

REFLECTIONS ON THE AGRICULTURAL MARKETING SYSTEM IN TRANSITION: THE KOREAN CASE*

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I. INTRODUCTION

As Emlen eloquently depicts, production may be the door to the economic growth of the underdeveloped countries, but marketing is the key that turns the lock.¹ Examples in many developing countries including Korea indicate that potential production resources are not being properly utilized largely as a result of inefficient marketing systems which do not translate the development activities into profitable opportunities. As agriculture moves towards a commercial economy, the need for the development of more efficient marketing systems becomes crucial to continued progress.

When farming was overwhelmingly of a subsistence type, people produced only what they needed to eat with very little left to be marketed. Today, as more and more farmers produce in excess of their family needs, the proportion of their production moving into the market is rising rapidly. At the same time, the higher consumption levels brought by rising incomes and rapid urbanization and industrialization have sharpened the awareness in many countries of how inadequate their marketing systems are.

In this respect, agricultural development may be interpreted as the increased volume of farm produce circulating in the national economy. Nevertheless, the main policies for agricultural development in many developing countries seem to take the marketing process for granted and to concentrate on an increase in physical production. These policies embody an assumption that if increased production is realized, then adjustments in market facilities, methods and institutions will follow by themselves.

However, Korean experience suggests that transforming a traditional

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¹ Woodruff J. Emlen, "Let's Export Marketing Know-How," *Harvard Business Review*, November, 1958. p. 70

agricultural economy into a commercial one requires the simultaneous modernization of both production and marketing processes. Increased production alone may result in windfall benefits to consumers, but this is often at a serious cost to farm producers because of the lower prices at harvest time. It seems, therefore, essential for a satisfactory evolution of the development process that the proper functioning of agricultural marketing must go hand in hand with improvements in production.

In view of the importance of agricultural marketing in economic development, the dynamics of the structural changes should be thoroughly reviewed to provide a sound basis for a long-run production marketing system development. In particular, planning for marketing system development needs answers to such questions as: How to improve the marketing services for producers, consumers and participant-dealers; How to reduce marketing costs and losses by institutional and physical arrangements; and what are the most suitable systems for various policies and programs at each stage of economic development.

Of course, it is not easy to discover the full range of consequences that may occur as a result of the interaction between overall economic growth and marketing development. However, the illustration of alternative consequences and evolution processes can help stimulate an increased awareness of the importance of improving the agricultural marketing system. Such awareness is the first step in fostering more in-depth research and in formulating the appropriate development programs.

II. BASIC DIRECTIONS TOWARDS EFFICIENT MARKETING

Concerned with rural transformation under the rapid industrialization in an open economy, it may be useful to briefly mention, at the outset, some criteria against which the performance of agricultural marketing system may be measured. The following directions have been suggested by FAO marketing specialists²; *the adequacy and responsiveness of agricultural marketing services, minimum costs and margins, maximum stability, and equity.*

The adequacy of marketing services concerns the needs of producers, dealers and consumers at different levels of marketing. However, it has to be recognized that demand for such needs varies with the development stage of the overall economy. A certain type of marketing system and services, even a subsistence-oriented one, exists simply because it may be adapted to the needs of various participants and to the stage of development in which agriculture now operates. *The speedy responsiveness* with which the marketing system adjusts its services to changes in consumer needs,

² H. J. Mittendorf, "Evolution of Food Marketing Systems in Europe and North America and Its Relevance to Asia," *Food Marketing Systems in Asian Cities*, FAO, No. RAPE 24, Bangkok, 1975. p. 2

prices and the introduction of innovation from outside the system can best accelerate through a simultaneous effort to improve infrastructures for both production and marketing in accordance with the overall economic development.

