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Economic Growth and Poverty Reduction Strategy
– In Light of South Korea's Experience and Learning –

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I . Introduction

□ South Korea's Development Model

- 1960 ~early 1980s
 - Due to insufficient investment resources, an unbalanced growth theory was adopted; with the aim of a trickle-down effect, a development-driven growth strategy and an 'Economic Growth First, Wealth Distribution Later' strategy were employed.
 - Driven by these strategies, a five-year programme for economic development was launched.
- Mid-1980s ~1997 (Asian financial crisis)
 - The nation started to wake up to the need for social development together with economic development; the nation was swept by waves of restructuring.
 - With this change of the strategic paradigm a five-year programme for economic and social development was initiated.
- 1997 ~the present
 - Having become alert to the need for the simultaneous pursuit of economic growth and social integration, the nation embarked on a new growth strategy of seeking growth and welfare at the same time.
 - Against the backdrop of the new strategy, the 'Government of the People' (Feb. 1998 ~Feb. 2003, President *Kim, Dae-Jung's* administration) proceeded with 'generative welfare' and the 'Participation Government'(Feb. 2003 ~the present, President *Roh, Moo-Hyun's* administration) has been pursuing the goal of 'participatory welfare'.

□ South Korea's Strategies for Economic Growth and Poverty Reduction

- Pre-1990s government-led economic development, export-driven industrialization, and successful birth rate control combined to bring about spectacular economic growth. → Success in lowering the absolute poverty rate
- The 1997 financial crisis brought to the surface the latent issues of relative poverty, inequality and polarization. → Alleviation of relative poverty was highlighted as a task at hand to wrestle with.
- Since a growth policy should fit the corresponding growth stage and changes be made as the economy progresses to another stage, South Korea began with a strategy to reduce absolute poverty and then moved on to one to alleviate relative poverty and inequality.

□ Insights and Implications from the Economic Growth Model of South Korea

- South Korea, a small nation in Asia, has witnessed unprecedented economic growth and absolute poverty reduction for the past 40 years and more and has been in the spotlight as a successful economic growth model for other East Asian countries.
- It is anticipated that a comprehensive look at South Korea's approaches to economic growth and poverty reduction and strategies for attaining them so far, as well as an in-depth review of the new challenges the nation faces and the solutions adopted, will offer strategic implications for poverty reduction or pro-poor growth in many Asian countries.

II. Korea's Economic Growth and Trends in Poverty and Inequality

1. Economic Growth and Absolute Poverty

Economic Growth and Reduction in Absolute Poverty

- South Korea achieved high annual economic growth rates ranging from 5 % to 10 % from its first steps in economic planning undertaken in 1960 until the 1997 financial crisis.
- As a result, purchasing power parity-adjusted GNP per capita increased from mere \$710 in 1965 to \$11,676 in 1995, showing about a 16-fold improvement in the living standard over 30 years.
- Thanks to this rapid economic growth, the absolute poverty rate, which shows the proportion of the population living on one dollar or less a day decreased dramatically from 41.4% in 1965 to 7.4% in 1995 and to 1 ~ 2% in 2004.
- However, the Gini coefficient, a measure of inequality, appears to have increased somewhat during several stages of intensive economic development. This indicator of inequality started decreasing after social development was launched later on in the course of economic development, but shifted back to an upward path after the 1997 financial crisis even once the economy was growing again.

Table 1. *Trends of Major Economic and Social Indicators in South Korea*

year	GNP per capita PPP(US \$)	annual growth rate of GNP Per capita	Inflation rate %	Secondary School Enrollment	Investment as % of GDP	Inequality (Gini Index)	Poverty as % of pop
1965	710					34.3	41.4
1970	1,032	8.2	15	70	30	35.3	23.2
1975	1,435	7.8	21	79	30	38.0	20.0
1980	2,573	8.2	24	84	30	38.6	14.5
1985	4,155	5.6	8	87	29	34.5	14.2
1990	7,522	5.8	6	89	32	33.6	10.5
1995	11,676	6.2	5	90	37	32.0	7.4
2004	14,162 ¹⁾	4.6	3.6	92	30	34.1	under 1~2

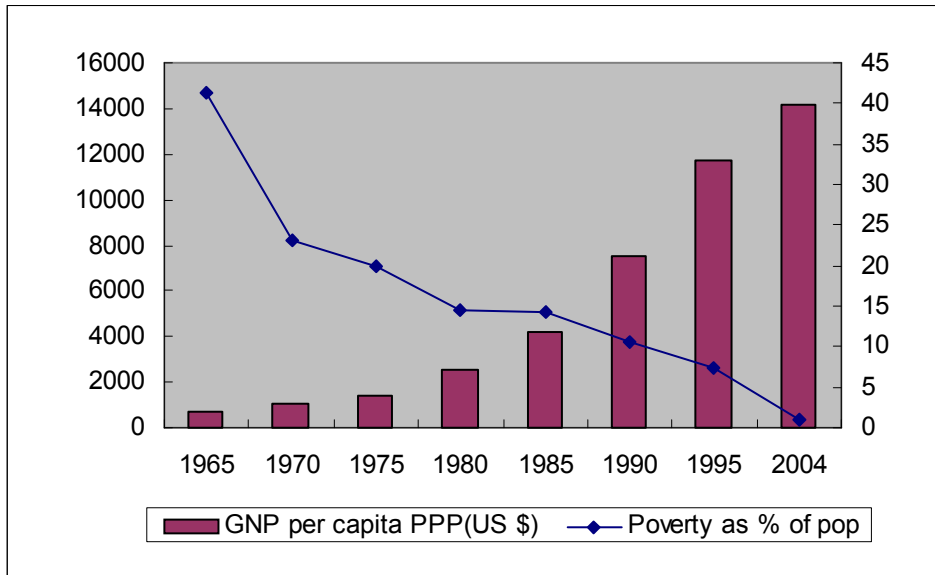
Note : 1) GDP per capita PPP

Source: For the years up to 1995, Klasen, S. (2005) 『Economic Growth and Poverty Reduction: Measurement and Policy Issues』 . Working Paper No.246.

For the year 2004, www.kosis.go.kr

- As shown in [Graph 1] , the absolute poverty rate in Korea decreased almost in proportion to the growth rate of GNP per capita. Rapid economic growth seems to create a so-called 'floating effect' that launches and keeps afloat every ship, and it is undeniable that at least in South Korea, economic growth played an integral role in reducing absolute poverty.
- However, the issue of distribution of wealth was not emphasized sufficiently on the road to economic growth, leading to a worsening of inequality to a certain degree, which was relatively minor compared with some other developing countries.

Graph 1. *Relationship Between Economic Growth and the Absolute Poverty Rate in South Korea*



- This rapid fall in absolute poverty is probably unprecedented throughout the world, and as displayed in <Table 2> the rates are very low compared to those of the ASEAN members in recent years.
- Thus, South Korea's experience and learning are expected to offer valuable implications for the ASEAN countries in battling absolute poverty.

Table 2. *Poverty Estimates Based on National and International Poverty Lines, Various Years*

Country	National Poverty Rates (%)		International Poverty Measures				
	Year	National	\$1-a-day			\$2-a-day	
			Year	HCR (%)	Magnitude ('000)	HCR(%)	Magnitude ('000)
Cambodia	1999	35.9	1997	34.1	3,966.9	77.7	9,045.4
Indonesia	2002	18.2	2002	7.5	15,902.0	52.4	110,985.4
Laos	1997	38.6	1997	39.0	1,882.7	81.7	3,945.6
Malaysia	1999	7.5	1997	0.2	36.8	9.3	2004.5
Myanmar	1997	22.9	-	-	-	-	-
Thailand	2002	9.8	2000	1.9	1,204.5	32.5	20,264.5
Vietnam	2002	28.9	2002	13.1	10,509.4	58.5	47,058.1

Note: 1) HCR: Headcount ratio

Source: World Bank Institute Poverty Manual (2006)

Key Factors in Reducing Absolute Poverty

- As discussed so far, the successful reduction in absolute poverty was primarily attributable to rapid economic growth.
 - The major contributors to the high economic growth rates were, among others, aggressive investments in both human and physical capital made by government and the private sector.
 - As seen in <Table 1>, the nation's secondary school enrollment rate was already as high as 70% in 1970 and reached 92% in 2004, which is much higher than China's 44.7% in 2001, Indonesia's 50% in 1999, Malaysia's 70% in 2000, Vietnam's 55% in 2002, and it is still one of the highest among the OECD member nations.

- In addition, total investment as a percentage of GDP has been also very high, hovering over 30% since the nation's economic development effort was first launched.
 - It may be right to say that the extraordinary fever for and heavy investment in education and government-led investment and export policies have been the key growth drivers in South Korea, which lacks natural resources and is densely populated.
- The close linkages between economic growth and poverty reduction are also frequently observable in international comparisons.
- As shown in <Table 3> and [Graph 2], looking at the East Asia and Pacific region to which most of the ASEAN+3 countries belong, the growth rate averaged as much as 5.7% in the 1980s and 5.9% in the 1990s, and during each of these two decade, the rate of absolute poverty almost halved.
 - Meanwhile, the economies of Sub-Saharan Africa and Latin America were in the doldrums and poverty rates only edged down or all too often up.

Table 3. *Poverty and Growth Across the Globe*

Regions	Percentage of Population Living on Less Than \$1.08/day at 1993 ppp			Per Capita Growth	
	1981	1990	2001	1981-90	1991-2001
	East Asia and Pacific ¹⁾	57.7	29.6	14.9	5.7
South Asia ²⁾	51.5	41.3	31.1	3.4	3.6
Sub-Saharan Africa ³⁾	41.6	44.6	46.9	-0.6	0
Latin America ⁴⁾	15.7	16.3	13.5	-0.1	1.7
Middle East & North Africa ⁵⁾	14.2	13.9	10.2	0.3	1.5
Total	40.3	27.9	21.3	2.4	4.1

Notes: 1) China, Indonesia, South Korea, Malaysia, the Philippines, Thailand and Vietnam

2) Bangladesh, India, Nepal, Pakistan, and Sri Lanka

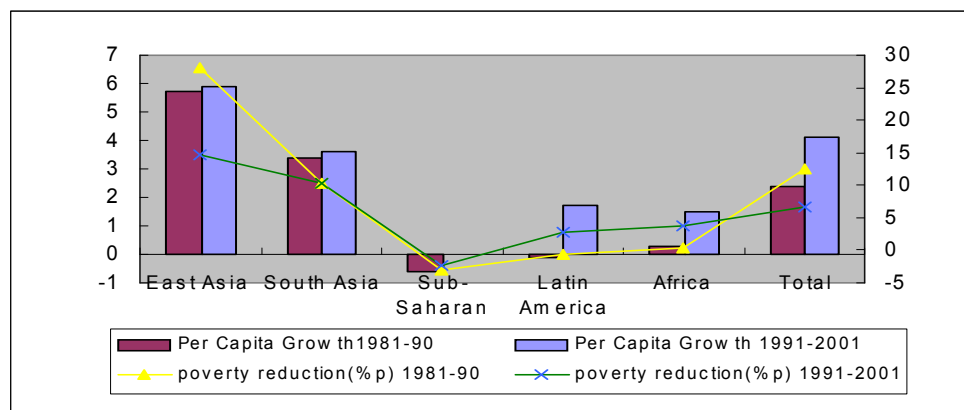
3) Benin, Burkina Faso, Cameroon, Cote d'Ivoire, Ethiopia, the Gambia, Ghana, Lesotho, Madagascar, Malawi, Mali, Mauritania, Niger, Nigeria, Senegal, Tanzania, Uganda, Zambia, and Zimbabwe

4) Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela

5) Algeria, Egypt, Iran, Jordan, Morocco, Tunisia, and Turkey

Source: Klasen, S. (2005) *Economic Growth and Poverty Reduction: Measurement and Policy Issues*. Working Paper No.246.

Graph 2. *Economic Growth and Poverty Reduction by Region*



- Another notable driver behind the successful alleviation of absolute poverty was the Korean government's strong birth control policy.
 - With the country being heavily populated,¹⁾ its high birth rates were a real impediment to economic growth as well as a stumbling block in tackling absolute poverty at the early stages of economic development.
 - So the government put in place an effective birth control policy, bringing about a reduction in the total fertility rate²⁾. The rate was 4.53 births per woman of child-bearing age in 1970, but plummeted to 2.83 in 1980 and slipped further to 1.59 in 1990.
 - The steep fall in the birth rate, which contributed to absolute poverty reduction, is now being held partly responsible for a new problem of a decline in the nation's growth potential, having in part brought about the problems of one of the world's lowest birth rates and the rapid-ageing of the population³⁾.
- Likewise, the strengthened and expanded social safety net has had a direct impact on the nation's poverty reduction.
 - Employment Insurance was introduced in July 1995 and started with work-places with at least 30 full-time employees. Then the coverage was expanded to include work-sites with at least 5 full-time employees in March 1998 and then became applicable to all work-places in October of the same year.
 - The National Pension scheme, first launched in 1988 to cover work-places

1) As of 2005, South Korea's population density was 485 persons/km², the world's third highest excluding city-states and tiny island nations, following Bangladesh (985 persons/km²) and Taiwan (632 persons/km²).

2) The number of births per woman of child-bearing age

3) South Korea's total fertility rate was 1.08 in 2005, the lowest in the world.

with 10 employees or more, was expanded to include work-sites with 5 employees or more in 1991 and extended further to cover farmers and fishermen in 1995. Finally in April 1999, all inhabitants of urban areas were added to the scheme's mandatory scope, bringing virtually all Korean citizens subject under its umbrella.

- The year of 1977 saw the introduction of the National Health Insurance scheme, which initially covered only a certain number of days a year per beneficiary. However, after the 1997 economic crisis hit the nation, the scheme was augmented to cover 365 days a year per beneficiary to ensure better coverage in the event of illness or injury.
- The Industrial Accident Compensation Insurance was launched in 1964 in order to promote the stable livelihood of industrial accident victims and their families. The coverage was expanded to be applicable to all work-places with 1 or more hired workers as of July 1, 2000.
- In 1961, the Livelihood Protection Act was enacted in an attempt to provide such traditionally deprived and/or vulnerable groups as the elderly, the disabled, and children with basic livelihood protection. This was followed by the passage of the National Basic Livelihood Security Act in 2000, which brought the 'able-bodied poor' onto the list of those eligible for basic livelihood protection.

2. Economic Growth and Relative Poverty

Trends in the Relative Poverty Rate

- At a certain stage of economic growth, the nature of the issue of poverty tends to shift from absolute poverty to relative poverty. In other words, one of the prerequisites for 'sustainable growth' is heightened social integration generated by better distribution of the fruits of growth and an improved standard of living

for the general public as a whole.

- As we have seen, in the case of South Korea, economic growth brought about the remarkable amelioration of absolute poverty, which is defined as living on 1 dollar or less a day in terms of PPP (purchasing power parity), but the reduction in relative poverty has not similarly paced with economic growth. On the contrary, since the currency crisis in the late 1990s, the relative poverty rate has been gradually rising (Please refer to <Table 4> below).
- The nation's relative poverty rate, which measures those whose incomes are lower than 50% of the median income and stood at 8.6% in 1996, but surged to 10.0% in 2000 and then to 11.7% in 2004.

Table 4. *Changes in Relative Poverty Rate among Urban Workers' Households (Based on disposable incomes)*

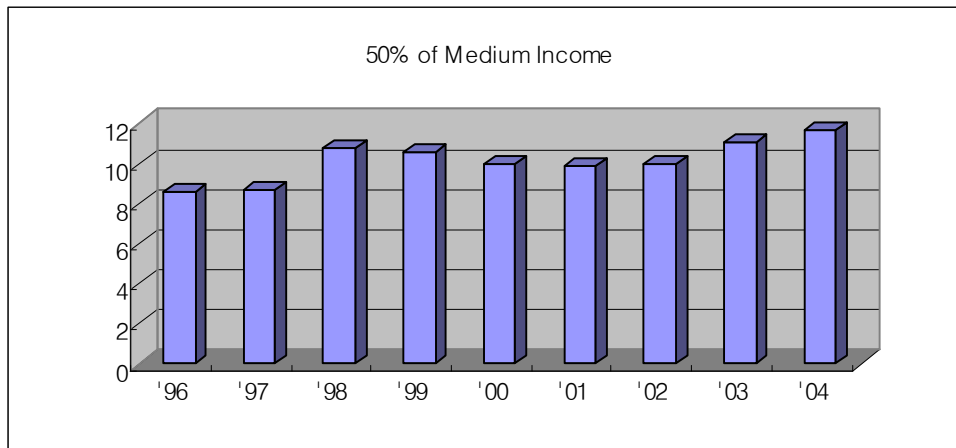
(unit: %)

Classification	'96	'97	'98	'99	'00	'01	'02	'03	'04
National Poverty Line	5.4	4.9	9.7	8.8	7.1	6.1	4.9	6.1	6.0
~ 40 % of Median income	4.7	4.4	6.3	6.0	5.5	5.4	5.1	6.5	7.0
~ 50% of Median income	8.6	8.7	10.8	10.6	10.0	9.9	10.0	11.1	11.7
~ 60% of Median income	14.9	15.4	16.8	16.7	16.4	16.7	17.0	17.1	17.9

Note: OECD's household equivalence scales are applied.

Source: Raw data from annual urban household survey by the Korea National Statistical Office for individual years

Graph 3. *Developments in the Relative Poverty Rate*



□ Causes behind the Surge in Relative Poverty

- Some of the main reasons of the recent rise in relative poverty are as follows:
 - Globalization has been worsening industrial and job insecurity, resulting in an increase in the working poor.
 - Population ageing has been aggravating poverty among the elderly.
 - Due to changes in family structures and the splitting-up of families, increasingly many households are supported by women, leading to the 'feminization of poverty'.
- A growth-oriented development strategy relying on a trickle-down effect cannot deal adequately with such a rise in relative poverty.
 - In conclusion, South Korea now stands at a juncture where a new state-level strategy should be devised and put in place to deal with relative poverty and focus on social integration.

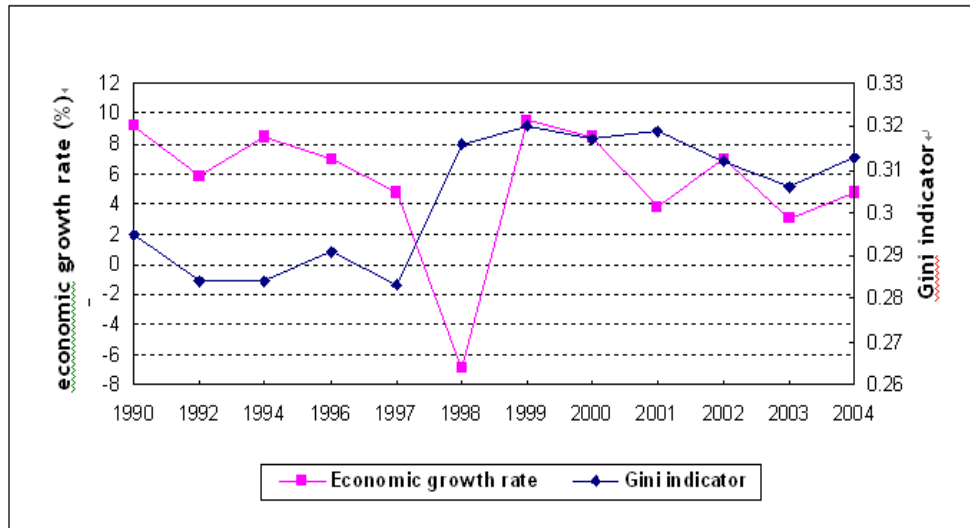
3. Economic Growth and Inequality

- Foreign research results as well as comparisons between South Korea's situation

before and after the 1997 financial turmoil reveal that the more serious the inequality in an economy, the slower its growth.

- Overseas research results
 - For every 7% rise in the share of income of the top 20% of the population, the average growth rate goes down by about 0.5 percentage points. (Persson and Tabellini (1994))
 - For every increase of the Gini coefficient of landownership by 1 standard deviation, the growth rate of GDP per capita drops by 0.8 percentage points every year. (Alesina and Rodrick (1994)).
- Inequality in South Korea before and after the Financial Crisis
 - Before the foreign currency crisis of the late 1990s, South Korea maintained high economic growth rates and was a relatively egalitarian society, but after the crisis, much greater inequality and low economic growth have become the socio-economic reality.
 - Thus, South Korea's current poverty policy targets not just the poor but also the near-poor.

Graph 4. Relationship Between Economic Growth and the Gini Indicator



Notes: 1) Nation-wide household survey data for 2003 and 2004 were produced based on households whose income relies solely on wages.

2) The economic growth rate represent actual GDP growth.

Sources: Raw data from the Korea National Statistical Office's, *Survey of Urban Households*, (published annually), for each year .

The Bank of Korea's website data, for each year.

III. Changes in South Korea's Poverty Reduction Strategy

1. Ideological Changes

- 'Growth First, Welfare Later' Policy
 - South Korea's national development strategy had been focused on 'Growth First, Welfare Later' up to 1997. In line with this focus, the nation devoted the lion's share of its resources for economic growth.
 - As a result, its welfare policy took on the nature of 'residual welfare'. Put another way, support was provided in cash only to such traditionally deprived and/or vulnerable groups as the elderly, the disabled and the young.
- 'Shared Growth' Policy
 - Due to the repercussions of the 1997 economic crisis, increased poverty among the able-bodied poor became a serious issue. To address this new challenge, the 'Government of the People', in 1997, enacted the National Basic Livelihood Security Act as part of its efforts to promote 'generative welfare'. Thanks to the new legislation, the able-bodied poor became eligible for cash support and labor motivation.
 - After the launch of President *Roh's* administration, declaring itself the 'Participation Government', in 2002, it became apparent that the old paradigm of 'Growth First, Welfare Later' had reached a blind alley not only in terms of its capacity to generate sustained economic growth but also in promotion of improved distribution of wealth. That realization encouraged the government to steer a new direction of 'Shared Growth' in which growth and welfare go forward hand in hand.

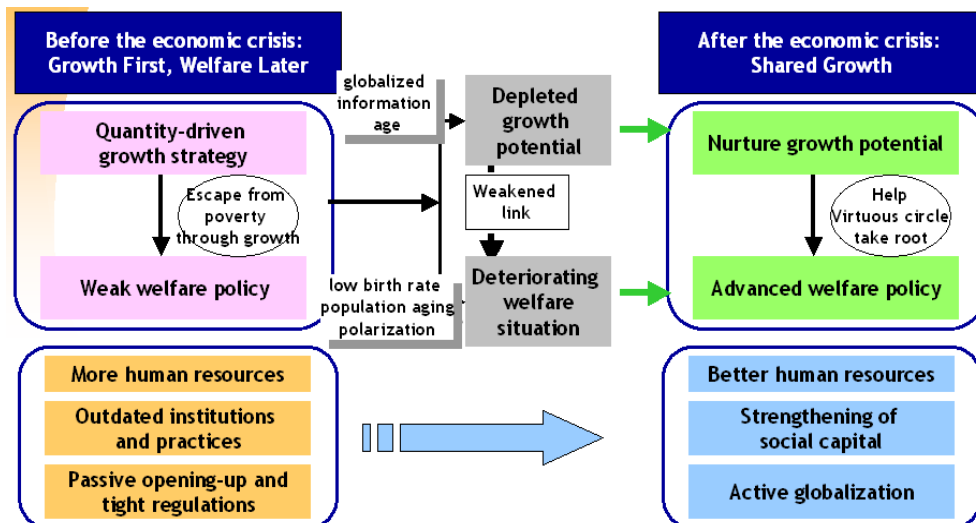
Table 5. Comparisons Between 'Growth First, Welfare Later' and 'Shared Growth'

	The Old Paradigm of Growth First, Welfare Later	The New Paradigm of Shared Growth
Background	escape from poverty, a well-functioning link between growth and distribution	accelerating polarization a mal-functioning link between growth and distribution
Government's role	focusing on growth	balancing growth with welfare
Growth strategy	quantity-driven and unbalanced growth; government-driven	innovation-driven and balanced growth; market-driven
Welfare policy	high dependance on families and communities; relief-oriented welfare	increased role of government; investment for the future
Investment focus	physical capital	human and social capital ¹⁾

Note: 1) This implies mutual trust, cooperation and openness between members of society as well as the institutions, social norms, and networks in order to promote such virtues.

Source: 『Vision for Society 2030』 by the Presidential Commission on Policy Planning, 2006

Diagram 1. The Relationship Between 'Growth First, Welfare Later' and 'Shared Growth'



Source: 『Vision 2030』 by the Presidential Commission on Policy Planning , 2006

2. Institutional Changes by Period

- 1948 ~the 1950s
 - A strong focus was placed on relief projects to meet the basic livelihood needs of the public.
- 1961
 - A legal mechanism for poverty reduction was put in place as the Livelihood Protection Act was enacted.
- 1978
 - With the passage of the Medical Aid Act, medicaid projects for the poor were put in place.
- 1982
 - The Livelihood Protection Act was overhauled to implement self-reliance programs to offer unskilled or semi-skilled able-bodied welfare recipients state-provided working opportunities on a daily wage basis to help them stand on their own feet as well as providing with medical and educational aid.
- 1998
 - After the economic crisis, cash benefits were provided to able-bodied welfare recipients as an interim measure
- 2000
 - As the National Basic Livelihood Security Act came to effect, cash benefits were provided not only to welfare recipients incapable of work, but also to those able-bodied members of society capable of working. In addition, for those able-bodied recipients, 'workfare' initiatives were launched.
 - The legislation essentially recognizes basic livelihood protection as the state's obligation and as its citizens' right. Its main points are summarized in Table 6 below:

Table 6. Comparisons between the Livelihood Protection Act and the National Basic Livelihood Security Act

Classification	The Livelihood Protection Act	The National Basic Livelihood Security Act
Legal nature	- charitable protection	- government's obligation and the people's right
Legal terms	- charitable terms <ul style="list-style-type: none"> • the protected • protection institutions • those to be protected 	- entitlement-related terms <ul style="list-style-type: none"> • beneficiaries • livelihood benefits institutions • the eligible - new legal terms <ul style="list-style-type: none"> • countable income • income valuation • income approach to property valuation(or income property valuation)
Selection criteria and method	- selective criteria (4 criteria) <ul style="list-style-type: none"> • whether there is a responsible household supporter • income • property • demographical situation 	- general, universal criteria (2 criteria) <ul style="list-style-type: none"> • whether there is a responsible household supporter • income less than the minimum cost of living
Minimum cost of living	- decision-making authority: the Health and Welfare Minister	- decision-making authority: the Central Livelihood Security Committee submits its resolution; the Minister makes a final decision.
Welfare benefits	- 6 kinds <ul style="list-style-type: none"> • livelihood assistance • medical assistance • self-reliance assistance • educational assistance • childbirth assistance • funeral assistance - Able-bodied recipients were excluded from livelihood and funeral system assistance	- 7 kinds (8 including urgent aids) <ul style="list-style-type: none"> • livelihood benefit • housing benefit (newly added) • medical benefit • educational benefit • self-reliance benefit • childbirth benefit • funeral benefit - All beneficiaries are basically eligible for the livelihood benefit, and the other benefits are given if applicable, but <ul style="list-style-type: none"> - the able-bodied may receive the livelihood benefit only when they participate in projects necessary for self-reliance. (a temporary clause)

Table 6. *Continued*

Classifica-tion	The Livelihood Protection Act	The National Basic Livelihood Security Act
Urgent benefits	- no related clause	- A related clause was added. • If an urgent need is recognized even before a decision about payment is made
Plan for self-reliance support	- no related clause	- A self-reliance support plan is set for each household with an able-bodied beneficiary. • Services to promote self-reliance are systematically provided to ultimately help beneficiaries stand on their own two feet.
Cost	- no consideration of municipal governments' financial independence	- With municipal governments' financial independence taken into consideration, cost sharing ratios are determined.

3. Changes in Terms with Beneficiaries

Anti-Poverty Policy with Focus on the Non-Able-Bodied Poor Unable to Work

— Period

- 1948 ~ 1997

(Establishment of the Republic ~ financial crisis)

— Socio-Economic Background and Philosophical Rationale

- Since the economy was rapidly growing, poverty of those who were able to work was not, relatively speaking, a serious problem.
- With the perception that welfare hampers growth, government pursued a strategy of 'Growth First, Distribution Later.'
- Residual welfare policy was in place, finding causes of and responsibility for poverty with individuals

- Major Beneficiaries
 - Non-able-bodied among the poor (the elderly, the disabled, children supporting their families, etc.)
- Major Legislation
 - The Livelihood Protection Act
- Social Circumstances in 1997
 - Poverty reduction among the non-able-bodied poor
 - Emerging issue of the working poor

Anti-Poverty Policy with Focus on the Able-Bodied Poor

- Period
 - In 1998, following the onset of the economic crisis, the government started providing the able-bodied poor with cash benefits on an interim basis
 - With the introduction of the National Basic Livelihood Security Act in 2000, a legal basis was established for the provision of cash benefits.
- Socio-Economic Background and Philosophical Rationale
 - The 1997 financial crisis added to the working poor.
 - 'The Government of the People' declared its ideal of 'generative welfare'.
 - It was recognized that causes of and responsibility for poverty were found both with society and the individual.
- Major Beneficiaries
 - The poor incapable of working (the non-able-bodied poor)
 - The poor capable of working (the able-bodied poor)

〈Households Eligible as Beneficiaries of Anti-Poverty Policy in South Korea〉

- The Definition: A household with an income less than the minimum cost of living, taking the size of the household into account

〈Table〉 *Minimum costs of living for households of different sizes in 2006*

Classification	1 person	2 persons	3 persons	4 persons	5 persons	6 persons
cost (KRW/month)	418,309	700,849	939,849	1,170,422	1,353,242	1,542,382

Note: \$1 ≙ KRW950

- Major Legislation
 - The National Basic Livelihood Security Act
- Outcomes of the Introduction of the Act
 - The number of beneficiaries of cash payment: increased by 1 million (from 500,000 to 1.5 million)
 - The level of cash benefits: increased by about 64% (The maximum cash payment for a four-member household was raised from 440,000 KRW to 730,000 KRW in 2000.)

〈Selection of Beneficiaries and Payment of Benefits〉

- Selection method
 - Countable income (income valuation + property valuation by the income approach) less than the minimum cost of living of the corresponding size of household, and no responsible household supporter or the responsible household supporter does not have sufficient capability
- Benefit type: supplementary benefits
 - Benefit amount: minimum cost of living of the size of household - countable income (income valuation + property valuation by the income approach)

- Social Circumstances in 2002
 - Poverty alleviation among the non-able-bodied poor and able-bodied poor
 - Emerging issue of the near poor and relative poverty

Anti-Poverty Policy with Focus on the Near Poor

- Period
 - From 2003 when the 'Participation Government' of President *Roh* was launched
- Socio-Economic Background and Philosophical Rationale
 - As globalization had brought about a widening of socio-economic polarization (the gap between the rich and the poor), a policy of Shared Growth was adopted to pursue welfare as well as growth.

- Major Beneficiaries
 - The non-able-bodied poor (the poor incapable of working)
 - The able-bodied poor (the poor capable of working)
 - The near poor

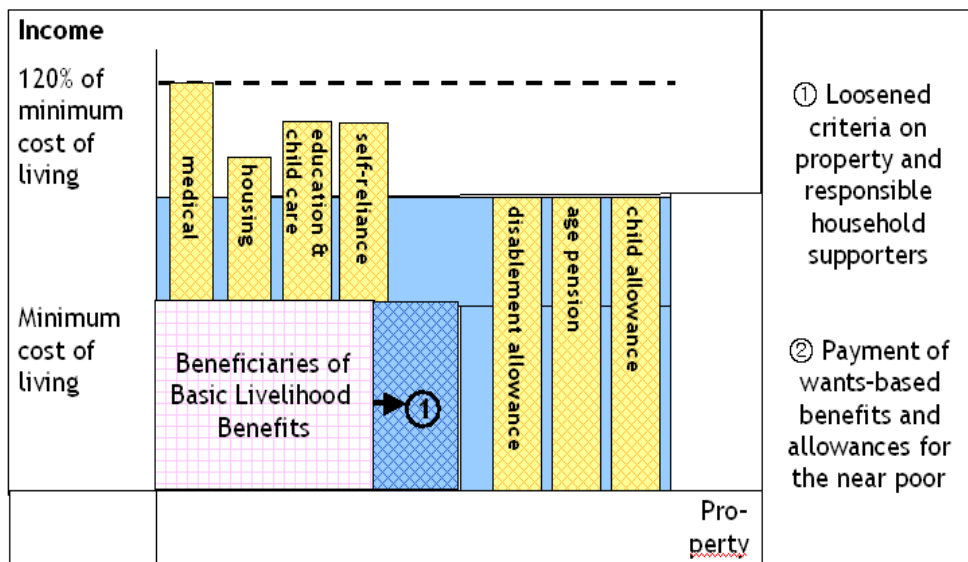
〈The Near Poor〉

- Definition
 - Households that are not eligible for basic livelihood benefits and whose incomes are 120% of the minimum costs of living of household of the corresponding size.
- Composition
 - The non-beneficiary poor: Households that are not eligible for basic livelihood benefits and whose incomes are 100 % or less of the minimum cost of living of a household of the corresponding size.
 - The potentially poor (*or* the poorest of the near poor): Households whose incomes range from 100 % to 120 % of the minimum cost of living of a household of corresponding size

- