about the policy programs and what kinds of opinions and attitudes toward the government policies do they have? Based on the answers to these questions, policy effectiveness is detected. Moreover, to know the situation of policy effectiveness specifically, a detailed case concerned is illustrated.

Furthermore, in this Chapter such variables as entrepreneurship and level of awareness will be utilized as the main factors ensuring the rapid industry development. Accordingly, they will be variables to explain the differences in the industrial development of two study areas.

This Chapter first deals with general comparison of two study areas and is moved on to the characters of rural entrepreneurs and industries. And then, this Chapter is focused on policy effectiveness and finally on marketing problems. The analysis in this Chapter is conducted on the basis of the survey data of 40 factories in two study areas.

1. GENERAL COMPARISON OF STUDY AREAS: YOUNGIN AND NAMWON

Production and Operation

In terms of number of products, Youngin factories are more diversified than Namwon factories. Six factories in Youngin are producing more than five items while only two factories in Namwon are producing more than five items (Table 4-1). In operation period, only one unit from Youngin is producing on the seasonal basis while five from

Namwon are involved in seasonal production (Table 4-2).

As for operation rate for the last three years, Table 4-3 shows that operation rate in Youngin has been increasing while that in Namwon decreasing. In Youngin, three are decreasing and eight are increasing, while eight, decreasing and five, increasing in Namwon.

Marketing and Raw Materials

In view of market condition, it is noted that market condition in Youngin has been improving for the last three years while that in Namwon deteriorating. In Youngin, eight factories are recording improvement while only two deterioration. In the meantime, in Namwon eight are experiencing deterioration while four, improvement (Table 4-4).

Table 4-1. Number of Products

Unit: No. of Factories

Kind of Products	Youngin(%)	Namwon(%)	Total(%)
1 - 3	13 (65.0)	14 (70.0)	27 (67.5)
4 - 5	1 (5.0)	4 (20.0)	5 (12.5)
6 - 10	3 (15.0)	1 (5.0)	4 (10.0)
Over 10	3 (15.0)	1 (5.0)	4 (10.0)
<hr/>			
Total	20 (100.0)	20 (100.0)	40 (100.0)

Table 4-2. Period of Operation

Unit: No. of Factories

Period	Youngin(%)	Namwon(%)
Yearly	18 (94.7)	15 (75.0)
Seasonal	1 (5.3)	5 (25.0)

Total	19(100.0)*	20(100.0)

* One factory which didn't answer was excluded.

Table 4-3. Change in Operation Rate

Unit: No. of Factories

Operation Rate	Youngin(%)	Namwon(%)
Decreasing	3 (15.8)	8 (40.0)
Increasing	8 (42.1)	5 (25.0)
No Change	8 (42.1)	7 (35.0)

Total	19(100.0)*	20(100.0)

* One factory which didn't answer was excluded.

Table 4-4. Change of Market Condition

Unit: No. of Factories

	Youngin(%)	Namwon(%)
Improving	8 (44.4)	4 (25.0)
Deteriorating	2 (11.1)	8 (50.0)
No Change	8 (44.4)	4 (25.0)
<hr/>		
Total	18(100.0)*	16(100.0)*

* 6 factories which didn't answer were excluded.

When reviewing the average stock period of the first main product presented on Table 4-5, such market condition of two areas are also understood. Sixteen factories out of nineteen Youngin factories are less than three months while only six factories out of seventeen Namwon factories are less than three months.

Turning to raw material condition, Youngin factories are faced by improving condition while Namwon, by worsening condition. Table 4-6 shows that in Youngin five and two are improving and deteriorating respectively while in Namwon the reverse is the case.

From the side of provision rate of raw materials, it is also recognized that Youngin is relatively in better condition. The factories supplying the raw materials more than 80% are twelve factories (75.1%) of sixteen factories in case of Youngin and nine factories (47.3%) of nineteen factories in case of Namwon (Table 4-7).

Size of Capital

When reviewed in terms of capital size, Youngin factories are much larger than Namwon factories. None of the Namwon factories was more than 500 million won while three of fourteen Youngin factories answered were more than 500 million won. The average capital size of Youngin factories is about 3.9 times as large as that of the Namwon factories (Table 4-8).

Table 4-5. Average Stock Period of the
First Main Product

Unit: No. of Factories

	Youngin(%)	Namwon(%)
Under 1 Month	9 (47.4)	1 (5.9)
1 - 2	4 (21.1)	3 (17.6)
2 - 3	3 (15.8)	2 (11.8)
3 - 4	-	5 (29.4)
4 - 5	-	4 (23.5)
Over 5 Months	3 (15.8)	2 (11.8)

Total	19(100.0)*	17(100.0)*

* 4 factories which didn't answer were excluded.

Table 4-6. Change of Raw Material Condition

Unit: No. of Factories

	Youngin(%)	Namwon(%)
Improving	5 (26.3)	2 (10.5)
Deteriorating	2 (10.5)	5 (26.3)
No Change	12 (63.2)	12 (63.2)
<hr/>		
Total	19 (100.0)	19 (100.0)*

* Two factories which didn't answer were excluded.

Table 4-7. Provision Rate of Raw Materials

Unit: No. of Factories

Provision Rate	Youngin(%)	Namwon(%)
Under 50%	1 (6.3)	1 (5.3)
50 - 60	2 (12.5)	2 (10.5)
60 - 70	1 (6.3)	4 (21.1)
70 - 80	-	3 (15.8)
80 - 90	3 (18.8)	2 (10.5)
90 - 100	9 (56.3)	7 (36.8)
<hr/>		
Total	16(100.0)*	19(100.0)*

* Five factories which didn't answers were excluded

Table 4-8. Size of Capital

Unit: No. of Factories

Capital Size	Youngin(%)	Namwon(%)	Total(%)
Under 10 Mil. won	1 (7.1)	-	1 (3.7)
10 - 30	-	3 (21.4)	3 (10.7)
30 - 50	1 (7.1)	2 (14.3)	3 (10.7)
50 - 100	3 (21.4)	3 (21.4)	6 (21.4)
100 - 200	2 (14.3)	4 (28.6)	6 (21.4)
200 - 500	4 (28.6)	2 (14.3)	6 (21.4)
Over 500	3 (21.4)	-	3 (10.7)
- - - - -	- - - - -	- - - - -	- - - - -
Total	14 (100.0)	14 (100.0)	28 (100.0) *
- - - - -	- - - - -	- - - - -	- - - - -
Average Size of Capital	347	89.3	218.1

* 12 factories which didn't answer were excluded.

Change of Location Factor

When comparing the present location factors with those of the established year, such two factors as labor supply and information collection were pointed out to have become more difficult by both of the study areas. Putting aside these two factors, however, quite different aspect is occurring to them. Table 4-9 clearly presents that in Youngin, physical conditions such as road, transportation, and communication has become worsened while in Namwon unlike Youngin such managerial conditions

as provision of raw materials and marketing has deteriorated showing much improvement in the physical conditions (Table 4-9).

Manpower and Employment

Referring to number of employees presented on Table 4-10, the average numbers of employees in both study areas are 74 for Youngin 44.1 for Namwon. This Table also shows that about 77% (13) of 17 factories in Namwon have less than 50 employees while half (9) of the 18 factories in Youngin have less than 50 employees. In terms of average size, Youngin is about 1.7 times as large as Namwon.

Coming to the availability of labour acquirement by occupational category, Table 4-11 shows that employment of engineer and skilled labour is difficult while the acquirement of manual workers is easy. Comparing two study areas with each other, it is recognized that Namwon have relatively much more difficulty in employing the engineer, skilled labour and even manager and office worker than Youngin (Table 4-11).

To recapitulate the points discussed above, the differences between the study areas are summarized as follows.

In terms of production and operation, Namwon is less diversified in production and has some seasonal base production factories. For the last 3 years in Namwon, operation rate, market condition, and raw material provision have been deteriorating while the reverse is the case with Youngin.

In view of capital size, Namwon with the average

Table 4-9. Changes in Locational Factors

Location Factors	Unit: No. of Factories							
	Youngin(%)				Namwon(%)			
	Improved	No Change	Deterio- rated	Sub-total*	Improved	No Change	Deterio- rated	Sub-total*
Provision of Raw Materials	5 (26.3)	12 (63.2)	2 (10.5)	19(100.0)	2 (10.5)	12 (63.2)	5 (26.3)	19(100.0)
Labour Supply	5 (26.3)	8 (42.1)	6 (31.6)	19(100.0)	2 (11.8)	9 (52.9)	6 (35.3)	17(100.0)
Marketing	8 (44.4)	8 (44.4)	2 (11.2)	18(100.0)	4 (25.0)	4 (25.0)	8 (50.0)	16(100.0)
Road Condition	5 (29.4)	5 (29.4)	7 (41.2)	17(100.0)	7 (41.2)	7 (41.2)	3 (17.6)	17(100.0)
Industrial Water	3 (18.8)	11 (68.8)	2 (12.5)	16(100.0)	4 (23.5)	11 (64.7)	2 (11.8)	17(100.0)
Transportation	3 (16.7)	9 (50.0)	6 (33.3)	18(100.0)	9 (56.3)	6 (37.5)	1 (6.3)	16(100.0)
Electricity	2 (11.1)	14 (77.8)	2 (11.1)	18(100.0)	6 (35.3)	8 (47.1)	3 (17.6)	17(100.0)
Communication	3 (16.7)	9 (50.0)	6 (33.3)	18(100.0)	9 (56.3)	7 (48.3)	-	16(100.0)
Bank Use	3 (17.0)	14 (82.4)	-	17(100.0)	4 (28.6)	9 (64.3)	1 (7.1)	14(100.0)
Information Collection	1 (5.9)	12 (70.6)	4 (23.5)	17(100.0)	3 (17.6)	12 (70.6)	2 (11.8)	17(100.0)

* Those factories which didn't answer were excluded.

Table 4-10. Distribution of Employees

Distribution	Unit: No. of Factories	
	Youngin(%)	Namwon(%)
Under 4	-	1 (5.9)
5 - 9	1 (5.6)	2 (11.8)
10 - 19	1 (5.6)	6 (35.2)
20 - 49	7 (38.8)	4 (23.5)
50 - 99	5 (27.7)	1 (5.9)
100 - 199	3 (16.7)	2 (11.8)
Over 200	1 (5.6)	1 (5.9)

Total	18(100.0)	17(100.0)

Average	74	44.1

* Five factories which didn't answer were excluded.

of 89.3 million won is much lesser than Youngin with the average of 347 million won. Namely, the average of Namwon is about one-fourth of that of Youngin.

Coming to the changes of location factors, both areas are suffering from the difficulty in labour supply and information collection. In addition, in Youngin such physical conditions as road, transportation, and communication were worsening while in Namwon managerial conditions like raw material provision, labour supply, and market conditions are deteriorating.

Turning to employee size, Namwon is also very weaker than Youngin. Youngin having the average employee

Table 4-11. Availability of Labour Acquisition by
Occupational Category

Category	Unit: No. of Factories							
	Youngin (%)				Namwon (%)			
	Difficult	Neutral	Easy	Sub-total	Difficult	Neutral	Easy	Sub-total
Manager and Office Clerk	-	12 (75.0)	4 (25.0)	16 (100.0)	5 (41.7)	5 (41.7)	2 (16.7)	12 (100.0)
Engineer	3 (27.3)	7 (63.6)	1 (9.1)	11 (100.0)	6 (54.5)	3 (27.3)	2 (18.2)	11 (100.0)
Skilled Labour	6 (30.8)	8 (53.3)	1 (6.7)	15 (100.0)	8 (72.7)	2 (18.2)	1 (9.1)	11 (100.0)
Semi-Skilled Labour	2 (18.2)	7 (72.7)	1 (9.1)	11 (100.0)	3 (33.3)	3 (33.3)	3 (33.3)	9 (100.0)
Manual Worker	1 (7.7)	8 (61.5)	4 (30.8)	13 (100.0)	2 (25.0)	3 (37.5)	3 (37.5)	8 (100.0)

* Those factories which didn't answer were excluded.

size of 74 has about 1.7 times as many workers as Namwon with the average employee size of 44.1. In employing such high level manpower as engineer and skilled labour, even the manager and office clerk, Namwon is in relatively more disadvantageous position.

In short, through the above comparisons it has been identified that Namwon which is farther than Youngin from Seoul is characterized by relatively small scale industry and in relatively much more disadvantageous situations in many industrial aspects comparing with Youngin.

2. CHARACTERS OF RURAL ENTREPRENEURS AND INDUSTRIES

In this part, efforts are given to the identification of specific characters of rural entrepreneurs and industries. The identification is made in three parts, i.e., bio-character, motivation about business and location, and industry character. To this end, the basic information on each unit is supplies in the form of Appendix A & B and based on which, the characters currently concerned are reviewed and analyzed.

1) Bio-Character

Age

Table 4-12 indicates that there is no significant difference in age between the study areas though the Youngin entrepreneurs are noted to be slightly younger than Namwon entrepreneurs. The average ages for Youngin and Namwon are 47 and 48 respectively.

Table 4-12. Age

Unit: No. of Factories		
Age	Youngin(%)	Namwon(%)
30 - 39	2 (10.0)	3 (15.0)
40 - 49	14 (70.0)	9 (45.0)
50 - 59	2 (10.0)	7 (35.0)
Over 60	2 (10.0)	1 (5.0)

Total	20 (100.0)	20 (100.0)

Average	47	48

Level of Education

More than half(21) of the 40 entrepreneurs surveyed are college graduates or more, which is considered rather high in education level as a whole. But at each area level, Youngin is characterized by the much higher level than Namwon. In case of Youngin, 15 out of 20 entrepreneurs(75%) are college graduates or more while in case of Namwon only 6(30%) are college graduates or more (Table 4-13).

Place of Residence

In case of Youngin, 17 entrepreneurs are living out of Youngin, i.e., 16 in Seoul and 1 in other city. In the meantime, the exact opposition is the case with Namwon. Namely, 17 entrepreneurs are living in the same city, Namwon and only three are living out of Namwon. This fact implies that industrial activities in Youngin are being conducted in close relation with Seoul while

those in Namwon are local-oriented. It is further interpreted that this character may derive from nearness to Seoul (Table 4-14).

Table 4-13. Level of Education

Education Level	Unit: No. of Factories	
	Youngin(%)	Namwon(%)
Primary School Graduate	-	4 (20.0)
Middle School Graduate	1 (5.0)	5 (25.0)
High School Graduate	4 (20.0)	5 (25.0)
College Graduate or More	15 (75.0)	6 (30.0)

Total	20 (100.0)	20 (100.0)

Table 4-14. Place of Residence

Place of Residence	Unit: No. of Factories	
	Youngin(%)	Namwon(%)
Seoul	16 (80.0)	2 (10.0)
Other City	1 (5.0)	1 (5.0)
Same	3 (15.0)	17 (85.0)

Total	20 (100.0)	20 (100.0)

2) Industrial Character

Type of Factory

Rural industries are classified into three kinds of industries, i.e., Saemaul factory, local-specific product-producing factory, and general factory. In Youngin, three factories fall into Saemaul factories and the remaining 17 factories belong to other general factories. As for Namwon, one is Saemaul factory; two, local-specific products-producing factories; and the remaining 17 factories, other general factories (Table 4-15).

Table 4-15. Classification of Rural Industry

Classification	Unit: No. of Factories	
	Youngin(%)	Namwon(%)
Saemaul Factory	3 (15.0)	1 (5.0)
Local-Specific Products-Producing Factory	-	2 (10.0)
General Factory	17 (85.0)	17 (85.0)
- - - - -	- - - - -	- - - - -
Total	20 (100.0)	20 (100.0)

Year of Establishment

Through Table 4-16, it is not so difficult to understand that industrial establishment has been accelerated over increasingly since 1970. During 1970s more than 70%(28) of 39 factories have been established. Coming to each study area, 16 factories(80%) in Namwon and 12 factories(63.2%) in Youngin have been set up after 1970.