The so-called marketing margin in terms of the price difference spread between initial producer and final consumer mostly consists of physical distribution costs, modern servicing costs and dealers' profits. It should be taken into consideration that all cost elements are adequately, but not excessively covered to ensure an orderly and efficient marketing system. When there are relatively high margins observed for a certain product in the current marketing system, a careful breakdown of the cost elements needs to be done in order to determine the exact causes and effects. Lowering the physical distribution costs requires a large resource input with commensurate high investments, for which the government is largely responsible. On the other hand, modern servicing costs grow high and take a larger portion as consumers demand better services. Even if some merchant-middlemen are eliminated from the marketing scene because of their profits, it is still impossible to completely eliminate the marketing functions formerly assumed by them. Someone else should take over the functions and be able to perform them at lower costs.

Reasonable price and marketing stability also poses as an important element of the marketing system, for it is a precondition to a reduction of risk and to a steady growth in production. When the government's marketing policies fail to maintain the reasonable levels of yearly/seasonal price movements, incentives to increased production easily disappear. Suppressing farm prices unduly at low levels for the sake of general price stabilization also causes an adverse effect on increased production, as is often witnessed in developing countries.

Finally, the issue of equity has been drawing considerable attention in the following two aspects, as Mittendorf pointed out³ One aspect is the extent to which the marketing system enables the lower income groups to be supplied with basic food needs at prices which they can afford. The other aspect is the role of power within the system and to what extent the participants in the system are treated in a fair way. The former equity consideration may often bring about a misallocation of resources such as a simple hand-out or a heavy governmental subsidy in the direct marketing cost of food. Encouraging mass production cum marketing through a stable price marketing mechanism may substantially contribute to a reduction in food prices. It does not, however, justify that profits may be concentrated at one level of marketing or a few gigantic distributors, while other marketing participants are deprived of opportunities to make improvements in the system.

³ *Ibid.* p.4

III. THE IMPACT OF ECONOMIC DEVELOPMENT ON AGRICULTURAL MARKETING SYSTEMS: THE KOREAN EXPERIENCE

During the period since 1962, Korea's real GNP rose at an annual rate of around 10 percent, raising per capita income from US\$95 to US\$1,242 in 1978. The agricultural sector, being in a relatively low value-added position, grew at a modest rate of about 4 percent a year and its contribution to GNP declined from about 40% to 21% during 1962-1978. The rapid growth of the Korean economy has been obviously characterized by incredible industrial development, with a progressively stronger concentration of economic activities in urban centers. As a result, it has stimulated a great number of rural people to flock to the nation's cities where approximately 66 percent of total population currently live (*cf.* 28% in 1962).

The impact on Korean agriculture by the rapid changes in industrial and urban development coupled with rising income levels has been reflected in the increasing trends of food consumption, production and marketing in both quantity and quality. Per capita consumption of fruits increased from 6.6kg in 1962 to 18.6kg in 1977; vegetables from 41.8kg to 93.4kg; meat from 2.6kg to 8.1kg and food grains from 190kg to 286kg. A typical household's cost for purchasing fruits, vegetables and meat constituted 33.6% of its food expenditure in 1976.

On the production side, increasing demands for farm produce along with rapid industrialization/urbanization has seen the sector's gradual transformation from subsistence crops to commercially-oriented produce. For example, during the 14 years 1962-1976, the area planted in fresh produce including other cash crops rose from 9.6 percent of total planted area to 19.4 percent while that planted in foodgrains including potatoes decreased from 90.4 percent to 80.6 percent. These together with increased productivity mean that the total production of fruit and vegetables, increased from 150 thousand tons and 1.2 million tons respectively in 1962 to 615 thousand tons and 3.2 million tons in 1976. During the same period, total supplies of foodgrains rose from 5.0 million tons (3.0 millions for rice) to 8.2 million tons (5.2 millions for rice), while production of meat increased from 70,560 tons in 1962 to 282,842 tons in 1975. By value, rice is the most important crop (1,459 billion won), followed by livestock and cocoon (519 billion), fruits and vegetables (502 billion), and others (adding up to 804 billion won).

This sharp increase in consumption and production has called for the development of expanded marketing outlets at farm, assembly, wholesale and retail levels. There are at present about 6,300 agriculturally-oriented markets of various levels, either public or private, of which retail outlets constitute almost 80 percent and wholesale markets comprised 3.4 percent. The rest are either assembly points or markets combining two or more categories. Among these figures, included are 18 marketing centers;

2 supermarkets and about 1,600 retail outlets in urban areas, and 1,810 assembling and retail centers in rural areas and 11 highway collection points operated by the NACF.

