

AGRICULTURAL MARKETING MODERNIZATION PLAN IN KOREA: ITS PLANNING AND IMPLEMENTING*

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1. Background of Agriculture and Marketing

Growth of the Korean economy has progressed to the stage where development of the agricultural marketing system can contribute significantly to overall economic development of the country.

Korean economy has enjoyed sustained high growth from the First 5-Year Economic Development Plan which was initiated in 1962. The average growth rate during the First 5-Year Plan period was 7.9% per annum, which was followed by 9.7%, 10.2%, and 5.9% respectively during the Second, Third, and Fourth Plan periods (Table 1).

TABLE 1 MAJOR ECONOMIC INDICES

	Unit	1962	1982	1982/1962
GNP (current price)	Billion won	355.54	51,786.60	145.66
GNP (1980 constant price)	Billion won	8,432.39	41,736.66	5.00
Per capita GNP	US \$	87	1,800	20.69
Population	1,000	27,432	39,331	1.49
Rural population	1,000	15,897	6,688	0.64

This remarkable rate of growth brought about a shift in the demographic makeup of industries as well as the enhancement of the standard of living which in turn resulted in a new trend of food consumption patterns (Table 2).

The production of agricultural products was also restructured to reflect the change in food consumption patterns. The grain production continued to decline since 1980, with the exception of rice, while the production of fruits has shown continued growth since the 1960s. Despite some fluctuation, the production of livestock products also grew steadily (Table 3).

The government adopted in the 1960s a basic policy of controlling the demand and supply by leaving them to the market forces. However,

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TABLE 2 PER CAPITA ANNUAL FOOD CONSUMPTION

Unit: kg

Item	1962	1965	1970	1980	1982
Grains*	167.2	188.8	291.4	195.1	192.2
Rice	112.7	121.8	136.4	132.4	130.2
Barley	30.8	36.6	37.3	13.8	14.0
Others	23.7	30.0	15.7	48.9	48.0
Vegetables	—	46.7	59.7	120.6	130.4
Fruits	—	9.8	10.0	16.2	22.3
Meats	3.5	4.6	6.6	11.3	11.2
Beef	0.5	1.4	1.6	2.6	2.7
Pork	2.3	2.7	3.6	6.3	6.0
Chicken	0.7	0.5	1.4	2.4	2.5
Milk	—	2.1	1.8	10.8	15.1
Egg	1.8	1.9	3.2	5.9	5.5
Fish	—	18.8	17.3	27.0	31.5

* The figures for grains are from the Table of Demand and Supply Status for Polished Grains published by MAF.

TABLE 3 PRODUCTION TREND OF AGRO-FISHERY PRODUCTS (1960-1983)

Unit: 1,000t

		1960	1965	1970	1975	1980	1981	1982	1983
Grain	Rice	3,047	3,769	4,240	5,026	3,945	5,448	5,572	5,816
	Barley	1,288	2,244	2,424	2,449	1,196	1,218	1,129	1,274
	Millet	326	3,577	2,741	2,614	1,549	1,662	1,381	1,481
	Minor cereal	81	120	124	92	170	163	146	115
	Beans	150	200	270	349	266	315	295	277
Fruits and Vegetables	Vegetables	1,088	1,482	2,405	2,414	7,190	7,435	7,871	6,813
	Fruits	166	310	423	534	833	1,026	1,194	1,400
Live-stock*	Beef	1,012	1,321	1,310	1,641	1,634	1,506	1,754	2,215
	Pork	1,397	1,382	1,126	1,247	1,784	1,832	2,183	3,649
	Chicken	12,030	11,893	23,633	20,939	40,134	42,999	46,592	49,239
Fish		357	637	935	2,135	2,410	2,812	2,644	2,793

* Figures for the livestock are number of heads bred.

as the consumption patterns and production trends in agro-fishery products shifted, the government began to intervene in the marketing process in an effort to control the demand and supply and to maintain an optimum price.

With the changing environment in the marketing of agricultural products in the early 1970s, the government intervened in the market both directly and indirectly through implementation of various marketing policies such as placing the grain market in its own hand while leaving

the market of fruits and livestock products in private hands. Meanwhile, the government also exerted efforts to expand its shipment scale, to streamline and improve the wholesale market, to establish a system of production-by-plan, and to consolidate a cooperative shipment system.

As the national economy entered a new stage of massive scale in the latter half of 1970s, an emphasis was placed on shortening and streamlining of the marketing channel as well as on the expansion of the marketing facilities to promote the modernization of the marketing structure.

In the 1980s, the demand for the marketing service and the trade volume of agricultural and marine products have increased rapidly due to greater production capacity and the progress of modernization. However, the national marketing structure was not efficient enough to meet the growing needs. The marketing participants were lacking of management skill and business perspectives while the material facilities, various service provision systems and the institutions activating the marketing functions remained underdeveloped. This has led the government to place its policy emphasis on improving the basic conditions necessary for efficient marketing.

II. Problems in Agricultural Marketing

1) The competitive factors are weak among outlets for collecting agricultural products in producing areas. Private dealers dominate the collecting activities. They have more powerful bargaining power in price determination than farmers do. Some measures are required to promote competition among dealers such as private collecting merchants, marketing cooperatives and self-helps joint shipment groups.

Large scale farmers can sell their product directly to wholesalers and/or supermarkets. However, it is very difficult for every farmer to become a large scale farm. Cooperative marketing by small farmers is one of the most feasible ways to increase competition in collecting activities in producing area. In recent years the cooperative marketing has been rapidly developed but it is yet at a developing stage.

2) Wholesale markets of agriculture and fishery products can be classified into three types; legal wholesale markets, cooperative marketing centers and quasi-wholesale markets. As of 1983 there were 66 legal wholesale markets, 239 cooperative marketing centers and 96 quasi-wholesale markets.

If they are classified according to types, there are 184 fruits and vegetable markets, 210 fishery products markets and 7 livestock markets. Geographically, most markets, other than the cooperative marketing centers of the National Federation of Fisheries Cooperative, are centered in Seoul (Table 4).

As of the end of 1982, the average size of building lot among 150 fruit and vegetable markets surveyed was 1,024.6 pyung*; company

TABLE 4 LOCATION OF WHOLESALE MARKET, 1983

Province	Fruits and Vegetables			Fishery Products			Livestock		Total
	Legal wholesale market	Cooperative marketing center	Quasi wholesale market	Legal marketing market	Cooperative marketing center ¹	Quasi wholesale market	Legal wholesale market	Cooperative marketing center	
SEOUL	3	4	15	1	2	8	2	1	36
PUSAN	15	5	14	1	(1)	6	2		43 (1)
TAEGU	2	4	7	1	1	3	1		19
INCHEON	2	5	4		1	(2)	1		13 (2)
KYUNG KI	2	4	8			(5)			14 (5)
KANG WON	1	4	2		1	(12)			8 (12)
CHOONG BUK	1	3	5	2	1				12
CHOONG NAM	2	2	2	1	1	(7)	2		10 (7)
GEON BUK	3	7	1	2	1	(17)			14 (17)
GEON NAM	5	7	3	1	2	(72)	3		21 (72)
KYUNG BUK	5	11	5	2		(9)			23 (9)
KYUNG NAM	5	7	6	2	(33)				21 (33)
CHEJU	1		2		1	(6)			3 (6)
Total	47	63	74	13	11(164)	22	6	1	237(164)

*Figures in () are number of cooperative marketing centers at harbors.

office rooms, 40.8 pyung; dealers sales rooms and offices, 466.4 pyung; auction rooms, 290.8 pyung; sorting places, 591 pyung; and parking lots, 73.3 pyung. This clearly indicates the small scale of fruit and vegetable markets.

The average number of working personnel per market was 12.8. To be more specific, the number of personnel per legal wholesale market was 15.9; per cooperative marketing center, 15.4 and per quasi market, 8.7.

As of the end of March, 1984, the average building site of legal wholesale markets for fishery products and cooperative marketing centers was 4,011 pyung; buildings, 3,299 pyung; office rooms, 167 pyung; shop and office rooms of the middleman, 475 pyung; auction rooms, 1,575 pyung; and storage rooms, 62 pyung with the average numbers of personnel being 27.3.

As of the end of 1983, the average building site of livestock markets was 4,764.7 pyung; buildings, 1,661.1 pyung; office rooms, 196.6 pyung; auction rooms, 311.1 pyung; and parking lots, 235.9 pyung. The average numbers of personnel per market was 142.6.

Though the scale or the size of facilities varies depending upon the type and location of the markets, the scale of most markets is so small that it cannot effectively handle most transactions. Sometimes this results in a stockpiling goods. Especially following the rapid expansion of cities, rapid increase of transportation and the failure to secure enough parking area and facilities bring about traffic congestion. Other facilities, including sanitation facilities, are not only insufficient, but inadequate that the environment is unclean. These are problems which most markets have in common.

Most wholesale markets are located in the center of cities. Therefore, with rapid urbanization, the role and the function of wholesale markets will be rapidly increased. Unfortunately, there remain many problems with facilities and personnel.

One can rarely find that mayors or local autonomous entities responsible for establishing wholesale markets directly invest in the construction of such markets. Most of them are privately established and operated. In other words, wholesale market corporations, approved by local autonomous entities to engage in wholesale business, establish and operate most wholesale markets. Most of them rely so heavily upon private capital that their scale is small and their facilities are poor.

In the case of legal wholesale markets, market companies are generally responsible for the operation and management of markets. But in the case of quasi wholesale markets, market companies, as lease holders of market facilities, actually have more interest in the leasing business. This is a great obstacle to the improvement of market operations and effective distribu-

*1 pyung = 3.3m²

tion. Another type of operation for quasi wholesale market is one in which wholesalers possess stores and organize market steering committee for better management of the markets. But most market companies are lease oriented business, utilizing buildings and other auxiliary facilities at high prices. As mentioned earlier, this is a great obstacle to effective operations. So it is often required to reorganize their operation systems for more efficient operation of wholesale markets.

In legal wholesale markets and cooperative marketing centers where deal in fruit, vegetable and fishery products, the consigned products are sold partly through auction, whereas in quasi wholesale markets, transaction is made by negotiation between consigners and retailers. Auctions are made through upward pricing system, finger's pricing auction system and label price auction system. In quasi wholesale market, individual abacus type auction system is used.