Table 4-16. Year of Establishment

Unit: No. of Factories		
Year	Youngin(%)	Namwon(%)
Before 1960	2 (10.5)	1 (5.0)
1961 - 1970	5 (26.3)	3 (15.0)
1970 - 1975	5 (26.3)	5 (25.0)
1976 - 1980	7 (36.9)	11 (55.0)
Total	19(100.0)*	20(100.0)

* One factory which didn't answer was excluded.

Location of Main Office

Thirty-one(77.5%) of the 40 factories have their main offices on the same places while the remaining nine have their head quarters in Seoul. In Namwon, only two have their main offices in Seoul. Meanwhile, in Youngin seven(35%) factories have their main quarters in Seoul (Table 4-17).

Table 4-17. Location of Main Office

Unit: No. of Factories		
Location of Main Office	Youngin(%)	Namwon(%)
Factory and Main Office on the Same Location	13 (65.0)	18 (90.0)
Main Office in Seoul	7 (35.0)	2 (10.0)
Total	20 (100.0)	20 (100.0)

Type of Management

On Table 4-18, the managerial character of the industry is presented. As far as the management type is concerned, both areas are in sharp contrast. In Namwon, 15 factories are based on family-oriented management and only 5 factories, on modern company-oriented management while in Youngin vice versa.

Table 4-18. Type of Management

Management Type	Unit: No. of Factories	
	Youngin(%)	Namwon(%)
Family-Oriented	5 (25.0)	15 (75.0)
Modern Company-Oriented	15 (75.0)	5 (25.0)

Total	20 (100.0)	20 (100.0)

Type of Marketing

A. Major Supply Area^{1/} of Raw Materials

When reviewing the major supply area of raw materials, the character of rural industry can be understood. According to Table 4-19, we can know that rural industries rely on urban and abroad as well as rural for their main sources of raw materials. Thirteen factories of 40 factories answered depend on rural areas while the other 27, urban and abroad areas. This fact says that

^{1/} Major supply area means only the areas from where more than 50% of raw materials are supplied.

rural industries are not only in relation with rural base and not confined only to rural areas, which supports the reality of rural industry reviewed in Chapter II. In terms of separate study area, this Table also suggests that Youngin industries very little and relatively less linkage with rural areas. Factories depending on rural areas for their major supply of raw materials are only one for Youngin and twelve for Namwon.

B. Major Sales Market^{2/}

Analysis on major sales market together with major supply area of raw materials is also geared for the identification of character of rural industry. Relying on Table 4-20, only seven factories out of 35 factories are dependent on rural areas. The other 28 factories are selling their goods at urban and abroad markets. This situation again explains the reality of rural industry discussed in Chapter II that rural industry though located in rural areas, has close linkage with urban and abroad areas in terms of marketing. Rather they have more connection with urban and abroad than with rural. Moreover, this Table shows that Namwon which is remote and far from large cities and Seoul has relatively more connection with rural areas.

^{2/} Major sales market means the areas where more than 50% of the products are sold.

Table 4-19. Major Supply Area of Raw Materials

Unit: No. of Factories

Major Supply Area	Youngin(%)	Namwon(%)	Total(%)
Urban	15 (75.0)	6 (30.0)	21 (52.5)
Rural	1 (5.0)	12 (60.0)	13 (32.5)
Abroad	4 (20.0)	2 (10.0)	6 (15.0)

Total	20(100.0)	20(100.0)	40(100.0)

Table 4-20. Major Sales Market

Major Sales Market	Youngin(%)	Namwon(%)	Total(%)
Urban	11 (64.7)	8 (44.4)	19 (54.3)
Rural	1 (5.9)	6 (33.3)	7 (20.0)
Abroad	5 (29.4)	4 (22.3)	9 (25.7)

Total	17(100.0)	18(100.0)	35(100.0)

* Those factories which didn't answer were excluded.

** Those factories only with less than 50% supply areas were excluded.

Character of Main Product

When examining the major raw material supply area and sales market of main product, both normative character of main product and factual character of rural industry can be understood at the same time.

A. Origin of Raw Material Provision of Main Product

Classifying the main products based on their major supply areas of raw materials into urban, rural, and abroad, the items are classified as follows (Table 4-21)

Urban Origin

In case of Youngin, the items categorized into urban origin are

- o Padding,
- o Electrical Wire,
- o Aluminum Tube,
- o Yakult (Soft Drinking),
- o PVC,
- o Gauze,
- o Paper Cup,
- o Telephone Parts,
- o Men's Wear,
- o Pre-fabricated Steel Bar,
- o Bell,
- o Military Tent, and
- o Tennis Ball

while for Namwon, the item are

- o Tooth-Brush,
- o Chemical Rope,
- o Laundry Soap,
- o Noodle,
- o Ice Candies, and
- o Race Horse Bandage.

Table 4-21. Classification of Main Products in Youngin
and Namwon by Raw Material Provision Area

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Major Supply Area	Youngin		Namwon		Total No. of Product
	Name of Products	No. of Products	Name of Products	No. of Products	
Urban	. PVC	13	. Tooth-Brush	6	19
	. Padding		. Chemical Rope		
	. Paper Cup		. Laundry Soap		
	. Aluminum Tube		. Noodle		
	. Yakult		. Ice Candies		
	. Gauze		. Race Horse Bandage		
	. Men's Wear				
	. Electrical Wire				
	. Telephone Parts				
	. Pre-fabricated Steel Bar				
	. Bell				
	. Military Tent				
	. Tennis Ball				
Rural	. Condensed Ginseng Power	1	. Wooden Checker Board	9	10
			. Briquette-Smoke-Consumer		
			. Stones Product		
			. Grease Removing Liquid		
			. Briquette		
			. Wooden Ritual Dishes		
			. Brick		
			. Raw Silk		
Abroad	. Leather Jacket	2	. Bamboo Fan	2	4
	. Glove		. Varicon		
<hr/>					
Total		16		17	33

Rural Origin

The product listed under rural origin is in case of Youngin, only

- o Ginseng Powder.

In the meantime, in case of Namwon the products originating from rural area are as follows:

- o Wooden Checker Board
- o Briquette-Smoke-Consumer
- o Stones Product
- o Grease-Removing Liquid
- o Briquette
- o Wooden Ritual Dishes
- o Brick
- o Raw Silk
- o Tennis Racket

Abroad Origin

Main products whose major raw materials originate from abroad are in case of Youngin

- o Leather Jacket and
- o Glove,

and as for Namwon,

- o Bamboo Fan and
- o Varicon.

B. Market Orientation

Now our concern is to know the market orientation of the main products having their specific origin in major raw material supply areas.

Table 4-22 shows the market orientation of main products.

Table 4-22. Classification of Main Product in Youngin
and Namwon by Major Sales Market

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Major Sales Market	Youngin		Namwon		Total No. of Products
	Name of Products	No. of Products	Name of Products	No. of Products	
Urban	. Padding	10	. Tooth-Brush	6	16
	. Electrical Wire		. Wooden Checker Board		
	. Aluminum Tube		. Briquette-Smoke		
	. Yakult		. -Consumer		
	. PVC		. Stones Product		
	. Gauze		. Grease-Removing		
	. Paper Cup		. Liquid		
	. Telephone Parts		. Bamboo Fan		
	. Men's Wear				
. Pre-Fabricated					
. Stell Bar					
Rural	. Bells	1	. Chemical Rope	7	8
			. Laundry Soap		
			. Noodle		
			. Ice Candies		
			. Briquette		
			. Wooden Ritual Dishes		
			. Brick		
Oversea	. Military Tent	5	. Race Horse Bandage	4	9
	. Tennis Ball		. Raw Silk		
	. Ginseng Powder		. Tennis Racket		
	. Leather Jacket		. Varicon		
	. Glove				

Total		16		17	33

Urban-Market Oriented Items for Namwon are

- o Tooth-Brush,
- o Wooden Checker Board,
- o Briquette-Smoke-Consumer,
- o Stones Product,
- o Grease-Removing Liquid, and
- o Bamboo Fan.

and for Youngin, the products oriented for urban market are

- o Padding,
- o Electrical Wire,
- o Aluminum Tube,
- o Yakult,
- o PVC,
- o Gauze,
- o Paper Cup,
- o Telephone Parts,
- o Men's Wear, and
- o Pre-Fabricated Steel Bar.

Rural Market-Oriented Products for Namwon are

- o Chemical Rope,
- o Laundry Soap,
- o Noodle,
- o Ice Candies,
- o Briquette,
- o Wooden Ritual Dishes, and
- o Brick, and

for Youngin is only

- o Bell.

As for Abroad Market Orientation, main products from

Namwon are

- o Race Hourse Bandage,
- o Raw Silk,
- o Tennis Racket, and
- o Varicon.

And from Youngin, the items are

- o Military Tent,
- o Tennis Ball,
- o Ginseng Powder,
- o Leather Jacket, and
- o Glove.

C. Type of Main Product

Through the review of the main products in terms of major supply area of raw materials and major market orientation, they are crosstabulated in Table 4-23. Two types of Characters of rural products (Table 4-24) have been identified, i.e., rural oriented products and non-rural oriented products. Rural oriented products consist of rural market & rural raw materials-oriented products, rural market-oriented products, and rural raw materials-oriented products. In the meantime, non-rural oriented products include urban-oriented, abroad oriented, and urban & abroad oriented products. The products listed under each orientation are presented on Table 4-24.

As a result, the entirely rural oriented products are such items as briquette of Coal, Wooden ritual dishes, and brick. Moreover, this Table apparently suggests that Namwon industries have rural-oriented characters while Youngin industries have non-rural oriented characters, i.e., urban-and abroad-oriented characters in terms of

Table 4-23. Classification of Main Products in Youngin and Namwon
by Raw Material Provision Area and Major Sales Market

Raw Major Material Sales Provision Market Area	Urban		Rural		Abroad	
	Youngin	Namwon	Youngin	Namwon	Youngin	Namwon
Urban	. Padding		. Bells		. Military	
	. Aluminum Tube				. Tent	
	. Yakult				. Tennis	
	. Electrical Wire				. Ball	
	. PVC					
	. Gauze					
	. Paper Cup					
	. Telephone Parts					
	. Men's Wear					
	. Pre-Fab.					
	. Steel Bar					
		. Tooth-Brush		. Chemical Rope		. Race Horse
				. Laundry Soap		. Bandage
				. Noodle		
				. Ice Candies		
Rural					. Ginseng	
					. Powder	
		. Wooden Checker Board	. Briquette			. Raw Silk
		. Briquette-Smoke-Consumer	. Wooden Ritual			. Tennis Racket
		. Stones Product	. Dishes			
		. Grease-Removing Liquid	. Brick			
Abroad					. Leather	
					. Jacket	
					. Glove	
		. Bamboo Fan				. Varicon

Table 4-24. Two Types of Character of Rural Products

Types	Name of Items in Youngin	Name of Items in Namwon
<u>Rural Oriented (I)</u>		
Rural Market & Rural Raw Material	-	. Briquette . Wooden Ritual Dishes . Brick
Rural Market	. Bells	. Chemical Rope . Laundry Soap . Noodle . Ice Candies
Rural Raw Materials	. Ginseng Powder	. Wooden Checker Board . Briquette-Smoke- Consumers . Stones Product . Grease-Removing Liquid . Raw Silk . Tennis Racket
<u>Non-Rural Oriented (II)</u>		
Urban Oriented	. Padding . Electrical Wire . Gauze . Aluminum Tube . Yakult . PVC . Paper Cup . Telephone Parts . Men's Wear . Pre-Fab. Still Bar	. Tooth-Brush
Abroad Oriented	. Leather Jacket . Glove	. Varicon
Urban & Abroad Oriented	. Military Tent . Tennis Ball	. Bamboo Fan . Race Horse Bandage

raw material origin and market orientation of main product. As for Namwon, 13 products out of 17 products are rural oriented. Meanwhile, Youngin has only two rural-oriented products out of 16 products. Namely, 14(87.5%) out of 16 products are non-rural oriented (Table 4-24).

3) Motivation

Motivation considered to be a key component of entrepreneurship is manipulated in terms of business initiation and location.

Table 4-25 shows that there is considerable difference between the reasons expressed by the entrepreneurs of two study areas for entering the business concerned. The major reason of business set-up revealed by the majority of Youngin entrepreneurs is for much profit, which is a basic condition of a company. But in case of Namwon, half of entrepreneurs say that their first reason for the business is for the sake of subsistence. Moreover, noticable portion(20%) of entrepreneurs of Namwon didn't reviewed the feasibility of the business (Table 4-26), and 50% had not been experienced in those lines they are involved in (Table 4-27).

However, unlike Namwon entrepreneurs, Youngin entrepreneurs are more positive and characterized by modern entrepreneurship. In other words, almost all of them (94.7%) except one examined business profitability before they undertook the business. Furthermore, majority(79%) of them have their experiences in the lines (Table 4-26 & 27).

From the point of location motivation, more than half(21) of 39 entrepreneurs have established their industrial units without considering the locational factors (Table 4-28). Table 4-29 presents the breakdown of the non-locational factors on which the factories are established. Majority considered first individual relationships with the area such as hometown. Such is more cases with Namwon than Youngin. This Table 4-29 also presents on the other hand that especially in Youngin big portion of industrial foundation are made by the encouragement or shiftorder of the government, which reflects the governments' industrial relocation or decentralization policy.

Table 4-25. Reasons for Business Entrance

Reason	Unit: No. of Factories	
	Youngin(%)	Namwon(%)
Much Profit	8 (42.1)	8 (40.0)
Subsistence	2 (10.5)	10 (50.0)
Others	9 (47.4)	2 (10.0)

Total	19 (100.0)	20 (100.0)

* One factory which didn't answer was excluded.

Table 4-26. Feasibility Study of Business

Unit: No. of Factories		
Yes/No	Youngin(%)	Namwon(%)
Yes	18 (94.7)	16 (80.0)
No	1 (5.3)	4 (20.0)

Total	19(100.0)*	20(100.0)

* One factory which didn't answer was excluded.

Table 4-27. Experience in Business

Unit: No. of Factories		
Yes/No	Youngin(%)	Namwon(%)
Yes	15 (78.9)	10 (50.0)
No	4 (21.1)	10 (50.0)

Total	19(100.0)*	20(100.0)

* One factory which didn't answer was excluded.

Table 4-28. Consideration of Location Factors in Industrial Set-Up

Unit: No. of Factories		
Yes/No	Youngin(%)	Namwon(%)
Yes	8 (42.1)	10 (50.0)
No	11 (57.9)	10 (50.0)

Total	19(100.0)	20(100.0)

* One factory which did not answer was excluded.

Table 4-29. Reasons to Locate Factory
on the Area*

Reason	Unit: No. of Factories	
	Youngin(%)	Namwon(%)
Hometown	3 (27.2)	7 (70.0)
Government Encouragement and Shift Order	4 (36.4)	2 (20.0)
Others	4 (36.4)	1 (10.0)

Total	11(100.0)	10(100.0)

* Only those who responded "no" in the Table 4-28 are further questioned.

3. POLICY EFFECTIVENESS

As already mentioned and discussed, evaluation on policy effectiveness is made from two points of view, i.e., entrepreneur's point of view and government's point of view. When the evaluation is made from entrepreneur's point of view, the judgement index is level of awareness expressed in % computed from the formulae introduced Chapter II. From the government's point of view, the judgement criteria is the normative character of a program at the implementation level. In other words it is to assess whether the real situation of the program at the implementation level confirms to the originally attempted situation of the program at the central level in normative terms.

In measuring the policy effectiveness, the strategically adopted method here is to review and examine

the program through the ensuing detailed case. The evaluation on policy effectiveness is made in four fields of programs such as factory-construction-related programs, tax incentive programs, financial support programs, and other policy programs.

1) Factory Construction Related Programs

In Chapter III, it was already identified that factory construction in rural areas is highly regulated and limited by many rules and regulations, which brings about complex and time-consuming construction procedures. The legal days needed to complete the construction is 392 days and the construction is regulated by 11 laws and related with 89 organizations.

In this specific situation our point is to know that to what degree rural entrepreneurs know about these complex factory construction procedures and how the industry related administration is conducted at the local government office. Then, our focus is stretched up to the entrepreneur's detailed experience in the program as a case.

A. Level of Awareness

The entrepreneur's level of awareness about the factory construction procedures who have constructed their industrial units after 1977 is 62.6%. The levels for Youngin and Namwon are 64.3% and 60.0% respectively (Table 4-30).

Judging from these levels of awareness entrepreneur's awareness level is not so high showing that Youngin entrepreneurs are higher than Namwon entrepreneurs by 4.3%. This means that the rural entrepreneurs do not have enough knowledge about factory construction procedures

as far as factory construction programs are concerned.

B. Local Government

Industrial Section

Here in this part, our attention is to review how the local government is organized to handle the industry-related administration and to know what is going on in the local government in relation with industrial administration.

Turning to the organizational character of two local governments, it is noted that in Youngin there is an independent section, i.e., commerce and industry section to handle exclusively the industrial administration while in Namwon there is no such specific section. Accordingly in Namwon the industrial job is being conducted at the individual official level. Difference is also noted in their belongings. Youngin industrial section belongs to Production Department and Namwon industrial administration is under the control of Agricultural Department (Figure 4-1)

Table 4-30. Level of Awareness About Factory Construction Procedures

Level (Weight)	Unit: No. of Factory		
	Youngin(%)	Namwon(%)	Total(%)
Know Well(5)	1 (7.1)	1 (11.1)	2 (8.7)
Know(4)	3 (21.4)	1 (11.1)	4 (17.4)
Neutral(3)	8 (57.1)	5 (55.6)	13 (56.5)
Know Little(2)	2 (14.3)	1 (11.1)	3 (13.0)
Know Nothing(1)	-	1 (11.1)	1 (4.3)

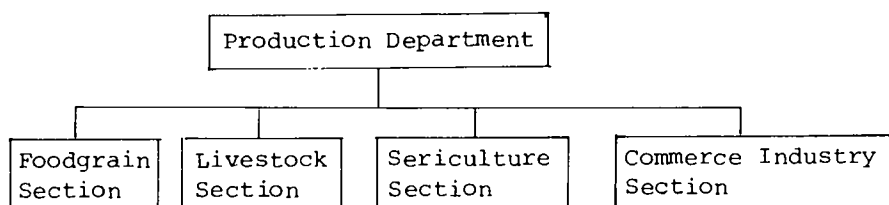
Total	14 (100.0)	9 (100.0)	23 (100.0)

Level of Awareness(%)	64.3	60.0	62.6

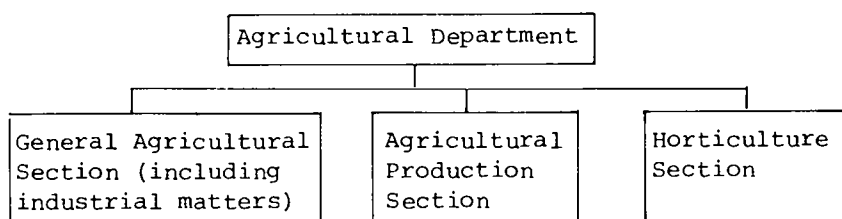
* Only those who constructed their factories after 1977 were questioned.

Figure 4-1. Organization of Commercial and Industrial Section

Youngin



Namwon



Industrial Personnel Concerned

In Namwon only one working-level official is handling the commercial and industrial administration. As for Youngin, the personnel concerned are five members.

Accordingly, the number of factories which one officer has to handle is 67 for Namwon and 54.8 for Youngin, which is much larger than the national scale, 19.7 factories (Table 4-31).

Table 4-31. No. of Commercial and Industrial Personnel and Job Amount, 1979

Area	Total No. of Industrial Units (B) *	No. of Personnel (A)	B/A
Youngin	274	5	54.8
Namwon	67	1	67.0

* Included factories with less than 5 employees

Source: 1. 20th Statistical Year Book, Youngin Kun, 1980.
2. 20th Statistical Year Book, Namwon Kun, 1980.

Industrial Location Development

In both areas, the industrial location development programs have not been in effect properly, so that the security of factory site is strongly regulated and limited.

Even in Youngin where 274 factories are accommodated, the industrial areas are designated in only three administrative units such as Youngin-eup, Giheung-myeon and Naesa-myeon (Table 4-32) though 274 factories are dispersed over 11 administrative units (Table 4-33).

In case of Namwon, the industrial area has not been appointed at all (Table 4-34).

In this situation, it is therefore very difficult to secure a factory site in rural areas where presently a proper location development program does not exist. Moreover, what makes the matter worse is that the security of factory site is severely regulated by the non-industrial development programs such as farmland conservation, forestry conservation, environment conservation and the like. Accordingly, the prospective area to be changed into

Table 4-32. Situation of Land Use Plan, Youngin Kun, 1980.

Unit: Km²

Eup/Myeon	Land Use Type						Reserved
	Total	Residential	Commercial	Industrial	Greenbelt	Agri-cultural	
Youngin	18.91	1.36	0.11	0.68	16.54	0.22	
Suji	6.22	0.44	0.03		5.38		0.37
Giheung	9.29	0.76	0.07	0.29	8.05	0.12	
Ieodong	1.63	0.18	0.01		1.19	0.25	
Wonsam	1.30	0.13	0.01		0.89	0.27	
Oesa	2.46	0.20	0.01		1.80	0.45	
Naesa	3.11	0.25	0.20	0.24	2.05	0.55	

Total	42.92	3.32	0.26	1.21	35.90	1.86	0.37

Source: Department of Construction, Youngin Kun Office, 1980.

factory site first should be recommended by the Minister or head of the ministry or office controlling the business field of the factory to be manufactured and get approval at the local government level, Gun office and then at the provincial level and finally at the central level by the Minister or the Head which controls the area. Then, factory building ought to be permitted by MOCI. After getting the approval of factory construction on the specific area, on which factory construction is started subject to construction related rules and regulations. Besides, permission on business field, noise, electricity, and pollution has to be obtained. This is a brief overview on factory construction procedure which allows why factory construction in rural areas is very difficult, complex, and time-consuming. The critical process of factory construction is again illustrated in the form of flow chart in Figure 4-2.

Table 4-33. Distribution of Factories Among Eup and Myeons, Youngin-Gun as of Dec. 31, 1979.

Eup/Myeon	No. of Factories	Industrial Area
Youngin Eup	45	Yes
Pokok Myeon	25	No
Mohyun Myeon	11	No
Gusung Myeon	30	No
Suji Myeon	30	No
Giheung Myeon	63	Yes
Namsa Myeon	8	No
Yeedong Myeon	16	No
Wonsam Myeon	8	No
Oesa Myeon	17	No
Nae Sa Myeon	21	Yes

Total	274	

Table 4-34. Situation of Land Use Plan,
Namwon Eup

Type of Land Use Plan	Area Planned (Unit: 1,000 m ²)	%
Residential Area	4,030	18.4
Commercial Area	382	1.7
Industrial Area	-	-
Agricultural Area	770	3.5
Greenbelt Area	16,768	76.4

Total	21,950	100.0

Source: Dept. of Construction, Namwon Kun Office, 1980.

Policy Coordination

At the implementation level, the policy coordination between the institutions is not maintained well. In both areas, the statistics on the factories under suspension or cessation of business is not kept by the local government because of lack of administrative coordination between Kun Office and local Tax Administration office. As a result, efficient management and adequate control of the industries has not been assured by the local government, Kun Office.

C. Cases

To know dramatically the particulars of the situation happening to an entrepreneur under the foregoing specific situations of entrepreneur's rather low level of awareness and the problems deriving from the local government in the study areas at the implementation level, detailed cases are introduced.

Figure 4-2. Critical Process of Factory Construction

<u>Step</u>	<u>Main Activity</u>	<u>Major Laws, Act., Rules, Etc.</u>	<u>Estimated Days to be Taken</u>
I (Security of Factory Site)	Acquirement of Recommendation for Security of Factory Site by the Related Minister or Head of Business Field	. Farmland Conservation and Its Use Law . Forestry Law . River Control and Management Law, etc.	288
	Acquirement of Land Transformation Permission by the Minister ^{1/} of Head Concerned	. Farm Land Conservation and Its Use Law . Forestry Law . River Control and Management Law	
II (Construction)	Report and Approval of Factory Construction to the Provincial Governor or the Minister of MOCI ^{2/}	. Industrial Location Act (Report of Factory Construction)	89
	Start of Factory Construction	. Urban Planning Law . Building Code . Road Control & Management Law . River Control & Management Law	
III (Registration & Permission)	Completion and Acquirement of Various Approvals	. Building Code (Permission of Completion) . Industrial Location Act. (Completion Report) . Environment Conservation Law (Permission on Pollution) . Security Management Law (Electrical Security) . Business Registration Act. (Business Permission)	15
			392 Days

^{1/} When more than 1 ha (3,000 Pyung) of relative farm land or more than 330 m² (100 Pyung) of absolute farm land are transformed.

^{2/} When the factory site and building site are more than 3,000 m² and 1,000 m² respectively.

Generally(74%), the entrepreneurs visit the Gun Office more than 6 times and in addition they have to visit many other institutions. Accordingly it is considered that they have to visit the organizations at least more than 10 times in relation with factory construction (Table 4-35).

Specifically in case of factory series No. N-11 in Namwon(Appendix A), the entrepreneur who is producing the coal briquette-smoke-consumer did not know about the construction procedures well. So he first constructed the factory without any permission by the Gun Office. Consequently, the factory had to be removed by the Gun Office and he had to start construction again according to the legal administrative procedures.

In case of N-13 producing varicon which is one of electronic parts, the unit is suffering from the lack of factory site. In Namwon, there is no industrial area so that the security of the factory site is very difficult and strongly limited. In this situation, the

Table 4-35. No. of Visiting Times to Kun Office on Account of Factory Construction

No. of Visit Times	Unit: No. of Factories		
	Youngin(%)	Namwon(%)	Total(%)
Less than 5	3 (21.4)	3 (33.3)	6 (26.1)
6 - 10	8 (57.1)	2 (22.7)	10 (43.5)
11 - 15	2 (14.3)	1 (11.2)	3 (13.0)
Over 21	1 (7.2)	3 (33.3)	4 (17.4)

Total	14 (100.0)	9(100.0)	23(100.0)

* Only those factories which constructed their factories after 1977 are included.

factory could not get the factory site in the town. So it had to rent the building for its work-place.

Table 4-36. Opinions About Factory Construction Procedure

Opinions	Unit: No. of Factories		
	Youngin(%)	Namwon(%)	Total(%)
Very Complex	4 (28.6)	6 (66.7)	10 (43.5)
Complex	7 (50.0)	-	7 (30.4)
Neutral	2 (14.3)	3 (33.3)	5 (21.7)
Simple	1 (7.1)	-	1 (4.4)
Very Simple	-	-	-

Total	14 (100.0)	9 (100.0)	23 (100.0)

* Only those who constructed their factories after 1977 were questioned.

D. Entrepreneur's Opinions and Attitudes Toward the Factory Construction

Seventeen(74%) out of 23 entrepreneurs thought that factory construction procedure is very complex or complex (Table 4-36). Resultantly they insist at the level of 83.5% (Table 4-37) that pre-education on factory construction should be given to prospective entrepreneurs.

Furthermore, they highly (at the level of 81.6%) emphasized the necessity of building an institution which will exclusively deal with the present complex and time-consuming factory construction related business (Table 4-38).

Table 4-37. Attitudes Toward the Necessity of Pre-Education for Factory Construction

Unit: No. of Factories			
Attitude (Weight)	Youngin(%)	Namwon(%)	Total(%)
Strongly Disagree(1)	-	-	-
Disagree(2)	-	-	-
Neutral(3)	2 (14.3)	1 (11.1)	3 (13.0)
Agree(4)	8 (57.1)	5 (55.6)	13 (56.3)
Strongly Agree(5)	4 (28.6)	3 (33.3)	7 (30.5)

Total	14 (100.0)	9 (100.0)	23 (100.0)
Level of Agreement (%)	82.9	84.4	83.5

* Only those who constructed their factories after 1977 questioned.

2) Tax Incentive Programs

A. Level of Awareness

The expressed degree of awareness about each tax incentive program and its averaged level of awareness are presented in the form of matrix on Table 4-39.

Those entrepreneurs from both study areas know little about tax incentive programs. They know the tax incentive policy as a whole at the level of 48.2%. When reviewing the entrepreneur's level of awareness separately, the Namwon entrepreneurs know less about the programs than Youngin entrepreneurs. The levels of awareness are 56.3% for Youngin entrepreneurs and 48.2% for Namwon entrepreneurs. This means that the entrepreneurs

Table 4-38. Attitudes Toward the Necessity
of an Institution Building for
Factory Construction Business

Unit: No. of Factories

Category of Attitudes(Weight)	Youngin(%)	Namwon(%)	Total(%)
Strongly Disagree(1)	-	-	-
Disagree(2)	-	1 (6.7)	1 (4.0)
Neutral(3)	2 (20.0)	3 (20.0)	5 (20.0)
Agree(4)	4 (40.0)	6 (40.0)	10 (40.0)
Strongly Agree(5)	4 (40.0)	5 (33.3)	9 (36.0)
Total	10(100.0)	15(100.0)	25(100.0)
Level of Agreement(%)	84.0	80.0	81.6

* Those two factories which didn't answer were excluded.

do not benefit from the tax incentive programs due to the lack of information about them.

Even in case of tax levy criteria and calculation method for their own business income, it is recognized the awareness level is also not so high(72.3%). But reviewing the Youngin entrepreneurs separately from Namwon entrepreneurs, it is noted that relatively Youngin(77%) is pretty higher than Namwon(67.4%) (Table 4-40).

B. Cases

Under the lack of awareness about the tax incentive programs, tax levy criteria, and tax calculation method, they think that the amount of tax imposed on them is heavy at the level of 72.7% with 76% for Youngin and 69.3% for Namwon. Despite the Namwon entrepreneurs are characterized by lower level of awareness, the reason

Table 4-39. Distribution of Expressed Awareness Degree on Each Tax Program and Its Averaged Level of Awareness

Category(Weight) Area		Unit: No. of Factories																	
		Know Nothing (1)			Don't Know (2)			Netural (3)			Know (4)			Know Well (5)			Level of Awareness(%)		
Programs		Y	N	T	Y	N	T	Y	N	T	Y	N	T	Y	N	T	Y	N	T
Facility Replacement Reserve Fund System		.	4	4	5	8	13	6	4	10	5	.	5	1	.	1	62.3	40.0	51.5
Increase of Depreciation Rate		.	5	5	7	7	14	5	3	8	6	1	7	.	.	.	58.9	50.0	50.0
Overseas Market Development Reserve Fund		2	7	9	6	5	11	3	3	6	5	1	6	.	.	.	53.8	37.5	45.6
Reduction of Corporation Tax		1	5	6	4	7	11	7	3	10	6	1	7	.	.	.	60.0	50.0	50.6
Support of Individual Units' Incorporation		2	5	7	6	5	11	5	6	11	4	.	4	.	.	.	52.9	41.3	47.3
Support of Affiliation		4	7	11	5	3	8	4	6	10	4	.	4	.	.	.	49.4	38.8	44.2
----- Total		9	33	42	33	35	68	30	25	55	30	3	33	1	.	1	56.3	39.6	48.2

* Those factories which didn't answer were excluded.

* Y stands for Youngin; N for Namwon; and T for Total.

why they think their taxes are heavy at the lower level than Youngin is understood that they take the levied taxes for granted because of lack of awareness.

Table 4-40. Level of Awareness About Tax Levy Criteria and Tax Calculation Method.

Unit: No. of Factories			
Category (Weight)	Youngin(%)	Namwon(%)	Total(%)
Know Nothing(1)	-	2 (10.5)	2 (5.1)
Don't Know(2)	2 (10.0)	2 (10.5)	4 (10.3)
Neutral(3)	5 (25.0)	7 (36.8)	12 (30.8)
Know (4)	7 (35.0)	3 (15.8)	10 (25.6)
Know Well(5)	6 (30.0)	5 (26.3)	11 (28.2)

Total	20(100.0)	19(100.0)	39(100.0)

Level of Awareness(%)	77	67.4	72.3

* One factory which didn't answer was excluded.

Table 4-41. Attitudes About Tax Levied

Unit: No. of Factories			
Attitude Category (Weight)	Youngin(%)	Namwon(%)	Total(%)
Very Light	-	1 (6.7)	1 (3.3)
Light	-	-	-
Neutral	4 (26.7)	6 (40.0)	10 (33.3)
Heavy	10 (66.7)	7 (46.7)	17 (56.7)
Very Heavy	1 (6.7)	1 (6.7)	2 (6.7)

Total	15(100.0)	15(100.0)	30(100.0)

Level of Attitudes(%)	76.0	69.3	72.7

* Those 10 factories which didn't answer were excluded.

Moreover, considerable portion(14) of the 39 entrepreneurs are asking the others for tax calculation for the clearance of tax imposed on their units (Table 4-42). Mainly they(10 entrepreneurs) ask CPA or tax accountant(Table 4-43.).

Coming to the specific cases, N-1, (Appendix A) the factory does not know about tax calculation and even

Table 4-42. Asking for Tax Calculation Support

Yes/No	Unit: No. of Factories		
	Youngin(%)	Namwon(%)	Total(%)
Yes	8 (40.0)	6 (31.6)	14 (35.9)
No	12 (60.0)	13 (68.4)	25 (64.1)
- - - - -	- - - - -	- - - - -	- - - - -
Total	20 (100.0)	19 (100.0)	39 (100.0)

* One factory which didn't answer was excluded.

Table 4-43. Those whom the Entrepreneurs Rely on in Tax Calculation

Those Asked	Unit: No. of Factories		
	Youngin(%)	Namwon(%)	Total(%)
Other Entrepreneurs in the Same Line	-	1 (16.7)	1 (7.1)
CPA, Tax Accountant, Etc.	7 (87.5)	3 (50.0)	10 (71.4)
Others	1 (12.5)	2 (33.3)	3 (21.4)
- - - - -	- - - - -	- - - - -	- - - - -
Total	8 (100.0)	6 (100.0)	14 (100.0)

* Only those who ask tax calculation support are included

the kinds of tax he is paying. So what he is doing is to pay simply the tax levied.

In case of N-11, he is paying a visit to the provincial capital, Jeonjoo to be helped in tax calculation by CPA 4 or 5 times for every quarter tax calculation.

As for Y-4 (Appendix B), the calculation is done by inviting CPA to the factory, which resulted in 1.2 million won expense in 1979. Turning to Y-6, the more difficulty is noticed. In relation with tax calculation, he has to visit Tax Administration Office located in Suwon which is one hour away by bus more than 10 times. Therefore, he insists that some education on tax should be taken up for the rural entrepreneurs like him.

3) Financial Support Programs

A. Level of Awareness

Referring to Table 4-44, it is very surprising to know that very low level of awareness, i.e., 45.6% is noticed in financial support programs. This level is even lower than (48.2%) of tax incentive policy which is still considered very low. Coming to the Namwon entrepreneur's level, it is more surprising, for this level (40.6%) is even lower than the total level of awareness. This fact clearly implies that the entrepreneurs in both areas are kept away from the financial support policy benefit.

B. Cases

In the above situation, our big concern is to know how they supply the fund when they are in need of fund. In case of Youngin, main sources of fund are financial organization. Twelve units of 17 units said that they rely on financial organizations. Unlike in

Table 4-44. Distribution of Expressed Awareness Degree on Each Financial Support Program and Its Averaged Level of Awareness

		Unit: No. of Factories																	
Programs	Category (Weight) Area	Know Nothing (1)			Don't Know (2)			Neutral (3)			Know (4)			Know Well (5)			Level of Awareness (%)		
		Y	N	T	Y	N	T	Y	N	T	Y	N	T	Y	N	T	Y	N	T
Credit Loan Without Mortgage		2	2	4	4	5	9	7	6	13	3	3	6	.	1	1	53.8	55.3	54.5
Credit Guarantee Fund		2	3	5	3	6	9	9	4	13	3	2	5	.	1	1	55.3	50.0	52.7
Purchase of Local-Made Machine		1	7	8	4	5	9	9	3	12	2	1	3	.	.	.	55.0	37.5	46.3
Promotion of Professional Mechanical Workshop		1	7	8	7	7	4	4	3	7	2	.	2	.	.	.	50.0	35.3	41.9
Promotion of Systematization		.	7	7	8	5	13	3	4	7	3	.	3	.	.	.	52.9	36.3	44.0
Preferentially Supported Small and Medium Industry Item		1	5	6	4	5	9	8	7	15	4	.	4	.	.	.	57.6	42.4	50.0
Support of Saemaul Factory		1	3	4	6	6	12	3	5	8	4	1	5	.	.	.	54.3	45.3	49.7
Professional Production of Export Handicraft		4	5	9	6	4	10	3	6	9	1	.	1	.	.	.	41.4	41.3	41.4
Affiliation		2	5	7	7	7	14	3	2	5	2	.	2	.	1	1	47.1	40.0	43.4
Business Transformation		2	6	8	7	6	13	3	3	6	2	.	2	.	.	.	47.1	36.0	41.4
Application of New Technology		1	6	7	8	7	15	4	2	6	1	.	1	.	.	.	47.1	34.7	40.7
Cooperative's Joint Project		1	6	7	8	5	13	5	3	8	1	.	1	.	.	.	48.0	35.7	42.1
Successful Factory in Saemaul Factory		.	4	4	9	7	16	4	4	8	1	.	1	.	.	.	48.6	40.0	44.1
Support of Export Facility		1	5	6	6	6	12	7	3	10	1	.	1	.	.	.	50.7	37.1	44.1
Total		19	71	90	87	81	168	72	55	127	30	7	37	.	3	3	50.9	40.6	45.6

* Y is Youngin; N Namwon; and T Total.

* Those factories which didn't answer were excluded.

Youngin, the main source has been identified to be a friend in Namwon. Out of 19 units, nine said that they rely on their friends. As a result, it is known that in Namwon non-official and informal fund sources are more preferred than in Youngin(Table 4-45).

Table 4-45. Fund Supply Sources

Sources	Unit: No. of Factories		
	Youngin(%)	Namwon(%)	Total(%)
Bank	12 (70.6)	7 (36.8)	19 (52.7)
Friend	1 (5.9)	9 (47.4)	10 (27.8)
Dealing Company	3 (17.6)	1 (5.3)	4 (11.1)
Private	-	2 (10.5)	2 (5.6)
Others	1 (5.9)	-	1 (2.8)

Total	17(100.0)	19(100.0)	36(100.0)

* Four factories which did not answer are excluded.

In Youngin, those who deal with banks should go to Seoul or Suwon because there is no bank except for the Agricultural Cooperatives in Youngin. In case of Y-5, in order to loan 120 million won he had to visit a bank in Seoul more than 11 times and prepare the required document more than 11 times.

Accordingly, it took him 15 days to be loaned and he spent one million won as expenses accounting for 0.8% of the total amount loaned. In using bank, one of the major obstacles is insufficient mortgage ability. In case of Y-7, the requested loan was turned down because

of the lack of mortgage ability.

Coming to Namwon, N-1 explains the reason why he prefers the private fund source to the bank. He prefers it because in private loan there is no need to mortgage and it can be quickly borrowed while the opposite is the case with bank.

In case of N-2, he had to go to Jeonjoo which is two-hours away by bus to use the Small and Medium Industry Bank because it is not in Namwon. Therefore he had to visit the bank more than 11 times and prepare the document 6-8 times. It took him 15 days to be loaned and 2.5% of the amount was given to the expenses. In both areas, there are no such professional policy supporting banks as the Small and Medium Industry Bank and the Citizens National Bank. Namwon has one Agricultural Co-operative. Even when the low-interest fund is available, the fund is always given to the relatively large-scale industries. In case of N-9, he was turned down from the low-interest policy fund loan because of relative weakness in scale. N-11 contends that long-term fund should be mobilized for rural industries to give the stability in management. To which he attributed the reason why he does not use a bank.

The fund urgently needed and the term of fund most preferred are fund for raw material procurement and long-term (Table 4-46 and Table 4-47).

C. Opinions and Attitudes

If the opinions and attitudes of the entrepreneurs about the contribution level of existing financial support programs to the rural industry development is

averaged using the given formula, the percentage level remains at 64%. As a result, we can know that they do not have so favorable attitudes toward the present financial support policy. Namwon Entrepreneurs have much more unfavorable attitudes. Their attitude level stands at 50.0% (Table 4-48).

Table 4-46. Fund Urgently Needed

Kinds of Fund	Unit: No. of Factories		
	Youngin(%)	Namwon(%)	Total(%)
Raw Material Procurement	11(61.1)	12(63.2)	23(62.2)
Facility Improvement	5(27.8)	3(15.8)	8(21.6)
Factory Expansion	-	2(10.5)	2(5.4)
New Machine Purchase	1(5.6)	-	1(2.7)
Others	1(5.6)	2(10.5)	3(8.1)

Total	18(100.0)	19(100.0)	37(100.0)

* Three factories which did not answer were excluded.

Table 4-47. Loan-Term Desired

Term	Unit: No. of Factories		
	Youngin(%)	Namwon(%)	Total(%)
Short-Term	1 (5.6)	4 (22.2)	5 (13.9)
Middle-Term	9 (50.0)	1 (5.6)	10 (27.8)
Long-Term	8 (44.4)	13 (72.2)	21 (58.3)

Total	18(100.0)	18(100.0)	36(100.0)

Table 4-48. Attitudes Toward the Contribution
of Present Financial System to the
Rural Industry Development

Attitudes Category (Weight)	Unit: No. of Factories		
	Youngin(%)	Namwon(%)	Total(%)
Very Unhelpful(1)	-	1 (7.1)	1 (4.0)
Unhelpful(2)	3 (27.3)	2 (14.3)	5 (20.0)
Neutral(3)	4 (36.4)	5 (35.7)	9 (36.0)
Helpful(4)	3 (27.3)	5 (35.7)	8 (32.0)
Very Helpful(5)	1 (9.1)	1 (7.1)	2 (8.0)

Total	11(100.0)	14(100.0)	25(100.0)

Level of Attitudes(%)	63.6	50.0	64.0

4) Others

Now turning to the government's other supporting programs such as technology guidance, management guidance and so forth, it is also noticed that they have not benefited properly from even those policy programs. Table 4-49 verifies this fact by showing that only five out of thirty-six entrepreneurs have been trained or guided by the government related institutions on technology or management for the last three years.

Table 4-49. Education or Guidance on Technology
or Management

Yes/No	Youngin(%)	Namwon(%)	Total(%)
Yes	3(17.6)	2(10.5)	5(13.9)
No	14(82.4)	17(89.5)	31(86.1)

Total	17(100.0)	19(100.0)	36(100.0)

* Four factories which didn't answer were excluded.

Accordingly, the rural entrepreneurs in the study areas under the specific situations identified so far by this study do not appreciate government's efforts for the rural industry development so high. The percentage effort level of the government evaluated is 66.9% (Table 4-50).

4. MARKETING PROBLEM OF RURAL INDUSTRY

Through the foregoing review of the rural industries in terms of major supply area of raw materials and major sales market, it has been identified that the rural industry has close connection with both rural and urban & abroad markets irrespective of their scale and location. If then, our specific focus in this part is to know the marketing problems faced by those rural industries which is generally considered to have relatively many difficulties in such aspects as scale, location and the like comparing with urban industries.

To this end, the first effort is given to the identification of types of rural industries and then to the specific problems met by these industries in the domestic and overseas markets.

1) Types of Rural Industry

As a result of factory cross-tabulation by the major raw material supply area and major sales market of their first main product, we have got such three tables as Table 4-51, Table 4-52, and Table 4-53. Relying on Table 4-51, it is recognized that out of thirty-four

Table 4-50. Attitudes Toward the Government's
Efforts for Rural Industry
Development

Attitude Category (Weight)	Unit: No. of Factories		
	Youngin(%)	Namwon(%)	Total(%)
Very Negative(1)	-	-	-
Negative(2)	1 (7.1)	3 (16.7)	4 (12.5)
Neutral(3)	8 (57.2)	9 (50.0)	17 (53.1)
Positive(4)	3 (21.4)	4 (22.2)	7 (21.9)
Very Positives(5)	2 (14.3)	2 (11.1)	4 (12.5)

Total	14(100.0)	18(100.0)	32(100.0)

Level of Attitudes (%)	68.6	65.6	66.9

industries only three have purely rural-oriented characters. This table also shows that three industries with one from Namwon and two from Youngin have specific relationships only with abroad and twelve, with urban. However, in Youngin no factory has exclusive bonds only with rural (Table 4-52).

Based on their linkage characters, two types of rural industries have been identified (Table 4-54). That is to say, one is Rural Oriented Factory (Type I) and the other is Non-Rural Oriented Factory (Type II). Table 4-54 presents that 16 factories out of 34 factories are listed in Type I (Rural Oriented Industry) while the other 18 factories are categorized into Type II (Non-Rural-Oriented Industry).

When coming to the separate area level, it is distinctly recognized that the characters of the industries are quite different from each other. As for Youngin, only one factory has rural linkage. In other words, fifteen out of 16 factories are characterized by Type II, the Non-Rural-Oriented Industry. In Namwon, however, the reverse situation is noticed. Out of 18 factories, 15 factories are classified into Type I, the Rural-Oriented Industry. Therefore, this statistics leads us to the conclusion that Namwon is truly rural-oriented industry and Youngin is urban-oriented industry though both Youngin and Namwon locate in rural areas.

Table 4-51. Classification of the Surveyed Industries by the Origin of Raw Material Supply and Major Sales Market

Unit: No. of Factory				
Major Raw Material Supply Area ^{1/}	Major Sales Market ^{2/}			Total
	Rural	Urban	Abroad	
Rural	3 (8.8)	6 (17.6)	3 (8.8)	12 (35.3)
Urban	4 (11.8)	12 (35.3)	3 (8.8)	19 (55.9)
Abroad	-	-	3 (8.8)	3 (8.8)
- - - - -	- - - - -	- - - - -	- - - - -	- - - - -
Total	7 (20.6)	18 (52.9)	9 (26.5)	34 (100.0)

^{1/} The supply area from where more than 50% of raw material is supplied.

^{2/} The sales market where more than 50% of main product are sold.

* Those six factories which didn't meet the classification criteria were excluded.

Table 4-52. Classification of Youngin Industries by the Origin of Raw Material Supply and Major Sales Market

	Unit: No. of Factory			
Major Raw Material Supply Area ^{1/}	Major Sales Market ^{2/}			Total
	Rural	Urban	Abroad	
Rural	-	-	1 (6.3)	1 (6.3)
Urban	-	11 (68.9)	2 (12.4)	13 (81.3)
Abroad	-	-	2 (12.4)	2 (12.4)
- - - - -	-	-	-	-
Total	-	11 (68.9)	5 (31.1)	16(100.0)

^{1/} The supply area from where more than 50% of raw material is supplied.

^{2/} The sales market in which more than 50% of main products are sold.

* Those 4 factories which didn't meet the classification criteria were excluded.

Table 4-53. Classification of Namwon Industries by the Origin of Raw Material Supply and Major Sales Market

	Unit: No. of Factory			
Major Raw Material Support Area ^{1/}	Major Sales Market ^{2/}			Total
	Rural	Urban	Abroad	
Rural	3(16.8)	6(33.3)	2(11.1)	11(61.1)
Urban	4(22.2)	1(5.6)	1(5.6)	6(33.3)
Abroad	-	-	1(5.6)	1(5.6)

Total	7(38.9)	7(38.9)	4(22.2)	18(100.0)

^{1/} The supply area from where more than 50% of raw material is supplied.

^{2/} The sales market where more than 50% of main products are sold.

* Those two factories which didn't meet the classification criteria were excluded.

Table 4-54. Two Types of Rural Industry
in the Study Areas

Types	Unit: No. of Factories		
	Youngin (%)	Namwon (%)	Total (%)
Rural-Oriented (Type I)	1 (6.3)	15 (83.2)	16 (47.1)
Rural Raw Material & Rural Market	-	3 (16.6)	3
Rural Raw Material	1 (6.3)	8 (44.4)	9
Rural Market	-	4 (22.2)	4
Non-Rural-Oriented (Type II)	15 (93.7)	3 (16.8)	18 (52.9)
Urban-Oriented	11 (68.8)	1 (5.6)	12
Abroad-Oriented	2 (15.6)	1 (5.6)	3
Urban & Abroad- Oriented	2 (15.6)	1 (5.6)	3

Total	16 (100.0)	18 (100.0)	34 (100.0)

2) Marketing Problems

Referring to the types of rural industries (Table 4-51), the marketing problems confronted by the rural industries can be studied at three different levels such as rural, urban, and overseas marketing. For the convenience of discussion, the Table 4-51 is denoted symbolically by Table 4-55.

Table 4-55. Types of Rural Industries
by Symbolic Denotation

Major Input Market	Major Output Market		
	Rural	Urban	Abroad
Rural	IA	IB	IC
Urban	IIA	IIB	IIC
Abroad	IIIA	IIIB	IIIC

(1) Identification of Marketing Problems

a) Rural Marketing

Generally speaking, those types of rural industries in the category A, particularly IA and IIA, faces the problem of securing rural markets for their products due to the limited size of rural markets. Except the case of producing competing goods supplied by the urban industries, this type of rural industries may have a relatively secure market based upon the informal or personal distributive rural marketing networks.

However, increasing entrance of urban produced goods into the rural markets along with the expanding transportation network substitutes rural produced ones. Consequently, many small scale rural industries are losing their economic foundation in the rural markets. This increasing entrance also serves as a prime cause for weakening the rural economy.

This problem situation raises a difficult policy question about the marketing arrangements: whether it is desirable to prohibit the entrance of certain urban made goods into the rural markets?

In dealing with the problem of rural marketing, lack of knowledge on rural market structure, particularly informal marketing system, is most critical. This is the needed research area which has been largely neglected.

b) Urban and Oversea Marketing

However, more difficult marketing problems arise in the case of IB and IC type of rural-based or agrorelated industries. Examples are handicraft and

agricultural product processing industries. They face normally the severe overcompetition problem among rural industries, and the problem of inaccessibility to urban and oversea marketing. They also faces the marketing information and marketing technique problem in securing their markets.

In contrast, those types of IIB, IIC, IIIB and IIIC industries may have similar marketing problems with a different degree. They are competing largely with urban industries for domestic and foreign markets. The subcontracting and the indirect export through the exporting agencies are often found marketing arrangements

(2) Marketing Problems of Rural Industries: An Illustration

As an illustration, three areas of marketing problem, i.e., the handicraft marketing, the subcontract marketing, and the export marketing, of rural industries are discussed in details. These three areas provide the typical cases of marketing problems of rural industries.

a) The Problem of Handicraft Marketing

Handicraft industry is one of the typical type of rural industry. Handicrafts are made by small cottage industries utilizing rural-produced raw materials. Most handicrafts are made from the limited rural raw materials which are largely produced during a particular season. They are produced for the limited market demands which are also highly income-elastic. Most of handicrafts are sold to peddlers, local retailers and wholesalers. They are also sold at the rural periodic markets. In other words, in terms of marketing channels, rural

handicraft enterprises are largely dependent upon the informal distribution network. In addition, a great portion of handicrafts are sold usually on credit and/or consignment bases. These are some of generic characteristics of rural handicraft industry.

The first and most difficult marketing problem of handicraft industry is the insecured and unstable marketing. This situation forces handicraft industry keeping in the weakest marketing position in terms of bargaining, and taking unfavorable terms. A typical example is the long-term bill collection arising from the credit and/or consignment sale.^{3/} This type of marketing practice gives handicraft industries a great financial pressure on the entire business operation.

The limited market demand for handicrafts with its income-elastic nature often creates the problem of over-competition among the handicraft industries. In addition increasing appearance of substitutable goods is another important factor delimiting the market size of handicraft goods.

In some cases, the government assistance program promoting rural handicraft industries creates the problem of overproduction, and, as a result, the problem of over-

^{3/} The authors surveyed 59 rural cottage industries in 1980 in Korea, and found that about 45% of the surveyed industries sold their products to the informal sectors and also about 45% replied that the bill collection took them more than 3 months. In some cases, it takes more than 6 months. See, Yang Boo Choe and et.al., Problems of Rural Cottage Industry, Research Report 23, Korea Rural Economics Institute, 1980, pp. 58-60.

competition. The government program, which does not take account the distinctive economic characteristics of handicrafts goods, often encourages the new establishments or the expansion of production capacity as a way of improving rural household income status. However, some of unintended consequences resulted from the government program assisting the production increase only are: over-production with lowering unit prices; lack of sales and over-competition, increasing demand for the limited raw materials with higher prices.

The other problem area of handicraft marketing is the problem of quality control involved in design, colour, and finishing. Because handicraft goods are highly income-elastic ones, it is very important to produce high quality goods within a controlled quantity. Also, the handicrafts to a great extent should contain certain artistic touch. Without retaining this artistic value, the mass production may not be helpful in securing the market in the long run. For this reason, the quality control is one of the most important marketing strategy.

b) The Problem of Subcontract Marketing

It is often emphasized that subcontracting arrangements could help rural industries to secure their markets. This is true under the condition that there exists a fair trading between the subcontract-letting and the subcontract-taking firms. However, in the real world, most of subcontract-taking firms are in a weaker position in terms of negotiation. Due to the lack of bargaining power, the subcontract-taking firm faces many

difficulties. Some of them are: low unit price, long-term bill collection, unsecured contracts including the dishonor of goods, and tight quality inspections.^{4/} Furthermore, in some cases, the subcontract-letting firm demands certain extra conditions of providing salesmen for the products.

In other cases, the subcontract-letting firm utilizes the subcontract arrangement as a way of merging the subcontract-taking firm itself. One of the often used tactic is that the subcontract-letting firm encourages the subcontractor to expand the production capacity by assuring the purchase of increased products. After a certain period of time, the subcontract-letting firm asks that it is very difficult to buy all the requested amount due to the unexpected market situation for the products. In the mean time, the subcontractors found themselves in a financial burden resulted from the expansion of production capacity. In this difficult situation, they are forced not only to sell their product at a discount price, but also to sell their firm in order to solve the financial problem.

The problem of subcontract marketing is not the necessity of such marketing arrangements, but the workable subcontracting practice assuring the fair trading environments.

c) The Problem of Export Marketing

As suggested in Table 4-51, many rural industries engage in the import and export marketing. The number

^{4/} Small and Medium Industry Bank, Small and Medium Industries of Korea, 1980, pp. 21-23.

of rural enterprises involves in the export marketing is in increasing trend in recent years.

However, most of rural industries faces difficult problems delimiting their access and direct participation to the export marketing. Some of them are listed as follows:

- lack of direct sale ability including limited access to the foreign buyers and limited capability to negotiate with them
- limited informations on the oversea markets including lack of opportunities to participate in various oversea exhibition and oversea publicity
- concentration of export-import related organizations to the limited region including foreign exchange bank and other export-supporting service facilities such as telex etc. These are causes often creating delay in L/C opening and negotiation
- lack of rural public or private service institutions supporting export marketing creates: increase of accessory expenses such as transportation costs and maintenance expenses of branch office, etc., and increase in incidental expenses

As a consequence, most of rural industries exports through exporting agencies.^{5/} In this case of

^{5/} The authors found that out of the surveyed 1,112 rural industries involved in the export marketing in 1978, about 40% is in entrusted exporting by proxy. See, Yang Boo Choe, Problem and Situation of Rural Industries Korea Rural Economics Institute, 1978.

indirect export, rural industries pay high exporting service charges ranging from 1% to 2%. Furthermore, it takes quite a time for rural industries to settle the negotiated money. This delay in money-settlement, most rural industries face the financial problem. However, due to the lack of their mortgage ability, they are not accessible to the government funds provided to assist those exporting firms. They borrow the funds from the entrusted exporting agencies by putting up their securities. This practice in some cases had been ended up to the affiliation of rural industries to the exporting agencies.

In short, the export marketing problem of rural industries basically arises from the fact that they are not able to get the export license due to their small scale operation. In addition, their lack of information on the export marketing coupled by the complex export marketing procedures bring rural industries into the most difficult position to enter.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

This chapter consists of two main parts. The first part deals with the conclusions based on the findings and summaries. The second part is focused on the recommendations for the future planning of rural industry development as an alternative strategy for the regional development.

1. SUMMARIES AND CONCLUSIONS

1) Character and Growth of Rural Industry

A. Rural industry includes all the manufacturing industrial units located in rural areas. Rural industry is different from regional industry and urban industry, and rural industrialization from the decentralization of urban industries into rural areas in its concept

B. The existing data system on rural industry lacks a conceptual clarity and, as a result, does not cover the rural industry as a whole.

C. In rural areas the non-farm sector has not been grown up enough to absorb the rural exodus to urban areas.

D. Rural industry is characterized by the small scale industry in terms of: number of employees, amount of annual production, and annual operation rate, etc.

E. Majority of rural industries are the labour-intensive light industries based on cheap rural labour forces and agricultural products as main raw materials.

F. Rural industry has close relationships with not only rural area but also urban & abroad in major supply area of raw materials and major sales markets.

G. Characters of rural entrepreneurs and industries based on the Namwon study area are summarized as follows:

- a. Rural industry is not diversified in production.
- b. Some industries are in operation on seasonal base.
- c. The average capital size is 89.3 million won.
- d. It has difficulty in information collection and labour supply such as engineer, skilled labour, and manager and office worker.
- e. The average employee size is 44.1 persons.
- f. In education level, whopping 45% of them are less than high school graduate.
- g. Entrepreneurs are living on the same location with factory.

- h. Rural industry consists of three kinds of factories, i.e., mainly general factory, local-product-producing factory and Saemaul factory.
- i. Factory is managed mainly by family members
- j. It has more close relation with rural area than with urban & abroad relatively in terms of major supply area of raw materials and major sales market.
- k. One of their major reasons for entering the business is for the sake of subsistence.
- l. Considerable portion (35%) of factory establishments are based on such non-industrial locational factors as mainly hometown, etc.

2) Identification of Policies and Programs

Korean industrial development policy is characterized by such five closely related multipackage development policies as: small and medium industry-promotion policy; industrial location development policy; financial support policy; tax incentive policy; and institution building policy which are further described in the following table.

3) Policy Effectiveness

A. A multipackage assistance industrial development programs are not reached properly by the rural entrepreneurs. The reasons identified for insufficient access to the programs are summarized as follows:

Firstly, it is the lack of awareness. Rural entrepreneurs in the first place don't know well the

Industrial Policies and Programs

Policy Fields	Subpolicy Fields	Programs/Institutions
Small and Medium Industry Promotion Policy	o Strengthening and Modernizing the Structure	<ul style="list-style-type: none"> . Specialization and Systematization . Support of Professional Mechanical Workshop . Support of Facility Modernization . Encouragement of Affiliation . Mutual Cooperation
	o Management Modernization and Technology Improvement	<ul style="list-style-type: none"> . The Small and Medium Industry Bank . National Federation of Small and Medium Industry Cooperatives . Korea Credit Guarantee Fund . Small and Medium Industry Promotion Corporation . The Industrial Advancement Administration . Korea Federation of Small and Medium Industries . Korea Chamber of Commerce and Industry . The Citizens National Bank . Korea Design & Package Center
	o Improvement of Managerial Environment	<ul style="list-style-type: none"> . Business Coordination . Protection of Contractor
	o Improvement of Managerial Environment	<ul style="list-style-type: none"> . Business Coordination . Protection of Contractor
Industrial Location Development Policy	o Industrial Decentralization	<ul style="list-style-type: none"> . Regional Industry Development . Industrial Relocation

Policy Fields	Subpolicy Fields	Programs/Institutions
Financial Support Policy	o Industrial Development Promotion	<ul style="list-style-type: none"> . Heavy Industry Development . Export-Oriented Industry Development . Rural Industry Development
	o Efficient Land Use	<ul style="list-style-type: none"> . Efficient Country Land Use and Management . Urban Land Use
	o Supporting Institution Building	<ul style="list-style-type: none"> . The Small and Medium Industry Bank . The Citizens National Bank . Korea Credit Guarantee Fund . Small and Medium Industry Promotion Corporation
	o Establishment of Financial Support Channel (Specialization of Institution in Loan-Extension)	<ul style="list-style-type: none"> . Upgrading the Independent Economic Activities of the Small and Medium Industries by the Small and Medium Industry Bank . Complement of Capital Pettiness by the Citizens National Bank . Establishment of Credit Guarantee System by Korea Credit Guarantee Fund
	o Fund Mobilization	<ul style="list-style-type: none"> . Small and Medium Industry Promotion Fund . Small and Medium Industry Special Fund . Foreign Loan Fund

Policy Fields	Subpolicy Fields	Programs/Institutions
		<ul style="list-style-type: none"> . National Investment Fund . Credit Guarantee Fund
	<ul style="list-style-type: none"> o Support of Special Programs (Establishment of Legal Base) 	<ul style="list-style-type: none"> . Specialization and Systematization . Appropriateness of Firm Scale . Export-Industrialization . Management Improvement and Development . Cooperative's Projects . Industrial Estate-Building . Facility Modernization . Management Stability . Business Transformation . Application of New Technology . Promotion of the Specialized Business Items
Tax Incentive Policy	<ul style="list-style-type: none"> o Extension of Tax Reduction Objects o Revision of Taxation Laws 	<ul style="list-style-type: none"> . Range Enlargement of Small and Medium Industry
Tax Incentive Policy	<ul style="list-style-type: none"> o Establishment of Legal Base o Support of Special Programs 	<ul style="list-style-type: none"> . Tax Reduction & Exemption Act . Facility Replacement Reserve Fund System . Increase of Depreciation Rate . Oversea Market Development Reserve Fund . Reduction of Corporation Tax

Policy Fields	Subpolicy Fields	Program/Institutions
		<ul style="list-style-type: none"> . Reduction of Invest Income for Capital . Support of Affiliation . Support of Individual Unit's Incorporation . Support of Small and Medium Industry Cooperatives
Institution Building Policy	o Policy- Making and Supervision Institution Building	. Ministry of Construction
		. Ministry of Commerce and Industry
		. Ministry of Agriculture and Fisheries
		. Economic Planning Board
		. Ministry of Finance
		. Office of Forestry
		. Office of National Tax Administration
		. Office of Industrial Advancement Administration
	o Policy Implementation Institution Building	. The Small and Medium Industry Promotion Corporation
		. Korea Chamber of Commerce and Industry
		. Industrial Management Corporation
	o Technology and Information Provision Institution Building	. The Agriculture and Fishery Development Corporation
		. The Small and Medium Industry Promotion Corporation
		. Korea Scientific & Technological Information Center
	o Other Institution Building (Quality Improvement, Export Promotion, etc.)	. Korea Advanced Institute of Science and Technology
		. Korea Design & Package Center
		. Korea Trading Co. Ltd.

existing supporting programs. In other words, they do not know what kinds of supporting programs are available and furthermore, how to make use of these support programs even though they know some this time.