Thus, the traditional marketing system for farm produce in Korea has undergone a rapid evolution during the past decade. Until the early 1960s, farmers used to cultivate mainly the staple grains such as rice and barley for family consumption and the limited surplus was assembled by assemblershippers who in many cases were either themselves a source of production credit or who had ties with merchant-moneylenders at the urban wholesale market. Wholesale markets in urban centers were small in size and handling simple varieties of staple agricultural products. In cities, publicly established retail markets were the major source of supply.

The present marketing system for farm fresh produce differs significantly from 15 years ago. The majority of shipments to expanded urban wholesale markets are now made directly by farmers, either acting as individuals, through village shipping associations, or through special and district cooperatives. However, there is an indigenously adapted system of wholesale marketing, which is, dominated by unlicensed and uncontrolled wholesalers, who have about 60–70% of market shares, known in Korea as quasi-wholesalers or consignment wholesalers.⁴ Competing with this quasi-wholesale market are the so-called public wholesale market and the cooperative (NACF) marketing center, where auction sales are practised. Supermarkets and chain stores have recently shown a rapid growth in most urban centers; i.e., in Seoul alone there are about 250 stores active.

Major market deficiencies, however, continue to exist. The present marketing system favors neither consumers nor producers, in the sense that so far no party has explicitly gained from recent yearly and seasonal price movements. It is not uncommon to frequently observe drastic price drops in the harvest season while consumer prices sharply increase off-season. Coefficients of variation in farm prices vary ranging from 11.6% to 39% by commodities.⁵ Furthermore, wholesale prices of farm products have been increasing at a much faster rate than that of the farm gate prices, reflecting the inadequacy of the current marketing system.

On the average, the marketing bills paid for farm produce by consumers surpass the farmers' receipts by about 47 percent, of which retail mark-ups constitute the largest portion. Adding quantity and quality margins and physical losses to the above price margin results in a marketing cost of about 90 percent.⁶

Whether or not merchant-middlemen are exploiting farmers and con-

⁴ Y. B. Kim, et. al., *Korea First Urban Wholesale Markets Project*, KDI, 1978. p. 14

⁵ S. H. Kim, "The Problems of Demand and Supply of Fresh Produce," *Korea Rural Economics Review* Vol. 1, No. 2, 1978. P. 45 (in Korean)

⁶ Y. B. Kim, *op. cit.*, p. 11

sumers in terms of large margins has not been well documented. Government officials persistently claim that the relatively high cost of food to consumers are largely due to large profits taken by middlemen by means of monopolistic cum monopsonistic conduct, collusion, misquoting of prices, short-weight (quantity margin), and down-grading (quality margin). So far as marketing fees and commissions charged by middlemen are concerned, they cannot be blamed only as an intolerable profit-taker, taking into consideration that virtually no assistance from outside is provided in reducing their marketing costs, especially in lowering high infrastructure costs and financial burdens. The breakdown of marketing margins made by various researchers support this argument. Most research findings attribute the reason to the malfunctioning of public services which should create a low-cost and smooth physical distribution system.⁷

IV. CHALLENGES FACING THE AGRICULTURAL MARKETING SYSTEM IN KOREA

Factors contributing to the existing unstable and costly marketing system may be explained in many ways.

First of all, assembling functions in rural producing areas appear to be most vulnerable to fostering an orderly and efficient marketing system. Grading, packaging, price information and financing are very poor at this marketing level. Although improved packing, grading and standardization are being practiced by cooperatives in some production areas, most perishable commodities arrive in urban centers ungraded, badly sorted and improperly packaged. Market news provided by civil and cooperative agencies are based on the bewildering system of weights and measure, grades and sizes, causing inaccurate price quotations. This situation undermines the confidence of buyers, weakens sample buying and leads to a quick deterioration of the produce. A set of practical standard weights measures and grades with adequate market intelligence services needs to be set up on the consensus of all related parties. Marketing inspection, which is the responsibility of the local government is non-existent except for exports and imports and governmental purchases. These and an appropriate agricultural outlook system are also apparent weak points in the present marketing system.

Among the three types of wholesale markets, the highest marketing fees and taxes to shipper and retailer as a whole are charged at the public wholesale market with an average 12.3 percent of the total sales proceeds.⁸

⁷ Y. B. Kim, *op. cit.*, S. H. Kim *op. cit.*, John Ferris, et. al., *Investment Priorities in the Korean Agricultural Sector*, KASS, 1972. S. K. Han, et. al., *Organization and Performance of the Agricultural Marketing System in Korea*, KASS Team, 1973

⁸ Y. B. Kim, *op. cit.* pp. 150-151.

The second highest is at the NACF marketing center with 11.4 percent, followed by the quasi-wholesale market with 110 percent. But for consignment commissions (equivalent to auction charges in NACF and public markets), the quasi-wholesale market charges the highest rate, ranging from 8–9 percent. Various marketing charges made at a wholesale market include auction or consignment fees, unloading and loading charges, jobber's commissions, and value added tax to the shipper. In addition, value added tax to jobber and income tax to retailer and consignment merchant are substantial.

Noteworthy is the fact that various taxes to be levied on shipper, retailer and jobber in the wholesaling process are either nonexistent or evaded at cooperative and quasi-wholesale markets. This fact, coupled with an extensive network of collecting and retailing agencies capable of rendering a tremendous amount of credit at free or nominal charges, helps explain how the quasi-wholesaling business has become prosperous while that of the public wholesale markets in general remains practically at a standstill. Appointed dealer/jobbers at public wholesale markets and cooperative marketing centers generally occupy a lower financial position and relatively short experience in handling the complex wholesaling business. Besides, only public market operators and merchants are strictly controlled by tax revenue offices. However, the administrative inability to control the illegal wholesale trade leads to exorbitant commissions and other abuses such as the provision of false sales data to the farmer-shipper and tax evasion. A thorough review of the current tax rates and reporting/collecting system is required for efficient and equitable marketing activities. Furthermore, building-up the administrative and supervisory institutions in both central and local governments is essential to an effective marketing system.

The failure of the government to supply adequate production and marketing credit through the cooperative system has seen this function shifted from local moneylenders and assembler-shippers to illegal urban quasi-wholesalers, but the majority of farmers are still held captive by the necessity to borrow the money in advance of the harvest. Even though the credit tied-in to delivery of produce after the harvest is provided at a nominal interest, the cost for lending money is undoubtedly recovered in various ways when the merchant moneylender has to make payments to farmers for the delivered produce.

Wholesale markets in general are too small to achieve the economies of scale that would ensure, through the auction system, the best prices to both producers and consumers. Nine out of the ten wholesale markets were built by private investment and are generally inefficiently operated by either wholesaling companies or private landlords. Furthermore, by virtue of time and city growth, most are now located on congested but valuable sites where rents are fixed in accordance with general market rates. The time has arrived for the major wholesale markets to be relocated, by public

investment, on more spacious premises on the outskirts of the city. The system of locating jobber's (wholesaler's) stores in the market building impedes the flow of produce from the auction floor, but it is a custom that can only slowly be changed, especially since alternative space at reasonable rentals is not readily available.

In general, more direct buying from wholesale markets is required, but the legal prohibition on collective buying by retailers and the small size of retailing activities limits expansion in this field. Since cooperatives and large stores can buy in the market place, there is a need to provide direct distribution to retailers. A further problem is that given the variable quality of produce in the market, retailers prefer to inspect before buying. The foregoing situation leads to a clustering of retailers around wholesale markets with overcrowding and associated problems such as a timelag in internal transportation and inefficient loading and unloading.

The relatively well-developed highway and local road network constructed during the past ten years has largely put an end to excessive losses of produce and reductions in quality during transport to market. However, substantial spoilage using to 15% in certain commodities does occur at the central wholesale markets due to the afore-mentioned poor market structure, slow sales caused by the clustering of retailers around the marketing scene and the lack of proper handling facilities. The largest proportion of spoilage loss, however, occurs at the retail level, where small shops and barrow and sidewalk vendors still handle a large proportion of produce, which is often subject to direct sunlight and heat, leading to excessive loss of both quality and quantity. Special attention to providing adequate physical distribution facilities such as storage and processing and integrated retailing outlets such as supermarkets and chain stores should continue to be made.

V. THE EXPANSION OF MARKETING SERVICES AND FACILITIES

Projecting the population and employment growth into the future, together with changing income, preferences, technologies and mobility, strongly indicate the expanding need for marketing services and facilities. According to KDI, the population is projected to increase from 35,860 thousand in 1976 to 45,251 thousand in 1991, an increase of approximately 26 percent.⁹ In contrast, the non-farm work force is estimated to increase from 6,955 thousand to 15,670 thousand, a 125 percent increase. The urban population is projected to rise from about 18,650 thousand (52% of total) in 1976 to about 33,940 thousand (75%) in 1991, an 82 percent rise. To provide food even at current levels of per capita consumption, farm

⁹ *Long-run Prospects for Korea's Economic and Social Development: 1977-91*, KDI, 1977 pp. 151 & 195 (Korean Version)

production would have to increase by 26 percent while the amount of food marketed would rise by about 82–125 percent, assuming that the current food consumption by farm families is totally self-supplied and not marketed. But farm families do purchase food and other food marketing service such as grain milling. The required expansion in marketing services thus would vary by type of services and commodity.¹⁰

During the years ahead up to 1991, real per capita income at constant prices is projected to increase from 316 thousand won in 1976 to 1,057 thousand won in 1991, an average increase rate of 8.36 percent per annum. Accordingly, a typical consumer's food consumption (dietary) pattern will show a great shift from food grains and starchy roots to high-quality perishables. It is expected that the proportion of household food expenditure for fruits, vegetables and livestock products will increase from 33.6 percent in 1976 to 51.1 percent in 1991. And per capita consumption of various food stuffs is projected to increase as follows; from 18.6 kg in 1977 to 47.9 kg in 1991 for fruits, 93.4 kg to 142.7 kg for vegetables, and 9.8 kg to 17.4 kg for meat. Incorporating all these changes expected with the population projections, total consumption requirements during 1977–1991 will increase by about 170 percent for fruits and vegetables, about 180 percent for meat and about 60 percent even for foodgrains and starchy roots.

Thus, the expansion needs for domestic production and various marketing services will be growing at a much faster rate than that of overall population. A simple calculation indicates that demands for modern marketing services and facilities will increase by about 140 percent for farm fresh produce, about 148 percent for meat and about 50 percent for food grains including potatoes by 1991, assuming that the present system adequately covers the present requirements. If appropriate measures for the rapidly increasing requirements for food marketing and processing are fulfilled with the public initiative in organizational and operational aspects well ahead of time the food distribution system should achieve economies of scale and efficiency in the future. The transition, however, involves more specialized and more round-about procedures with more public investments to stimulate the physical transformation as well as the coordination of various economic activities in the marketing system.

VI. DYNAMICS OF MARKETING SYSTEM DEVELOPMENT

In attempting to draw useful lessons for marketing improvements from advanced countries, the place of economic dynamics in the development process of agricultural marketing structures should be clearly understood. At stated at the outset, the marketing structure develops hand in hand with improvements in the structure of production and consumption, in line with

¹⁰ S. K. Han, *op. cit.*

the changing overall economic development of the nation.

Accordingly, it might be inappropriate for developing countries to imitate marketing innovations from developed countries without adequate reference to their economic development background. First of all, there exist a wide range of differences in the agricultural production system between developed and developing countries. In most Asian countries there are many small farmers with a small surplus of production above their consumption needs. This requires a different marketing structure from the commercial agriculture of most developed countries. Differences in consumers' purchasing power and in the pattern between developed and less developed nations also pose a bottle-neck in the transfer of agricultural marketing innovations. The low income level of consumers limits the assortment of retail stores and also limits customer mobility.

According to research documentation made by FAO marketing expertise and various Asian researchers including the author himself¹¹, at least, three different stages of marketing development occur as follows. First, at a low level of economic development (Stage I) with average annual consumer income of approximately U.S. \$250, unorganized public bazaars and small scale neighbourhood shops are predominant in food marketing for urban consumers, whose main target of consumption is to be free from hunger. Due to the virtual non-existence of large commercial farms, urban wholesale markets are not well developed in this case.

At the middle level of development (Stage II) with an average consumer income of U.S. \$400–\$600, large-scale commercial farming begins to develop, with concentration on crops for cash sale. In this case, large urban wholesale markets play an important role in perishable food marketing as consumers become more separated from producers. Supermarkets and chain stores begin to appear at this stage, and the role of neighbourhood shops in retailing starts to decrease. Korean agricultural marketing may be regarded as being at the point at taking-off from this stage or on the edge of entering the next stage.

As the economy develops at a higher level (Stage III) of annual consumer income above U.S. \$600–\$800, the average consumption level of meat, fish, fruits and vegetables increases usually to about 45–50% of total food expenditures. At the same time, the increasing incomes and greater variety of foods encourage supermarkets and highly integrated chain stores to play an important role in food retailing. Also, because of sophisticated commercial farming operations and their direct link with super-

¹¹ H. J. Mittendorf *op. cit.*, pp. 5–11, C.C. Lee, "Improving National Marketing Systems for Economic Development," The 5th World Congress on Marketing, New Delhi, January 25–31, 1976, pp. 24–26, Japanese Resource Research Association, *Suggestions for Modernization of Food Marketing Systems*, Japanese Government of Science and Technology, 1965, pp. 9–21, S. H. Kim, *Modernization Strategies for Agricultural Marketing Systems*, NAERI Report No. 85, 1976 (in Korean) pp. 44–51

market chains or mass consuming institutions in urban centers, the relative importance of the wholesale market begins declining. At this stage of marketing development, instant and convenient processed foods become popular as more and more consumers, equipped with modern kitchen utensils and private transport, pursue leisure activities free from time-consuming direct preparation of food.

The legitimacy of such approaches to the phasing of marketing development stages is always challenged by the dynamics of modern marketing systems. Demands of a more sophisticated production and consumption are added to the pressures for an even more rapid escalation of development and changes within the marketing system. Important marketing innovations of recent years, particularly in developed countries enjoying Stage III have brought new methods for handling and processing food and fibers as well as changes in market organization and structure.¹²

Some of the newer foods such as frozen, canned, dehydrated and processed forms are now available because of innovations in packaging and containers. Similarly, new food processing and transportation techniques now make it possible for food to be produced and processed where production costs are low, while new techniques in marketing logistics including materials handling, storage, transportation and information management help accelerate the increased trade of agricultural products even over the oceans, thereby disseminating new products and methods in marketing.

Among the new marketing methods recently taking place in developed countries, there are three outstanding innovations which have contributed particularly to increased labor productivity: the widespread standardization of containers, products and operational methods; the wide application of self-service methods especially in retailing (*e.g.* cash and carry); and the extensive introduction of computers.¹³ These three techniques have greatly contributed to a speed-up in operations and a reduction of personal inspection and negotiation processes, with a resulting reduction in marketing costs. The wide application of the above-mentioned techniques has led to a great expansion in the scale of operations at all levels of marketing—at assembly, wholesale and retail.

Furthermore, the expanded scale of operations has been accompanied by a rapid concentration in purchasing and sales promotion activities and by an intensified cooperation in organization among such independent food marketing enterprises as voluntary chains and associated food retail groups. The progressive wholesalers have extended their functions to those of food retailer and processor/supplier, while those who failed to adjust their operation had to withdraw from the business as the traditional whole-

¹² USDA, *Agricultural Markets in Change*, ERS Report No. 95, July, 1966. pp. 28-57.

¹³ M. J. Mittendorf *op. cit.* p. 5

sale market has lost its previous role.

The strong concentration of purchasing at the wholesale or retail level and the coordination of marketing activities among producers or between producer and retailer groups have given a major incentive for farmers to concentrate and standardize their products. The grouping of farmers in line with their specialization of production has been greatly encouraged by the concentration in food retailing.

Because of rapid changes and increasing complexities associated with a dynamic marketing system, governments as well as research institutions in developed countries have been intensifying various programs for changes in institutions and the redirection of public policies and programs, thereby to strengthen their services in marketing.

VII. THE IMPLICATIONS ON PLANNING FOR MARKETING SYSTEMS IMPROVEMENT

The transition from traditional agriculture to an advanced economy can stagnate at any level of economic development. Achieving the productivity gains potentially available from a modern commercial system requires a continuous search for methods of improving the performance of the various elements of the economy.¹⁴ But barriers to improved performance may develop within the system. Performance failures in the marketing system such as uncertain and unrewarding farm prices and uncertain supplies of food to urban consumers all encourage the continuation of low-productivity in subsistence-oriented farming.

From the above phasing of marketing evolution stages, it may be reasonable to conclude that as agricultural production becomes more and more market-oriented, the marketing structure will adjust, to the changes in farming and vice versa, although a lag may be present. The present semi-subsistence marketing system in one developing country may be reasonably well adapted to its semi-subsistence farming structure at a certain stage of economic development.

To aid development, those who are responsible for policy formulation should examine means of working within and through the present (equivalent) marketing system rather than look for a substitute at a different stage of economic development, and should try to simultaneously meet all problems—either in production or marketing and consumption. The best improvements in the present marketing systems can come through an indirect approach by fostering better marketing methods, better storage and transportation facilities, the education and training of agents to better opportunities, quick and accurate market intelligence services, and well coordinated institutional developments. Direct government intervention

¹⁴ S. K. Han, *op. cit.*, p. 3

in the market system's operation would be the last resort to depend on, if the orderly and efficient marketing structure is to induce the continuously increasing volume of agricultural flows effectively from the producer to the consumer.

As C. Y. Lee emphasizes¹⁵, it is necessary at every stage of marketing development to identify the critical sub-system in the marketing of agricultural produce which has the most accelerated impact on the overall marketing system. For the current food marketing system in Korea, the improvement of the urban wholesaling cum retailing structure in line with farmers' cooperative sales of standardized fresh produce seems to be a critical sub-system.

The major direction for this improvement is the horizontal coordination or vertical integration of farm-to-retailer marketing activities. For this purpose, it is necessary to develop large-scale wholesale/retail outlets equipped with modern management techniques in urban centers as well as to organize group marketing activities for the peasant farmers in rural production areas. The government's financial and technical assistance in this direction is a necessary stimulus to encourage such development. Bulk and group orders, handling and transportation between producer-retailer and/or wholesaler-retailer will certainly reduce the overall marketing costs.

In order to introduce innovations which will improve the efficiency of the identified critical marketing sub-system, the concept of the agent of change or innovation leader is very useful.¹⁶ The dominant agent of change could be either entrepreneurial private innovators, government agencies, or training institutions depending upon the stage of market development.¹⁷ For the initial and second stages, the government could play a more appropriate role in stimulating the emergence of agents of change and in providing supporting services to create a favorable environment for the changes to take place in the marketing system.

Nevertheless, little attention to the importance of these marketing innovations has been paid in the government economic development plan and programs in most developing countries. The idea that increased production will automatically find marketing agents is still dominant among many policy-makers in developing countries. Not only do the marketing requirements both domestic and overseas, in developing economies receive relatively less emphasis, but also the provision of organizational and institutional development in marketing is very small.¹⁷ It is, therefore, necessary that the development of national marketing systems shares a substantial portion of the time, financial outlays and institutional arrangements of a national economic development plan.

¹⁵ C. Y. Lee, *op. cit.*, p. 27

¹⁶ *Ibid.* p. 30

¹⁷ J. C. Abbott, "Marketing Issues in Agricultural Development Planning in Developing Economies," in *Marketing and Markets*, AMA, 1968, pp. 87-116.