On the other hand, transaction by negotiation which is done through agreement of both sellers and buyers, is a very rational transaction method, because individual intention can be well expressed. But there is an important precondition: buyers should have as much knowledge and information on the goods as do the sellers. If this precondition is not met, transactions generally will be unfair and price formation will be unstable. This, therefore, will prevent wholesale markets from properly carrying out their roles.

3) The retail market, the final step in the distribution process is a market which provides goods to consumers, satisfying the various needs and demands of many consumers. It has the following characteristics and functions.

- (1) Transaction volume is very small and the profit margin of distribution is high.
- (2) Market size is generally proportionate to the population served by the market.
- (3) A retail market usually consists of family-operating petty shops, and from an economic point of view, it has a job-creation effect.
- (4) There are various types of retail markets because they have a long history and their characteristics have changed with the needs and demands of consumers. Besides, a variety of functions are performed such as packaging, grading and standardization of goods, financial function by credit transaction, transportation and delivery of goods, and gathering and distribution of information.

It was pointed out that traditional markets have more problems than modern ones. Important problems are as follows: First, the market system is often such a small scale and so decentralized that it cannot effectively adjust itself to changes in customer demand. It is also very likely to lose its market function, because it falls behind the large scale retail systems that

gain profit from unitary operation. Also, the market owners are too often concerned only with rental fee revenue, while neglecting to improve facilities and to streamline operations. Occupying dealers bear such high rental fees and premiums that their profits fall. In addition, their operation conditions are very unstable due to short contractual period. Second, poor market facilities and unclean environments sometimes result in unsanitary treatment of foods and cause inconvenience to customers. Third, the operating scale of occupying dealers is so small that they purchase small quantities of goods. Therefore, they sometimes have to tolerate suppliers' arbitrary behavior and they have difficulties in purchasing popular items. Family-operated management systems, dealers' low education levels and lack of understanding of operational improvement have all brought about disorder and unfair transactions which are the main cause of behind losing customers' credit. In addition, as they rarely possess necessary collateral for obtaining access to institutional loans, they are heavily dependent upon private, higher interest loans.

In spite of such shortcomings, the traditional market can make blanket purchases, because many small-scale shops form a group. It is also advantageous in terms of location. Another advantage is that it is more appropriate for customers' purchasing practices, because investment is not so high that goods can be sold at a lower price.

With the appearance of large scale retail systems, retail competition is likely to be intensified and traditional markets will inevitably be pressured in their operations. The traditional retail market is a place where small scale retailers and also those who are alienated from social welfare policies, without further job opportunity, can earn their living with small capital. For this reason, if improvement of the market environment or modernization of such markets is pursued without preparing alternative social policies, serious social problems could ensue. In this sense, there are many obstacles to improving our retail markets.

Although supermarkets have rapidly developed since 1970, they have several difficult operational problems.

First, customers evaluate that supermarkets do not provide goods at a low price other than industrial products. In particular, the price of primary products is generally more expensive in supermarkets than in traditional markets. The main reasons for this are as follows: (1) The primary target customers of supermarkets are not lower-income brackets but middleclass. So they tend to sell high-grade and thus more expensive products. (2) Skyrocketed price of real estate due to the gravitation of the population to large cities, excessive investment in supermarkets, facilities, and operation cost pressures also prevented supermarkets from establishing and long-term plans. (3) They failed to reduce the many distribution stages of agricultural and fisheries products through direct purchase at production centers, and depended upon wholesale markets for the purchase of

most goods. Therefore, cost reduction was never realized.

Second, trust and solidarity between super chain headquarters and their affiliates are so weak that the rate of goods provided from headquarters to affiliates is very low. Consequently, they cannot effectively counter other producers and do not have scale advantages. Another reason is the shortage of professional manpower and facilities among chain headquarters.

Third, productivity is low due to the lack of expertise and experience on the part of personnel.

In this context, supermarkets should be induced to have small scale shops of 50 pyung similar to the A & P Company Economy Stores in the United States, rather than concentrating on maximization of facilities. They also should be induced to select sites of lower price and to spend less on facilities investment, thereby, to raise total profit rates and to promote mass transaction by allowing powerful headquarters system operation.

4) Since the food processing industry uses primary agricultural products as raw materials, it can be unstabilized due to the storage and preservation of raw materials, a bumper crop or a poor crop, and change of season. Therefore, the annual operation rate is at a very low level and the majority of enterprises are run rather on a small scale.

In terms of the management of the business circles, productivity is low because of the small-scale enterprises along with the evasion of investment by entrepreneurs, unsatisfactory administrative and fund assistance by the government, backward techniques of the processing enterprises and difficulties in exploring outlets. In particular, the processed foodstuffs are so regulated by the government for their prices that the enterprises involved are run on a small scale except some big businesses, and the problem of low expansion rate is commonly shared with.

Taking a look at it from the systematic aspect of the food processing industry on the other hand, there is a lack of diversified administrative agencies for foodstuffs, and of linkage between agencies concerned.

In the light of the future roles of the processing industry and its importance, comprehensive measures for promoting and assisting this field are urgently requested. The production index of processed food in Korea has changed, with the year 1980 as a standard (100), from 55 in 1976 to 138 as of July, 1983, recording a high growth rate of 14% on the average per year.

However, such growth has been led by several big enterprises which process mainly imported materials, and small and medium businesses in farming and fishing villages have negligibly contributed to the growth. As a result, the current negative factors such as low profit ratio from investment, weak international competitiveness, backward related industries, unstable supply of raw materials, and low technical standard must be improved to develop the food processing industry.

To that end, the government's support is required to attract active investment in order to replace small-scale and worn-out facilities, to develop new processing techniques, and to expand contracted cultivation for a stable supply of raw materials.

5) Large part of agricultural inputs in Korea are delivered to the farm through cooperative system. There are several reasons for cooperative delivery system. First, developing countries face with shortage of capital to invest in agricultural input industry which requires large investment. They have to fund capital from foreign country which requests government guarantee for the loan provided, and for profitability for joint venture. The example is fertilizer industry. Korea has built several fertilizer plants as a joint venture with foreign companies which requested the government to buy every product for certain time period. The government asks cooperative and its federation to deliver fertilizer to farmer on behalf of the government at set price.

The terms of joint venture is going to be terminated in near future. And then the delivery system of fertilizer will shift to private distribution channel. It is expected that the mixed system of private channel and coop delivery system will prevail for a while. Is the mixed system efficient or effective?

Second, adoption rate for some agricultural inputs is so low that the government tries to encourage farmer to use the inputs by loan arrangement through cooperative system. Agricultural machines such as tractor, combine, threshing machine, tiller and so on, require so large a lump-sum payment for farmer to purchase that farmers need loan to pay for the machine. The loan arrangement is made by cooperative organization with partial support of the government. At present the distribution system of agricultural machine is divided into two channels; one is cooperative channel and the other is private channel, but loan is arranged by cooperatives. As farmers' income increases and terms of the loan is unfavorable, it is expected that farmers will prefer the marketing services which private merchants render them.

Third, agricultural input industry more or less, is oligopoly and has more powerful bargaining power in market than individual farmer does. Cooperative of farmers can have monopolistic bargaining power in purchase of input. Agricultural chemicals is the example.

Insect and infection are unexpected and at random. Disease of staple crops becomes disaster to farmers and the national economy. It is effective that the cooperative secures in advance most of agricultural chemicals for unexpected insect and disease of staple crops such as rice. Agricultural chemicals for other crops such as vegetable and fruit is distributed by private dealers. Other materials such as vinyl and iron belong to this category.

Economic efficiency in resource allocation cannot be obtained at maximum if there are any imperfect competition factors and institutional

barriers in agricultural input marketing. Main concerns focus on how to maintain competition in input distribution, and what extent to intervene the market by cooperatives.

6) Price of agricultural product varies over time. Price observed through time is the result of a complex mixture of changes associated with seasonal, cyclical trend and irregular factors. The most common regularity observed in agricultural price is a seasonal pattern of change. Price of a commodity is lowest at harvest time and then rises as the season progress, reaching a peak prior to the next harvest. Price cycle of agricultural commodity tends to vary in length and in amplitude of fluctuation. Irregularity in price movement is commonly observed due to weather condition and natural disaster. Agricultural commodities such as vegetables and livestock products have high price fluctuation year by year in Korea.

The price variability is not "good" or "bad"; it is the result of economic change. In a private-enterprise economy, price is one of the regulators of the economy. A technical improvement lowers the costs of production and hence makes production more profitable. A typical response to higher profits is larger production. The result is lower prices, which increase quantity demanded and also signal producers to lower production. In another example, we saw how price variability allocated a seasonally produced commodity over the marketing season. Changes in relative prices play a role in directing the economy.

However, our society has some times decided that extreme price variability is undesirable. Great price variability creates uncertainty for the producer. He may be handicapped in planning the future; he may be unwilling to make investments (internal credit rationing) because of price uncertainty; or lenders may be unwilling to provide capital because of price risk.

III. Medium/Long-Term Agricultural Marketing Modernization Plan

(1) The nature and brief history

Korean Government has formulated and implemented the 5-Year Economic Development Plans from 1962. The First Five-Year Economic Development Plan was completed during 1962–1966; the Second, 1967–1971; the Third, 1972–1976; the Fourth, 1977–1981; and the Fifth will 1982–1986. In the process of formulating the Economic Development Plans, it has analyzed all conceivable bottlenecks and inherent weaknesses in Korean economy. It has attempted to make realistic assessments of the present condition and capabilities for growth. Then it has designed the path to be followed in order to overcome existing difficulties.

Until the Fourth Economic Development Plan was formulated, any package programs of agricultural marketing development did not be in-

cluded, even though piecemeal marketing programs combined with specific commodity such as fishes could be found in the 2nd and 3rd Economic Development Plans.

But Korean Government had finally found the importance of agricultural marketing improvement in terms of economic efficiency and price stabilization, and tried to put the package program of marketing development in the Fifth Economic Development Plan. At the same time, the government promulgated the Law of Facilitating Modernization of Marketing Industry on January 4th 1980, aiming at improving marketing structure, protecting producers and consumers, and contributing to price stabilization and balanced development of the economy through facilitating the development of marketing industry. This law covers agricultural, fishery and industrial commodities. The law specifies that the government shall formulate the master plan and annual implementation program of marketing modernization. The ministries concerned had established the marketing development plans/programs which were integrated and adjusted to make up the master plan and implementation program, which, in turn, were included in the Fifth Economic Development Plan for 1982-1986.

(2) Major policy directions of agricultural marketing modernization plan (AMMP)

We visualize the food marketing system from farmer to consumer as a chain made up of individual links; farmers, rural collectors, processors, truckers, wholesalers, retailers and consumers are mostly private firms participating in a free market. Their actions are circumscribed by supply and demand forces as well as legal constraints, government policies, resource availability, and accessibility to management, education and technology.

Since a chain is only as strong as its weakest link, the entire system is affected by the structural weaknesses and inefficiencies of each link. Furthermore, the forces of development, described earlier in this section, have modified the cultural and economic environment which produced the current marketing agents and their methods; but those same changes are now beginning to affect marketing firms. Some intermediaries will, and should, be eliminated, while others will evolve toward very different types of businesses.

Major policy directions of agricultural marketing development are as follows:

- (a) In the free, competitive market system, price is determined by supply and demand mechanisms, and competition prevails among the traders, marketing firms and throughout the marketing channels;
- (b) Government investment may focus on facilitating fair compet -

tion among the private sectors and on improvement of social infrastructure; and

- (c) The establishment of optimum allocation and distribution channels of perishable food products at minimum costs.

(3) Procedures in formulation of the medium/long-term AMMP

The Ministry of Agriculture and Fisheries (MAF) started with annual program of agricultural marketing development at first time. After 1978 when Korea had experience of high price fluctuation of vegetables and fruits, MAF formulated agricultural marketing development and price stabilization project as one of 10 policies of agriculture in and after 1979. In 1981, MAF prepared agricultural marketing modernization plan for five-year of 1982–1986, which was presented to the Economic Planning Board (EPB). EPB integrated and adjusted the modernization plans of marketing industry classified by jurisdiction to establish the Master Plan for the Marketing Modernization which was implemented by its own program and put into the Five-Year Economic Development Plan.

MAF has felt that it needs long-term agricultural development plan which is able to be a basis and a guideline to derive medium-term plan and annual program of marketing development plan. MAF supported the Korea Rural Economics Institute (KREI) to develop the long-term development plan with time span of 15 years in the future. KREI finally made up the National Agricultural Marketing Master Plan in 1984, which will be utilized to formulate medium-term marketing development plans in 6th, 7th and 8th Five-Year Economic Development Plans.

The medium-term marketing modernization master plan for all commodities shall be planned and implemented as specified by the Law of Facilitating Modernization of Marketing Industry, and the related annual implementation program also shall be put into practice now on and after. But sometimes the budget availability becomes main constraint to implement plans and programs.

(4) The master plan for marketing modernization, 1982-86

Strengthening of the Producing Area Marketing Functions

○Expansion of joint shipment functions

- Expansion of joint shipment through cooperatives
- Upbringing and expansion of the producing organization of village unit (farm producers' parties, new village farming groups) into shipment organization
- Expansion of the pilot cooperatives for joint shipment
- Strengthening the supports of delivery funds in advance for joint shipment (Funds for agricultural stability)

	Present (1981)	To be improved
The ratio of cooperatives shipment		
Vegetables	10%	20%
Fruits	20	30
Fishery products	82	90
Village self-help unit	15	30
The ratio of joint shipment (Vegetables and Fruits)		
Pilot cooperatives for joint shipment	200	600

- Excavation and public relations of the success cases in joint shipment
- Facilitation of direct transactions in producing area and expansion of contract cultivation
 - Strengthening of direct transactions with super chains and chainstores, etc.
 - Establishment of the transportation system for carcass meat and expansion of dressed broiler marketing
 - Inducement into contract cultivation between production groups and mass demand agencies in consumption area
- Enhancement of commercialization in agricultural products
 - Expansion of the enactment on standard of grading (20 commodities → 35 commodities)
 - Strengthening of inspection functions about agricultural products
- Improvement in consignment system in producing area (fishery products)
 - Making the management of consignment sale markets efficient
 - Reorganization of malfunctioning consignment sale markets and expansion of the facilities for consignment sale markets

Expansion of Wholesale Function

- Expansion of integrated wholesale markets construct on for agricultural and fishery products (1 market → 8 markets)

Present	To be improved
1 market now under construction (SEOUL: KA-RAK DONG)	7 markets (Seoul: 1 market local cities: 6 markets)

- Improvement in facilities and management of legal wholesale markets
 - improvement in facilities by year
 - Strengthening of competition system

- Improvement in middleman system
- Legalization and reorganization of quasi-wholesale markets
 - Inducement into legal wholesale markets through integrating and abolishing
 - Inducement of participation in integrated wholesale markets constructed
- Improvement in facilities and management of cooperative marketing centers

Modernization of Retail Mechanism

- Expansion of establishing the integrated food chainstores
(18 stores → 218 stores)
- Establishment of collection and delivery centers for agricultural and fishery products (11 centers)
- Improvement in management of cooperatives' chainstores and retail stores
- Improvement in retail stores

Expansion of Storage and Processing Facilities

	Unit	Present	To be improved
Chilled storehouse for garden stuff	1,000 pyung	44	74
Chilled storehouse for fruits and general commodities	1,000 pyung	304	387
Processing and handling facilities for milk	No of facilities	56	103
Processing facilities for fishery products	"	993	1,106
Expansion of refrigeration and cold storage facilities	"	350	392
Expansion of compound processing facilities	"	68	238

Facilitation of Effective Competition

Improvement in marketing channels by commodities

	Present	To be improved
Agricultural products	3-5 stages	1-4 stages
Livestock products	4-5	2-5
Fishery products	5-6	3-4
Industrial products	2-4	2-3

- Establishment of transaction order
 - Practical use of the metric system
 - Rationalization of standardization and measurement
 - Wide practice of price tag system
 - Establishment of market monitoring system
- Establishment of marketing information system
 - Construction of national marketing information network for agricultural and fishery products
 - Computer processing of statistical data
 - Establishment of marketing information center
 - Expansion of marketing information facilities

Strengthening the Supporting Facilities of Marketing

- Systematization of support through tax system
 - The corporation tax (Tax Reduction and Exemption Law, Article 8)

Present	To be improved
Public corporation: 5/100 out of the taxable income	In the case of legal wholesale markets: Application to taxable income of corporation of which stock is opened to the public
Market corporation (which is not opened to the public): 38/100 out of the amount exceeding 61 million won	

Consideration of the plan on effective financial support

- Restudy about the standard for financial subsidy and strengthening of post management system
- Expansion of monetary support

Execution of survey service projects

- Survey of the present condition and outlook for the formation of national commercial zone network
- Plan to improve the management of wholesale markets for agricultural and fishery products

Training for the specialized personnel in marketing

Establishment of the system for marketing administration

(5) Investment in marketing development by sources of fund and agencies involved

The marketing development project is financed by various sources of fund such as government subsidies, central and local, loan from special funds and foreign institutes, and money of project managers. The project mana-

gers are different from project to project. If project managers are cooperatives, they can mobilize government subsidy, central and local, loan from special funds, foreign loan and/or their own fund. If central government is the project manager, he can use government subsidy and/or foreign money. The determination of project manager depends mainly on characters and contents of project itself. Therefore, the combination of various sources of fund and agencies involved is determined by the characters of project and commodities involved.

The agencies involved in the marketing development projects are central government such as the Economic Planning Board (EPB), the Ministry of Agriculture and Fisheries (MAF), the Ministry of Commerce and Industry (MCI), and the Ministry of Home Affairs, and local government such as city, cooperatives such as National Agricultural Cooperatives Federation (NACF), National Livestock Cooperatives Federation (NLCF), and National Federation of Fishery Cooperatives (NFFC), and corporations such as Agricultural and Fisheries Development Corporation (AFDC) and private corporations. Some agencies for some projects are regulated by laws and regulations, and others are not.

The example of agricultural marketing development projects financed by various sources of fund is shown in the Table 5.

(6) Roles of government and marketing institutes

Many agencies such as government, cooperatives, corporations and institutions are involved in planning and implementing AMMP. EPB integrates and adjusts the marketing modernization plans made by ministries concerned for commodity groups, in order to establish the master plan for national marketing modernization and to draw up budget for subsidy. EPB also has much interests in anti-monopoly measures and fair trade.

MAF sets up agricultural marketing modernization plan and its annual implementation program as specified by the Law of Facilitating Modernization of Marketing Industry.

In addition, MAF has sole authority on the wholesale markets and marketing centers for agricultural and marine products in terms of construction and efficient management as specified by the Law of Marketing and Price Stabilization of Agricultural and Marine Products. It also has roles of market information, standardization, grading, fair trade, and law and regulation management for marketing improvement, which are called marketing facilitating (supporting) activities. MAF has roles of encouragement, support and adjustment of production, marketing and consumption of agricultural and marine products. They have important role of price stabilization over time for agricultural products. MAF concerns much about marketing functions at stage of collecting and wholesaling the pro-

TABLE 5 INVESTMENT PLAN FOR AGRICULTURAL MARKETING MODERNIZATION IN 1994

	Physical target (1982-86)	1984	Investment in 1984 (million won)					Manager Money
			Total	Central Government	Local Government	Special Fund	Foreign Loan	
1. Strengthening of marketing functions in producing area			85,750	5,060	—	78,500	—	2,190
Coop. marketing group	12,000 units	2,500	76,700	—	—	76,700	—	—
Utilization of grading and standardization	300 coops	94	2,010	42	—	1,800	—	168
Construction of fish markets	4 markets	1	740	518	—	—	—	222
Construction of processing plant in producing area	36 plants	10	3,000	2,100	—	—	—	900
Expansion of storage facilities in producing area	113 thousand pyung	11 thousand	3,300	2,400	—	—	—	900
2. Strengthening of marketing functions in consuming area			47,967	9,071	15,119	11,650	10,347	1,780
Construction of wholesale market in Seoul	1 market	1	27,577	7,071	10,159	—	10,347	—
Construction of coop marketing center of livestock products	1 center	1	7,500	—	—	7,500	—	—
Local wholesale market construction	5 markets	2	6,960	2,000	4,960	—	—	—
Opening of pilot supermarkets	15 markets	6	5,930	—	—	4,150	—	1,780
3. Others			24,146	421	—	7,650	8,877	7,198
Total			157,863	14,562	15,119	97,800	19,224	11,168

ducts.

On the other hand, MCI pays attention to retail markets in terms of effective operation and facilities improvements. Retail market includes supermarkets, chainstores, individual retailers, family stores, small retail shops and regional retail markets. Some retailers are regulated to open shop by authorities other than MCI. Meat retailers are authorized to do business by the Ministry of Health and Social Affairs (MHS), and grain retailers, by MAF.

Local governments have roles of market development at all stages of market. They are project managers to implement AMMP rather than planners. City governments are the opener of wholesale market of agricultural and marine products under approval of MAF so that they become the project managers of wholesale market development. They pay attention to implementation of retail market development plan to protect their citizen.

Agricultural and Fisheries Development Corporation (AFDC) was established for aiming at supporting and facilitating the processing and storage industries of agricultural and fishery products, conducting price stability policy of commodities of which prices are highly fluctuated over time, such as garlic, red pepper, onion, sesame, peanut, laver, seaweed and so on, supporting private businessmen who are involved in marketing improvement; and carrying out food researches. AFDC mainly supports funds in terms of loan for marketing improvement. The sources of fund are special fund named the Price Stabilization Fund, and foreign loan from IBRD and ADB.

Cooperatives in agriculture, fishery and livestock, as cooperative marketing managers, are one of most important implementation agencies of AMMP. They also formulate their own market development plan under government master plan. One of the most important roles of cooperatives is to enhance their bargaining power in market through cooperative marketing in order to increase their members' income. They perform roles of group marketing, standardization, market information for member, adjustment of marketing time, consignment sale and training members with marketing technique.

Korea Rural Economics Institute (KREI) is a non-profit research institute which undertakes problem solving oriented in research, policy studies in the national food policy, and agricultural and rural development with a view to assisting the government, farmers and agribusiness firms in decision making. One of its important research fields is agricultural marketing and price policy. It has recently conducted a study on the National Agricultural Marketing Master Plan (NMMP) with time span of 15 years in the future, which was supported by MAF.

A part of NMMP will be the master plan for marketing modernization of EPB and MAF, and also become the market development program

of the Sixth Five-Year Economic Development Plan.

IV. Evaluation for Implementation of Medium/Long-Term AMMP

(1) The progress of implementation of AMMP by major activities

The master plan for marketing modernization for 1982-1986 is being implemented in accordance with the annual implementation program of agricultural marketing development.

The annual program is formulated considering the available budget, present problem situation and feasibility of implementation from year to year. Because of formulation of feasible annual program, the implementation of AMMP is well progressed with the master plan for marketing modernization.

The agricultural marketing development plan includes activities such as strengthening of marketing functions in producing area, expansion of wholesale functions, modernization of retail mechanism, construction of processing and storage facilities, and strengthening of market facilitating functions.

Projects for the physical facilities development are well implemented in terms of physical number and due time, comparing to the soft-ware development projects such as management and operation, market information, and marketing facilitating activities.

(2) Efficiencies in price policy for agricultural marketing development

Price is one of the important indicators for performance of marketing development plans/programmes. In other word, price policy plays important roles for determination of efficiency in agricultural marketing and of direction of marketing development policies.

Perfect competition market is said to be the most efficient market for resource allocation in a economy. It is said that price determined in perfect competition market is the best indicator for efficiency in market development.

In Korea, free market price policy is being adopted in the market of every commodity except grain such as rice and barely. The marketing development plan is asked to have effects of price stabilization and reduction of marketing margins and costs. If prices of some commodities are so high, we import some. If some commodities' prices are so low, then we purchase some from farmers in open markets.

For some commodities, purely free market prevails for price formation and balance of demand and supply, such as leaf vegetables and some fruits without any governmental intervention.

The Government supports price of rice and barley which are purchased in order to protect consumers and producers through double price system and price stabilization program by purchase-release. Korean Government considers some change in price policy of rice and barley into free market system because it understands that there are inefficiencies and difficulties in practice of price support system. The supported price can not provide any guidelines for marketing development.

The Government also takes measures for fair trade and anti-trust activities. Any factors of monopoly and unfair trade are regulated by the Law of Anti-Trust and Fair Trade, to lead competitive market economy which secures efficient resource allocation for agricultural marketing development.

(3) Efficiencies of marketing institutions and marketing channel

In general, efficiencies of marketing can be divided into two categories; productive efficiency and pricing efficiency. The productive efficiency is evaluated by load factor, scale factor and progressive factor. The pricing efficiency is evaluated by competitiveness of market in terms of price formation.

In this point of view, more competition is required in collection and retail stage while scale economy can be utilized in wholesale process of agricultural marketing.

In collecting stage in producing area, small farmers shall organize marketing groups to enhance their bargaining power in market to compete with merchants. Cooperative marketing is one of the means to increase competition in collection market of agricultural and fishery products. Cooperatives and their federation in agriculture, fishery and livestock organize joint shipment units, collection centers, marketing groups and marketing centers to increase efficiencies in marketing channel through fair competition.

At the wholesaling stage, scale economy, more or less, prevails. This fact leads the Government to invest wholesale market project which is considered as social infrastructure. Retail markets are surveyed to require competition rather than scale economy. Consumer cooperative is still at early stage to organize. Free competition among merchants, consumers, dealers and themselves becomes one of the most important factors to increase efficiency in retail markets.

Almost every marketing institution, such as cooperative marketing groups, self-help marketing units, wholesale markets and coop marketing centers, is well organized to improve marketing mechanism and to increase marketing efficiency. Sometimes, marketing costs and margins are surveyed to compare efficiencies of different marketing channels but they can not be the correct indicator of efficiency because marketing services and func-

tions are different for different channels, and because some costs, especially social costs, are not counted correctly. Nevertheless, prices paid by consumer and received by producer are said to be almost same in the different channels in Korea.

(4) Government supporting and controlling services for agricultural marketing modernization

Korean Government plays important roles to improve and modernize agricultural marketing. The roles include establishment of marketing development master plan, investment in marketing facilities such as wholesale market and information network, encouragement of standardization and grading, soft-ware development of market information and outlook services, and financial support to marketing participants, processors and storage operators. The Government especially takes a necessary measures for price stabilization such as purchase and release, stable production, outlook services, and import and export.

The Government activities are limited to those fields of activities that private dealers can not perform and in which public investments are more efficient than private ones.

The Government supporting and controlling services for agricultural marketing development are regulated by and specified in law and regulations.

The Law of Facilitating Marketing Modernization under jurisdiction of EPB specify the formulation of master plan, annual implementation program, management program of marketing development and implementation of those plans/programmes.

The Law of Marketing and Price Stabilization of Agricultural and Marine Products under jurisdiction of MAF specify the adjustment and control of production and marketing, opening of agricultural wholesale markets and cooperative marketing center, establishment and management of price stabilization fund, and measures for improvement of agricultural and fishery marketing system.

The Market Law under jurisdiction of MCI specify the opening, management and development of retail markets, regular markets and periodic markets. Retail markets include regional market, supermarket and chainstore.

The Livestock Law under jurisdiction of MAF specify opening, management and improvement of livestock markets.

The Law of Utilization and Processing of Livestock Products under jurisdiction of MAF specify slaughtering and dressing facilities development of livestock products.

The laws of cooperatives in agriculture, livestock and fishery specify management and development of cooperative marketing and performance

of the related activities.

The Law of Sanitation under jurisdiction of MHS specify the opening and operation of meat retail shops.

The Grain Management Law under jurisdiction of MAF specify the opening and operation of grain retail shops and grain milling plants.

The Law of Anti-Trust and Fair Trade under jurisdiction of EPB specify and regulate the anti-monopoly measures, competitive price formation of all goods and services, and fair contract and trade.

EPB, MCI and MAF have their own division of marketing, and local governments and provincial cities have marketing divisions/sections. It is a trend to expand the marketing administrative unit and to cooperate more closely in order to improve marketing development and price stabilization.

V. Conclusion

In planning and formulating of AMMP the present situation and problems are surveyed and studied at first and then draft plan for marketing development is formulated without any constraints on the basis of efficiency and progress. The draft plan will be revised and adjusted by budget constraint, implementation possibility, law and regulation and administrative and management constraints. The plan must be supported by laws and regulations for its continuation over time. The plan should have procedure of bottom-up system from low level to high level. The plan can easily come into practice when it includes master plan-annual plans-management programs.

The marketing development plan seems to be in a good shape when the annual plan follows the medium-term plan, which follows the long-term plan. At early stage of economic development, it is very hard to establish long-term plan. In this case, it can start with annual plan and then medium/long-term plan. After the long-term plan is set up, the reverse procedures can be traced.

The contents of AMMP might have various items for each economy and depends on economic system, level of national income, marketing system, degree of economic development, social infrastructure and so on. As long as the government plays important roles in planning and implementing the agricultural marketing development plan, the contents of AMMP should be focused on government roles to facilitate marketing improvement.

The roles of government include (1) provision of infrastructure such as transportation, communication and wholesale market, (2) regulation of facilitating standard, conduct to protect producer and consumer, and providing rural sanitary facilities, (3) providing market services which cannot be provided by private firms such as uniform measurement and weight, uniform grade and standard, market information, research and

advisory services, (4) provision of credit arrangement to facilitate the adoption of technological change and more efficient operation, and (5) creation of favorable environments for incentive, drive and freedom of commercial firms in marketing.

In addition to government roles, group activities and cooperative functions in market development can be one of the important contents of AMMP.

Monitoring and evaluation of development projects are essential part of effective and efficient implementation of the project. Monitoring and Evaluation Unit (MEU) can be organized separately from project management unit, or the project manager can become MEU, depending on character, size and duration of the project.

AMMP is composed of master plan, annual implementation program and management program. The plan includes policy directions, aims and objectives of the plan, project description, total and annual, and investment program, total and annual. The framework of AMMP should be compact, easily understandable, and should have good relation with programs, projects and sub-projects.

Availability of fund for investment and financing project is the last factor to determine feasibility of projects in the plan. Especially in developing country, even though the plan may be well organized, the implementation of the plan is often limited by shortage of fund.

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