Secondly, the reason arises from the lack of officers dealing with industrial affairs at the implementation level, Gun Office. The Gun Office is overloaded with big burden of administrative works. Hence, they can't carry out the industrial administration work properly as desired.

The third one lies in lack of supporting institution itself. Therefore, a variety of programs existing at the central level often are not delivered and executed at the implementation level.

Finally, the reasons come from the fact that even the existing institutions lack coordination and cooperation between them.

B. Rural industrial activities are strongly regulated and controlled by the non-industrial development programs on account of the absence of specific legal base for rural industry development.

C. Due to the lack of proper supporting institutions at the local level, the rural entrepreneurs have to visit large cities to be supported, which in turn result in inefficiency of business and much consumption of time and money.

D. Especially, Namwon located at remote area away from the provincial and central government has remained relatively in disadvantages positions in all government development programs and activities.

4) Policy Issues

The policy issues inherently contained in the industrial development policies are summarized at two levels, i.e., at the central level and at the implementation level.

At the Central Level

A. The Industrial Development Policies Ever Executed have been Urban-Favoring Policies

What is noted through the industrial location development programs is that these programs are characterized by the urban-biased tendency. Regional Industry Development Program is geared for the local cities. About 73% of the industrial complexes developed by this program are located in the local cities. Industrial Location Program is a program specially designed for the crowded urban factories. Thus, there is no rural industry development concern in this program. The urban factories shifted by this program are made to be accommodated on the industrial estates developed by the Regional Industrial Development Program. Therefore, this program is designed to simply result in shifting the urban industries to the local cities or to the metropolitan fringe areas. Though the rural center "Eup" is made to have industrial area subject to the Urban Planning Law, the industrial areas developed by the law are only four areas in the huge cities such as Pusan, Daegu, Incheon which are the second, third and fourth largest city in Korea, and Sunghnam which is a satellite city to Seoul. Even the saemaul factories which is better known as a rural industrialization program, about

66% of the industries are concentrated in such three highly-industrialized provinces as Gyeonggi, Pusan, and Geongbuk having Seoul, Pusan the second largest city, and Daegu the third largest city.

B. The Authorities Involved Lack Coordination Among Themselves.

Industrial development policy characterized by multipackage assistance programs is often shared by some ministries and offices and mutual-cooperation is highly appreciated. Nevertheless, there is a lack of coordination among the authorities involved. They tend to take exclusive care of their own parts competitively paying high attention to their achievements.

In these circumstances, the subsequently occurring policy issues are as follows:

a. Lack of Policy Consistency

As a multipackage industrial development policy, many programs are closely linked with one another under one government policy target. Hence, the implementation principles and rules have to be made in close consultation of the authorities concerned and the programs should be implemented in close cooperation with one another. However, in reality they lack cooperation and coordination among them. This frequently leads to lack of policy consistency.

b. Lack of Clear-Cut Administrative Boundary Line

Under the situations where there is little coordination among the authorities and lack of policy consistency, many organizations are involved in the same or similar program or policy. Accordingly the administra-

tive businesses of the organizations related are overlapped and collide against each other. It is therefore very difficult to ensure a clear-cut administrative boundary line among them.

c. Too Many Rules and Regulations

One policy program is almost always supported by a legal base and which is closely related with the interests of the authority concerned. Hence, there is no concession and they stick to their own meritorious achievements. Among them, competition and conflict is high. In these situations, there should exist many rules and regulations.

d. Complexity and Inefficiency in Administration

Under the above mentioned three policy characters what is clearly noticed is that the government policies inevitably result in complexity and inefficiency of the administration so that they are not carried out efficiently as aimed.

C. There is No Proper Legal Base to Ensure Rural Industry Development Comprehensively.

Presently in Korea, there is no specific industrial development program originally initiated for overall rural industrial development. Even the Saemaul factory construction program which is better known as rural industrialization program has some problems in developing rural industry as a whole. The terms and conditions of Saemaul factory designation is very rigid for the small-size characterized rural factories. Moreover, they have been more important in generating export earnings than in providing employment and income in rural areas.

D. There is No Sufficient Information on Industrial Location.

In decentralizing the crowded urban factories and developing the rural industry, the first prerequisite is for the government to have a sufficient data on industrial locations throughout the country and then this locational information should be accessed easily at any time.

Nevertheless, the total area affected by Country Land Use and Management Law as of Dec. 1980 accounted for only about 35% of the total country land and the industrial region appointed by this law was negligible 0.02%. In this situation the government authorities concerned and the factories willing to move are away from the industrial location information. Therefore they don't know where to locate.

At the Implementation Level

A. Rural Entrepreneurs Do Not Know the Industrial Supporting Programs Well.

The first policy issue arising at the implementation level is that the entrepreneurs do not know well the existing various industrial development assistance programs such as small and medium industry promotion programs, tax incentive programs, financial support programs and the like. Low level of awareness about these programs have been registered.

As a result, these supporting programs have remained nearly untouched, unattempted, and untried at the implementation level. Namely, these programs exist generally isolated from the reach of the rural entrepreneurs.

B. Rural Area Lacks the Implementation Institutions.

The next policy issue secondly noted at the implementation level is that rural area is not properly supplied with the policy implementation institutions. Moreover, Gun Office often lacks the proper section for commercial and industrial affairs and the responsible personnel are so limited in number that they are crowded with big burden of administrative works. Furthermore, even the already existing institutions often tend to lose coordination and cooperation between them.

In these circumstances, the policy programs designed at the central government are not sufficiently delivered to the local area and resultantly not implemented at the implementation level.

C. Rural Industrial Activities are Strongly Limited.

Due to the absence of a specific rural industry development programs, in rural areas the industrial activities are so regulated by the other non-industrial programs closely related with the interests of the ministries and offices concerned like farm land conservation, forestry protection and conservation, environment conservation and so forth. Consequently, the construction of an industrial unit in rural areas takes about 392 legal days to be officially finished and is regulated by 11 laws and 15 approvals.

Furthermore, to which the difficulties are more added because of lack of awareness about the factory construction related programs and other programs.

2. RECOMMENDATIONS FOR THE FUTURE POLICY DIRECTION

Rural industry development ever increasingly drawing policy attention of many developing countries has also been one of the government's major concerns in recent years as an alternative policy measure to the balanced regional economic development as well as to income increase of low-income people and small farmers in rural areas. In line with this, the Korea government has implemented a number of policy programs for the last two decades.

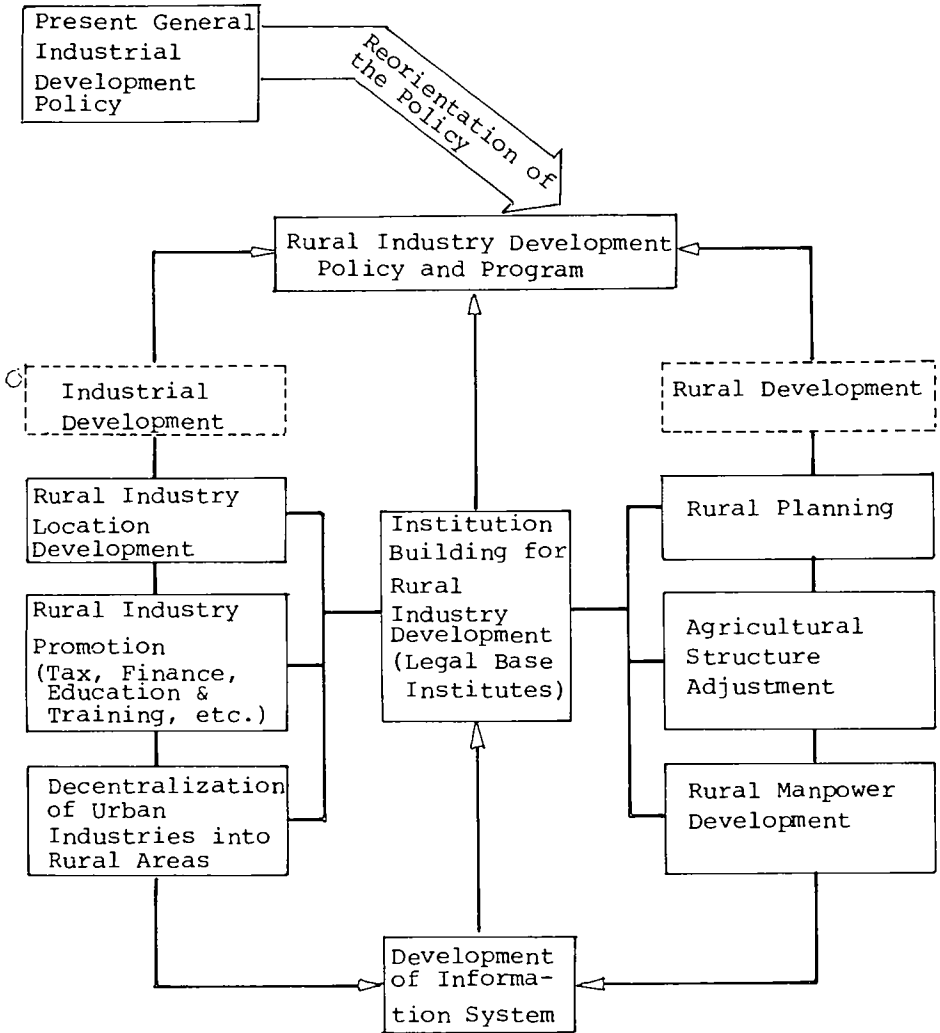
If then, our concern here is to know what kinds of influences these policy programs have influenced on rural industry and to find out how the future policy direction for rural industry development should be designed. Focusing on these points, this study has been conducted and we have got the above summaries and conclusions. Based on these summaries and conclusions and taking the characteristics of rural industry development in terms of rural economy into consideration, the future policy directions for rural industrial development are first suggested in Figure 5-1 and for which the following recommendations are introduced.

1) Policy Directions for Central Level Rural Industrial Development Policy

- A. First of all, reorientation of the present industrial development policy should be achieved.

Through the many discussions of this study, it has been continuously noticed that the industrial development policies ever executed are urban industry-favoring policies. This means that the rural industrialization

Figure 5-1. Policy Direction for Rural Industry Development ^{1/}



^{1/} Adapted from: Yang Boo Choe and Hung-Mo Kim, "A Conceptual Framework for the Foundation of Rural Industrialization Policy the 'Korea Rural Economics Review', Vol. III, No. 1 (Seoul, Korea; March 1980), P.45, Figure 4.

ever pursued has been a partial and peripheral phenomena kept away from the main stream of industrial development and it lacks the basic philosophy of rural development.

On the other hand, what is important is that the rural industry development may not be assured without introducing a deliberately well organized and coordinated multipackage supporting policy under the reorientation of existing polarized urban-centered industrialization policy. Therefore, the first prerequisite urgently called for the ensurance of rural industry development is that the reorientation of the present industrial development policy should be made first. Furthermore, this is not the simple reorientation of the policy but that of basic philosophy of industrial development.

B. Rural Industrial Development Policy Should be Formulated Within the Frame of Rural Development Policy

Rural industrial development in rural areas is not the problem of rural industry development alone. Industrial development in rural areas means the reallocation of resources. Namely, rural industrial development premises the agricultural structure adjustment in the rural economy and rural manpower development. Therefore, the problems of rural industry development are those of the agricultural structure adjustment and manpower development at the same time. They are mutually interrelated and inseparable main sectors in rural development planning

In this regard, rural industrial development policy should be formulated within the frame of rural development policy.

C. Rural Industry Development Policy Should be
Made Based on the Multipackage Supporting Programs.

Taking the fact into consideration that industrial development in itself regardless of rural industry or urban industry can not be achieved without the balanced integration of all kinds of industrial activities as an organic body, the rural industry development policy should be made based on the mutually and closely related multipackage supporting programs which can ensure the integrated industrial development. In other words, the point is that the rural industry development can not be pursued through the concentrative support of any one field of industrial activities or by a simple or depackaged development programs. Thus, the rural industry development policy should be a systematically well organized and integrated multipackage development policy.

Then, our question is to ask how the multipackage development policy should be organized. Catering to this question, the following package program fields are recommended for the multipackage rural industrial development policy to ensure the integrated and overall rural industry development based on the findings and conclusions of this study.

a. Policy Coordination Among the Authorities
Involved Should be Achieved First.

As already noted, it has been the situation that proper cooperation and coordination has not been maintained between the authorities involved. As a result, the programs lack consistency and lead to complexity and inefficiency in business. Therefore, one prerequisite

for the desirable multipackage rural industrial development policy is that policy coordination between the authorities involved are made first.

- b. Establishment of a coordinating government body is strongly required.

In response to the necessity of policy coordination among the authorities involved, a government body which can be exclusively responsible for planning, executing policies, and coordinating policies of the ministries and offices concerned is strongly recommended to be established, so that well organized and coordinated multipackage supporting programs can be accessed by the rural entrepreneurs.

- c. Establishment of Legal Base Specially Designed for the Achievement of Overall Rural Industry Development is Strongly Emphasized.

Another prerequisite for ensuring the rural industry development is to establish a legal base. As pointed out many times, construction of a factory in rural areas is very difficult, for all the construction activities are strongly regulated by many other programs. In this situation the efficient rural industrial activities can not be assured. Hence in the first place, rural industry development has to be guaranteed institutionally. Therefore, enactment of a law, so called "Rural Industry Development Promotion Law"^{1/} is highly emphasized.

^{1/} Korea Rural Economics Institute, 'Proposals for New Agricultural Development Policy in 1980s' (Policy Paper No. 6: Jan. 1981), P.27.

d. Development of Sufficient Information System on Industrial Locations Should be Achieved.

Data available on rural industry is so limited that they do not give the full description of rural industry. Moreover, they lack the clear concept of rural industry. . On the other hand, we yet lack the information on industrial locations at all. Namely, the information of industrial locations are extremely limited at this moment. Thus, on one hand the government has much difficulty in working out a proper industrial development policy owing to lack of data. On the other hand, the industries don't know where to locate because the information on locations are so limited.

Hence, for the comprehensive rural industrial development the sufficient information system on industrial locations in rural areas should be achieved and to this end, a policy-oriented comprehensive and detailed survey on rural industry and industrial locations is called for to be undertaken immediately.

2) Recommendations for the Local Level Policy

A. Foundation of Public Institution Responsible for Supporting the Various Government Programs is Strongly Recommended.

In rural areas, especially the areas remote and depressed, they lack supporting institutions. Therefore, the supporting programs are not delivered and not implemented effectively. Moreover, the rural entrepreneurs feel that some kind of institution should be built.

In response to this necessity and requirement, an institutions (Ex. Rural Industry Inducement Promotion Center of Japan) which will be fully involved in support of

Industrial development programs are to be established.

B. The Necessity of Persistent Education & Training on the Various Industrial Development Programs is Highly Emphasized.

As already identified in this study, the various programs have not been implemented effectively at the local level because there are too many programs in number; the program are too complex; and the entrepreneurs don't know the programs well. Moreover, in this situation the entrepreneurs highly emphasized that some kind of education on industrial supporting programs should be given to them.

Taking these points into consideration, a systematic and on-going education on the supporting programs are highly recommended to be given to the rural entrepreneurs to activate the rural industrial activities by making them benefit from these supporting programs more than ever.

Based on the recommendations made above, the direction of rural industry development policy is illustrated in the following figure 5-1.

APPENDIX A: Facts about Rural Industries in Namwon and Youngin

1) Rural Industries in Namwon

192

Series No. of Factory	Information Entrepreneur			Information on Industrial Unit									Size of Capital
	Age	Education Level 1)	Residence 2)	Location of Main Office 2)	Classification of Factory 3)	Year of Establishment	Type of Operation 4)	Name of Main Product	Main Supply Area of Raw Materials	Main Market Area More than 50%	No. of Employees		
N - 1	50-59	M	S	S	G	N.A.	F	Chemical Rope	U	R	11	(Unit: Mil. won)	
N - 2	50-59	H	S	S	G	76-78	F	Tooth-Brush	U	U	114	N.A.	
N - 3	30-39	C	S	S	G	79-80	MC	Briquette	R	R	55	100	
N - 4	40-49	P	S	S	G	61-70	F	Laundry Soap	U	R	4	10	
N - 5	40-49	H	S	S	L	71-75	F	Wooden Ritual Dishes	R	R	N.A.	N.A.	
N-6	Over 60	M	S	S	L	61-70	F	Wooden Checker Board	R	U	N.A.	N.A.	
N-7	50-59	P	S	S	G	61-70	F	Noodle	U	R	8	100	
N-8	50-59	C	Seoul	Seoul	G	Before 1960	MC	Raw Silk	R	A	135	300	
N-9	30-39	C	S	S	G	61-70	F	Race Horse Bandage	U	S	32	100	
N-10	40-49	M	S	S	G	61-70	F	Ice Candies	U	R	5	10	
N-11	40-49	H	S	S	G	79-80	F	Briquette Smoke Consumer	R	R	17	50	
N-12	40-49	H	S	S	G	71-75	F	Stones Product	R	R	12	40	
N-13	40-49	C	D	S	G	79-80	MC	Varicon	A	A	214	N.A.	
N-14	40-49	P	S	S	G	71-75	F	Brick	R	N.A.	N.A.	N.A.	
N-15	50-59	P	S	S	G	Before 1960	F	Bamboo Fan	A	U	46	90	
N-16	30-39	C	S	S	G	71-75	F	Grease-Removing Liquid	R	U	17	100	
N-17	50-59	H	S	S	G	79-80	MC	Briquette	R	R	22	N.A.	
N-18	50-59	C	Seoul	Seoul	S	79-80	MC	Tennis Racket	R	A	33	50	
N-19	40-49	M	S	S	G	71-75	F	Stones Product	R	U	13	32	
N-20	40-49	M	S	S	G	79-80	F	Stones Board	R	U	11	18	

Note: 1) P stands for primary school graduate; M middle school graduate; H high school graduate; and C stands for college graduate or more

2) S stands for factory and main office on the same location and D stands for factory and main office on the different location.

3) S stands for Saemaul factory; L local-specific product-producing factory; and G general factory.

4) F stands for family operated and MC stands for modern company oriented.

5) U stands for Urban; R Rural; and A Abroad.

* N.A. stands for no answer.

2) Rural Industries in Youngin

Series No. of Factory	Information Entrepreneur			Information on Industrial Unit								
	Age	Education Level 1)	Residence 2)	Location of Main Office 2)	Classification of Factory 3)	Year of Establishment	Type of Operation 4)	Name of Main Product	Main Supply Area of Raw Materials	Main Market Area More than 50%	No. of Employees	Size of Capital
Y - 1	40-49	C	Seoul	S	S	79-80	MC	N.A.	U	U	24	(Unit: Mil. N.A. won)
Y - 2	40-49	C	Seoul	Seoul	G	79-80	MC	Padding	U	U	59	993
Y - 3	40-49	C	Seoul	S	G	61-70	F	Bells	U	R	7	5
Y - 4	Over 60	M	Seoul	S	G	Before 1960	MC	Electrical Wire	U	U	63	N.A.
Y - 5	40-49	C	Seoul	S	G	61-70	MC	Aluminum Tube	U	U	79	320
Y - 6	40-49	C	Seoul	S	G	71-75	F	Leather Jacket	A	A	29	40
Y - 7	40-49	C	Seoul	S	G	79-80	MC	Yakult	U	U	52	50
Y - 8	30-39	C	Seoul	Seoul	G	79-80	MC	P.V.C	U	U	N.A.	N.A.
Y - 9	Over 60	H	Seoul	Seoul	G	61-70	MC	Gauze	U	U	38	564
Y - 10	40-49	C	Seoul	Seoul	G	71-75	MC	Paper Cup	U	U	20	95
Y - 11	40-49	C	Seoul	S	G	71-75	MC	Telephone Parts	U	U	81	120
Y - 12	40-49	C	Seoul	Seoul	G	76-78	MC	Ginseng Powder	R	A	15	450
Y - 13	40-49	C	Seoul	Seoul	G	76-78	MC	Men's Wear	U	U	190	250
Y - 14	40-49	H	Seoul	S	G	71-75	MC	Paper	A	N.A.	30	400
Y - 15	40-49	C	Seoul	S	S	71-75	MC	Paper	A	N.A.	114	100
Y - 16	50-59	H	S	S	G	76-78	F	Glove	A	A	155	N.A.
Y - 17	40-49	C	D	Seoul	S	76-78	MC	Military Tent	U	A	323	1,417
Y - 18	30-39	H	S	S	G	76-78	F	Tennis Ball	U	A	20	54
Y - 19	50-59	C	Seoul	S	G	76-78	MC	Pre-fab. Steel Bar	U	U	33	N.A.
Y - 20	40-49	C	S	S	G	Before 1960	F	-	U	U	N.A.	N.A.

Note: 1) P stands for primary school graduate; M middle school graduate; H high school graduate; and C stands for college graduate or more.
 2) S stands for factory and main office on the same location and D stands for factory and main office on the different location.
 3) S stands for sammul factory; L local-specific product-producing factory; and G general factory.
 4) F stands for family operated and MC stands for modern company oriented.
 5) U stands for Urban; R Rural; and A Abroad
 * N.A. stands for no answer.

APPENDIX B

Questionnaire

For

Case Study on Rural Industrialization in Korea

Name of Factory: _____		
Address: _____		Tel: _____
Date of Interview: _____	_____	_____
Date	Month	Year
Interviewer: _____		
Time Started: _____		_____
Time Ended: _____		_____
Time Taken _____ Min.		

Dear Sir,

We are research team from the Korea Rural Economics Institute conducting case study on rural industrialization. Through which, we intend to have a clear picture about the situation of the rural industry and to dig out the critical problems that the rural factories are facing in order to urge the government to work out the more appropriate and desirable support policy measures. Accordingly, we'd like to make it clear that this study is entirely for your own benefits, not for the government's benefits. Moreover, this study was initiated not by the government but by our own academic institute.

We sincerely hope that you can spare us some time and cooperate with us by answering the questions contained in this questionnaire. We guarantee that the contents of your answers will be kept confidential and will not be disclosed. We are sure your positive co-operation will be of great help to this study.

We wish you and your family good luck.

Sincerely yours,

Research Team

I. General Information on Entrepreneur

1. Age

- | | |
|--------------|-------------|
| (1) Under 30 | (2) 30 - 39 |
| (3) 40 - 49 | (4) 50 - 59 |
| (5) Over 60 | |

2. Sex

- | | |
|----------|------------|
| (1) Male | (2) Female |
|----------|------------|

3. Education Level

- (1) No schooling
- (2) Primary school graduate
- (3) Middle school graduate
- (4) High school graduate
- (5) College graduate or more

4. Your present residence

- (1) Seoul
- (2) Capital of province
- (3) Other city
- (4) Eup or Myeon where factory locates
- (5) Eup or Myeon where factory does not locate
- (6) Same location with the factory

6. What's the reason?

- (1) Didn't know what the affiliation is
- (2) Unhelpful expectation
- (3) Waste of time and mon
- (4) Tiresome
- (5) Others (specify) _____

7. If so, do you plan to register it?

- (1) Yes
- (2) No

If yes --- → Answer number 8-16

If no ----→ Skip number 8-16

8. In what line do you intend to affiliate it?

- (1) Production
- (2) Marketing
- (3) Production & marketing
- (4) Supply of raw materials
- (5) Technology
- (6) Others _____

9. Reason of affiliation

- (1) Stable production
- (2) Production stability and marketing expansion
- (3) Stable provision of raw materials
- (4) Technology development
- (5) Provision of fund
- (6) Others _____

10. How did you become to affiliate it?

- (1) By friend's suggestion
- (2) By dealing company's proposal
- (3) By government's introduction and encouragement
- (4) By own will
- (5) Others (specify) _____

11. How was the affiliation made?

- (1) By oral contract
- (2) By written contract
- (3) Others (specify) _____

12. What type of transaction?

- (1) Contract
- (2) Sub-contract
- (3) Mergence or Integration
- (4) Others _____

13. What type of contract?

- (1) Irregular short-term contract
- (2) Long-term stable consignment contract
- (3) Others _____

14. In what line are you going to make an affiliation?

- (1) Production
- (2) Marketing
- (3) Production & marketing
- (4) Raw materials

- (5) Fund
- (6) Technology
- (7) Others _____

15. Are the terms and conditions of the contract well kept?

- (1) Yes
- (2) NO

16. How do you settle the dispute?

Please, give the description.

III. Production and Operation

1. Number of products

- (1) 1 - 3
- (2) 4 - 5
- (3) 6 - 10
- (4) Over 10

2. Business sector

- (1) Food & beverages
- (2) Textiles & clothing
- (3) Wood & wood products
- (4) Paper & paper products
- (5) Chemicals, petroleum and plastics
- (6) Non-metallic mineral products
- (7) Primary metal
- (8) Metal products and machinery
- (9) Others

3. Production ratio of main products

Items	
1.	
2.	
3.	
4.	
Total	

4. Your production base

- (1) All the year round
- (2) Seasonal

5. Production peak

From _____ till _____
 month month

6. For the last 3 years, your factory's production rate is:

- (1) Decreasing
- (2) Increasing
- (3) Same

7. Average production rate of 1980

- (1) Under 50%
- (2) 51 - 60%
- (3) 61 - 70%
- (4) 71 - 80%
- (5) 81 - 90%
- (6) 91 - 100%

8. If under 80%, what's the main reason?

- (1) Lack of raw material
- (2) Dullness in sale
- (3) Shortfall in skilled manpower
- (4) Lack of fund
- (5) Obsolescence of the facilities
- (6) Due to the substitute goods
- (7) Others

IV. Location

1. According to urban-planning law, your factory is located on:

- (1) City-planning affected area
- (2) Non-city-planning affected area

If city-planned area -----> Skip number 3

If non-city-planned area -----> Start from
number 3

2. What type of area?

- (1) Industrial area
- (2) Quasi-industrial area
- (3) Commercial area
- (4) Residential area
- (5) Arable land in greenbelt area
- (6) Other land in greenbelt area
- (7) Reserved area

3. If on the non-city-planned area, where?

- (1) Arable land
- (2) Residential area
- (3) Commercial area
- (4) Industrial area
- (5) Forest
- (6) River bed
- (7) Others _____

4. How is the location factor comparing with that of establishment year? Please, appraise the following location factors.

Location Factor	Changing Situation		
	Improving	No Change	Aggravating
Supply of Raw Materials			
Accessability to Information			
Supply of Labour Forces			
Service Facility			
Marketing			
Road Condition			
Industrial Water			
Transportation Facility			
Electricity			
Communication Facility			
Bank Use			

5. Did you build the factory here because you found the locational advantages?

(1) Yes

(2) No

If Yes -----→ Go to number 12

If No -----→ Go to number 6

6. What made you build the factory here?

(1) Friend

(2) Specific personal relationship to this town

(3) Administrative organization

(4) Others _____

If your answer is number(2)→Start from number 7

If your answer is not number(2)→Start from
number 8

7. In concrete, what is the personal relationship?

(1) Home town

(2) Relatives

(3) Wife's home town

(4) Location of alma mater

(5) Others _____

8. Before selecting here, did you search for another site?

(1) Yes

(2) No

9. Do you have any difficulty in management because you built the factory based on non-locational factories?

(1) Yes

(2) No

If yes -----> Start from number 10 but skip
number 12

If no -----> Start from number 13

10. Would you specify your difficulty in detail?

11. Accordingly, do you plan to move to the other place?

(1) Yes

(2) No

12. In relation with the industrial location, what difficulty do you have? Please, describe it.

13. Please, read the following instruction first and answer based on the instruction.

Instruction

- o Those who built, shifted or expanded the factory after 1977-----> Start from the number 13
- o Those who are not subject to the above ----- --> Start from the number 27
- o Factory construction to be mentioned hereafter includes factory building, shifting and expanding

To what degree did you know the administrative procedures when constructing the factory?

Please, indicate your level of awareness.

- (1) I knew nothing of the procedures. So I had to have the required procedures finished entirely by the others' help
- (2) I knew the related procedures very little. So I had to finish them with much help of others and organizations concerned
- (3) I knew some of the procedures related so that I could finish them with a little help of the organizations concerned
- (4) I knew almost all the procedures so that I could finish them with little help
- (5) I knew all the procedures so well that I could finish them without other's help

14. Did you know to which law your factory site was subject when developing it on the present location?

(1) Yes

(2) No

If yes -----> Start from number 15

If no -----> Start from number 16

15. If so, which of the following laws?

- (1) City planning law
- (2) Farmland conservation and utilization law
- (3) Forestry law
- (4) River control law
- (5) Others (specify) _____

16. As far as you remember, how many times did you have to visit the Gun office to get the factory constructed?

(1) Under 5

(2) 6 - 10

(3) 11 - 15

(4) 16 - 20

(5) Over 20

17. In relation with the factory construction, did you have to visit the other organizations except the Gun Office?

(1) Yes

(2) No

If yes -----> Start from number 18

If no -----> Start from number 20

18. Why did you have to visit it?

Please, give the reason thereof in full detail.

19. What was the name of the organization you had to visit.

20. Can you calculate roughly the days and money you spend during the process of factory construction?

20 - 1. ₩ _____

20 - 2. _____ days

21. What was the difficulty you had in factory Construction? Please, give the short description thereof?

21 - 1. In reation of obtaining the factory site:

21 - 2. Concerning the factory construction:

22. How do you rate the administrative procedures required in the process of factory construction?

- (1) Very simple
- (2) Simple
- (3) Neutral
- (4) A little bit complex
- (5) Very complex and much time - consuming

23. Accordingly if you evaluate the current institution involved in the factory construction in light of rural industry development, how do you rate it?

- (1) Very unhelpful
- (2) Unhelpful
- (3) Neutral
- (4) Helpful
- (5) Very helpful

24. Were you given any training on factory construction procedures by the government-related organizations in advance?

- (1) Yes
- (2) No

If yes-----> Answer from number 25

If no -----> Answer from number 26

25. How was the training?

- (1) Very dissatisfied
- (2) Dissatisfied
- (3) Neutral
- (4) Satisfied
- (5) Very satisfied

26. Do you agree with the suggestion that those who would build the factory should be trained the procedures relating with the factory construction in advance?

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly agree

27. Do you have any ideas, opinions or suggestions about the factory site development and factory construction? If any, please narrate in short.

V. Motivation of the Business

1. How did you become to enter this line of business?

- (1) By friend's advices
- (2) By the government's suggestion and encouragement
- (3) By my own will

(4) Without any special intention

(5) Others (specify) _____

2. What is the economic reason behind the entrance of this business?

(1) For much profit

(2) For the sake of subsistence

(3) Without any special intention

(4) Others (specify) _____

3. Did you have any experience in this line before you started the business?

(1) Yes

(2) No

If yes -----> Start from number 4

If no-----> Start from number 5

4. How long were you involved?

(1) Under 3 years

(2) 3 - 5 years

(3) 5 - 7 years

(4) 7 - 10 years

(5) Over 10 years

5. Did you examine the feasibility of this business in advance?

(1) Yes

(2) No

6. Did you have much information on this business before you started?

(1) Yes

(2) No

7. Did you have any train on this line of business before taking up the business?

(1) Yes

(2) No

8. Do you have any special intention on involvement in this business? If some, please give short description.

VI. Tax

1. What tax and how much did you pay in 1979?

Taxes	Amount Paid
1.	
2.	
3.	
:	
Total	

2. What was the business income of 1979?

W _____

3. Is there any tax that you are unsatisfied?

(1) Yes

(2) No

If yes -----> Answer from number 4

If no -----> Answer from number 6

4. What tax is it?

5. And what is the reason thereof?

6. Which tax rate is applied to your industrial unit?

(1) Normal tax rate

(2) Special tax rate

(3) D.K

7. Do you know the above tax rate application criteria?

(1) Yes

(2) No

8. Do you know the Self-Report Tax System?

(1) Yes

(2) No

9. Comparing with the previous tax system, how do you rate the current tax system?

(1) More advantageous and convenient

(2) More advantageous but more inconvenient

(3) More disadvantageous but convenient

(4) More disadvantageous and inconvenient

10. Regarding the tax calculation,

- (1) I don't know the kinds of taxes I am paying and simply pay the taxes according to the tax notification sheet.
- (2) I only know the kinds of tax I am paying
- (3) I don't know the related tax rules and regulations well so I need some help in tax calculation
- (4) I don't know the tax rules and regulations well but can calculate the tax levied on the unit for myself.
- (5) I know the related tax rules and regulations well and can calculate the tax for myself

11. Do you ask any others to help calculate the tax?

- (1) Yes
- (2) No

If yes-----→Start from number 12

If no-----→Start from number 19

12. Who are they?

- (1) Friends
- (2) Other entrepreneur
- (3) Authorized people, i.e., tax office, CPA, licensed tax accountant
- (4) Others

If your answer is not number 3----→From number 17

If your answer is number 3----→From number 13

13. Do you have to visit them?

- (1) Yes
- (2) No

If yes----→Start from number 14 but skip number 17

If no-----→From number 17

14. Where are they?

- (1) Seoul
- (2) Capital of province
- (3) In the town
- (4) Other city

15. What is its name?

- (1) Tax office
- (2) Licensed tax accountant
- (3) CPA
- (4) Others

16. If it is not in the town, how many times did you have to visit them in 1979?

- (1) 1 - 3
- (2) 4 - 5
- (3) 6 - 8
- (4) 9 - 10
- (5) Over 10 times

17. How do you get help from them?

- (1) They come to help
- (2) Through mail
- (3) Others (please, specify) _____

18. How much did it cost you in getting the tax calculation help from them in 1979?

W _____

19. Do you have any other difficulty in tax calculation?
If any, please, specify it in short.

20. Accordingly, what kind of help do you need from the government?

21. Is there any informal expense like public expenses subsidy aids, and so on except the tax?

(1) Yes

(2) No

If yes-----→ From number 22

If no-----→ From number 27

22. What expenses and how much did you pay in 1979.

Expenses	Amount Paid
1.	
2.	
3.	
4.	
:	
Total	

23. How do you feel about them?

(1) Reasonable

(2) Unreasonable

If your answer is (1)-----→ Go to number 26

If your answer is (2)-----→ Go to number 24

24. Which of them are unreasonable and too much?
Please, list out.

1 _____
2 _____
3 _____
4 _____
5 _____

25. Why do you think it unreasonable? Please, give
the reason.

26. Any suggestions about the public expenses?

27. How much do you know the following tax support
programs? Please, indicate your level of aware-
ness according to 5 - point scale.

Programs	Level of Awareness*				
	5. Know Well	4. Know	3. Neutral	2. Don't know	1. Know Nothing
1) Facility Substitution Reserve Fund System					
2) Depreciation Rate Increase System					
3) Oversea Market Development Reserve Fund System					
4) Corporation Tax Reduction System					
5) Corporation Promotion System					
6) Mergence and Integration Support System					

- * 1. Know Well: In case you read the related rules and tried it
2. Know : In case you didn't read but tried
3. Neutral : In case you read but did not tried
4. Don't Know: In case you did not read but heard
5. Know Nothing: In case you did not read and never heard

28. How do you rate the current tax system in light of rural industry development?

- (1) Very unhelpful (2) Unhelpful
 (3) Neutral (4) Helpful
 (5) Very helpful

29. Taxes levied on your unit is:

- (1) Too light (2) Light
 (3) Proper (4) Heavy
 (5) Too heavy

30. Please, give some suggestions for the improvement of the current tax system in terms of rural industry development.

VII. Finance

1. Status of financial structure in 1980

Unit: Mil.Won

Item	Total Amount	Own Fund	Debts			
			Bank	Private	Others	Sub-total
Amount						

2. Have you ever used any bank or financial agency for the last 3 years?

- (1) Yes (2) No

If yes -----> Start from number 3 but skip number 13

If no -----> Start from number 13

3. What is its name?

4. Where is it?

- | | |
|--------------|----------------|
| (1) Seoul | (2) Suweon |
| (3) Chunjoo | (4) Iree |
| (5) Kwangjoo | (6) Youngin |
| (7) Namwon | (8) Other city |

5. How many times did you have to visit that agency to be loaned?

- | | |
|-------------|------------|
| (1) 1 - 3 | (2) 4 - 5 |
| (3) 6 - 8 | (4) 9 - 10 |
| (5) Over 10 | |

6. How many times did you have to prepare the papers?

- | | |
|-------------|------------|
| (1) 1 - 3 | (2) 4 - 5 |
| (3) 6 - 8 | (4) 9 - 10 |
| (5) Over 10 | |

7. How many days did it take you to get the loan?

_____ days

8. How much was it?

₩ _____

9. In getting the loan, how much did it cost you including the formal and informal expenses?

₩ _____

10. Generally, how do you feel about the loan-getting?

- (1) Very easy
- (2) Easy
- (3) Neutral
- (4) Difficult
- (5) Very difficult

11. What was the difficulty in being loan-funded?

12. Do you still plan to use it?

- (1) Yes
- (2) No

13. What is the reason thereof?

14. In which part are you in most need of fund?

- (1) Purchase of raw materials
- (2) Facility improvement
- (3) New factory building
- (4) Purchase of new machines
- (5) Others (specify) _____

15. Which loan-term do you prefer?
- (1) Short-term
 - (2) Mid-term
 - (3) Long-term
16. When are you in most serious shortage of fund during the year?
- From _____ to _____
month month
17. How much do you need the working capital on an average per year?
- W _____ Million
18. If you are using the private loan fund, what is the annual interest rate?
- _____ %
19. What is the total amount of annual interest?
- W _____
20. When you are in need of fund, which fund source do you normally prefer?
- (1) Bank
 - (2) Friend
 - (3) Dealing company
 - (4) Other financial agency
 - (5) Informal private money sources
21. Any suggestions, opinions or ideas for the more desirable financing system?
- _____
- _____

22. To what degree do you know the following financial supporting programs? Please, indicate your level of awareness according to the given criteria.

Criteria

- o Know well: Not only I read the related rules but also applied for the support
- o Know: Though I did not read the related rules but applied for the support
- o Neutral: Though I read the related rules but didn't applied for the support
- o Don't know: Though I ever heard it but didn't read the related rules
- o Know nothing: I neither heard nor read it

Kind of Financial Support Program	Level of Awareness				
	5.Know well	4.Know	3.Neu-tral	2.Don't know	1.Know nothing
1.Credit Loan Without Mortgage					
2.Credit Guarantee Fund					
3.Purchase of Local Machines					
4.Promotion of Professional Machinery Factory					
5.Promotion of Affiliation					
6.Factory Producing the Preferentially Supported Items					
7.Saemaul Factory					
8.Factory Professionally Producing Export-oriented Traditionally Fineart					

9.Mergence or Integration of Firms					
10.Transfer of Business					
11.Application of New Technology					
12.Cooperative's Public Work Program					
13.Successful Factory in Factory Sae- maul Undong					
14.Installation of Export Facility					

23. Please, give some suggestions regarding the current financial systems in light of rural industry development.

VIII. Raw Materials

1. Place where more than 50% of raw materials are supplied is:

- (1) Seoul or Pusan
- (2) Large city or small city
- (3) Eup or Myeon
- (4) Overseas

2. What is the composition ratio of raw materials?

Raw Material	%	Supply Source		
		Rural	Urban	Overseas
1.				
2.				
3.				
Total	100%			

3. Average provision rate of raw materials for the last two years?

- (1) Below 50%
- (2) 50 - 60%
- (3) 60 - 70%
- (4) 70 - 80%
- (5) 80 - 90%
- (6) 90 - 100%

4. Your situation of raw material provision is:

- (1) Improving
- (2) Aggravating
- (3) No difference

If your answer is (1) or (3) → Start from number 6

If your answer is (2) → Start from number 5

5. What is its reason?

- (1) Insufficient raw material production
- (2) Price increase in raw materials
- (3) Shortage of fund
- (4) Intentional reduction
- (5) Others (specify) _____

6. When are you in most need of raw materials?

From _____ to _____
month month

7. How do you foresee the condition of raw material provision?

- (1) Hopeful
- (2) Same
- (3) Unhopeful

8. Any suggestions, ideas or opinions for the stable supply of raw materials?

IX. Marketing

1. Marketing ratio of main products by area

Main Products	Marketing Area				Total
	Seoul, Pusan	Large cities	Eup or Myeon	Overseas	
1st Product					
2nd Product					

2. What is the average stock period of first product for the last 2 years?

- | | |
|-------------------|------------|
| (1) Under 1 month | (2) 1 - 2 |
| (3) 2 - 3 | (4) 3 - 4 |
| (5) 4 - 5 | (6) Over 6 |

If your answer is (6)--->Start from number 3

If your answer is one of (1) through (5)->Start from number 4

3. What's the reason thereof?

- (1) Slow sale
- (2) Decrease
- (3) Refusal of product by mother company
- (4) Others (specify) _____

4. For the last two years, your market conditions are:

- (1) Improving
- (2) Aggravating
- (3) No difference

5. What are the difficulties in marketing? Please, enumerate them.

6. Any suggestions for the market improvement of rural industry?

7. Does your factory export?

(1) Yes

(2) No

If yes -----> Go to number 8

If no -----> Go to X, Manpower & Employment

8. What were the total amount of exports for the last three years?

Year	Exports (U.S.\$)
1978	
1979	
1980	

9. Your export base is:

(1) Direct

(2) Indirect

If your answer is (1)---> Start from number 10 but skip number 12 through 28

If your answer is (2)---> Start from number 12

10. What are the difficulties you are confronted in the direct export? Please, list them out.

11. Accordingly, what kind of help do you think is urgently needed from the government for the direct exporting companies?

12. Do you know Korea Trading Co. Ltd.?

(1) Yes

(2) No

If your answer is (1)----> Go to number 13

If your answer is (2)----> Answer number 16 and 17
first and then skip number 18 through 28

13. How did you become to know it?

(1) Through friend

(2) Through Korea Trading Company's advertisement

(3) Through the government's introduction

(4) Others (specify) _____

14. Have you ever used Korea Trading Company?

(1) Yes

(2) No

If yes -----> Go to number 18

If no -----> Go to number 15 but skip number 18
through 28

15. Why don't you use it? Please, give its reason.

16. Through which exporting company are you exporting?
Please, give its name.

17. What are difficulties you are facing in the indirect exporting?

17-1. In case of service charge:

17-2. In terms of indirect exporting contract:

17-3. In terms of receiving the export money:

17-4. In case of business administration:

18. Service charge was:

(1) High

(2) Low

(3) Proper

19. Were the terms and conditions of contract well kept?

(1) Yes

(2) No

20. Did you get returned the export money at once?

(1) Yes

(2) No

21. How many times did you have to visit it on business to get the export finished?

_____ times

22. What was the service charge?

W _____

23. What was the total amount of export and the ensuing expenses?

23-1. Total amount of export:

US\$ _____

23-2. Expenses except service charge:

US\$ _____

24. What is the difficulty and problems in the indirect exporting?

25. So, did your company benefit much by exporting through Korea Trading Company?

(1) Yes

(2) No

26. Now, through which exporting company are you exporting? Please, give its name.

27. Do you still plan to use it?

(1) Yes

(2) No

28. What do you say to the suggestions that all the rural exporting companies should export through Korea Trading Company?

29. Please, give some ideas and suggestions for the acceleration of export of rural industry.

30. Do you agree with the suggestion that all the rural exporting companies should export through single window?

(1) Yes

(2) No

31. Please, give its reason.

X. Manpower & Employment

1. What is the distribution of company members?
Please, fill in the following chart.

Position	Number of Members
President	
Vice-President	
Executive Director	
Standing Director	
Directors	
Division Chiefs	
Assisant Division Chiefs	
Section Chiefs	
Assistant Section Chiefs	
Employees	
Total	

2. If you classify the members by their fields of work what is the distribution? And what about the availability of employment by category?
Please fill in the following chart.

Category	Number of Members	Level of Availability			Total
		Difficult	Neutral	Easy	
Management and Office Worker					
Engineer					
Skilled Labour					
Unskilled Labour					
Manual Worker					

3. If you again classify the company workers by their birthplaces, what is the distribution? Please, fill in the following chart.

Unit: No. of Person

Field of Work	Rural				Urban	Total
	Near Villages	Other Distant Villages	Other Gun	Other Province		
Manage- ment & Office Worker						
Engineer						
Techni- cian						
Skilled Worker						
Semi- skilled						
Manual Worker						
Total						

4. Is there any graduates from the rural vocational training center?

(1) Yes

(2) No

If yes ----->Start from number 5

If no ----->Start from number 7

5. Comparing with other workers, how is their level of skill, diligence, faithfulness, etc?

(1) Higher

(2) No difference

(3) Lower

6. Therefore, you want to employ them more?

(1) Yes

(2) No

7. What do you say to the idea to employ the farmers by training them into the skilled workers?

(1) Agree

(2) Disagree

8. What is the difficulty in providing the manpower?
Please, describe.

9. Any suggestions for the stable manpower supply?

XI. Others (Technology, Information, Institution Building, etc.)

1. Have you ever been given the technical and managerial assistance and guidance by the government or its relevant agencies for the last 3 years?

(1) Yes

(2) No

If yes -----> Start from number 2

If no -----> Start from number 3

2. What are they? Please, specify.

2-1. Technical assistance & guidance:

2-2. Managerial assistance & guidance:

3. How do you get the information on technology, marketing, management and the like? Please, describe in short.

4. Any suggestions for the prompt acquirement of information? Please, give some remarks.

5. What is your company's efforts for the development of new items and management renovation? Please, narrate briefly.

- 5-1. For the development of new items:

- 5-2. For the management renovation:

6. What kind of institutional facilities do you think have to be installed in this town for the industrial activities?

6-1. For the factory site-obtaining:

6-2. For the factory construction:

6-3. For the tax clearance:

6-4. For the fund provision:

6-5. For the technical development, management renovation, business information and others:

7. Taking the above necessity of institution building together, to what extent do you agree with the suggestion that one kind of service institution exclusively involving in all the factory related affairs has to be established?

- (1) Strongly disagree
- (2) Disagree
- (3) Neutral
- (4) Agree
- (5) Strongly agree

8. Is there any difficulty in physical environment such as electricity, roads, communication, industrial waters and so on? If any, please list out.

9. How do you rate in general the various government programs in effect for the rural industry development?

- (1) Very unhelpful
- (2) Unhelpful
- (3) Neutral
- (4) Helpful
- (5) Very helpful

10. How do you feel about the government's efforts toward the rural industrial development?

- (1) Nothing at all
- (2) Negative & Indifferent
- (3) Neutral
- (4) Positive
- (5) Very positive

11. In your opinion, what should be first preceded for the rural industrial development? Please, give some suggestions.

- Thank you very much for your cooperation -

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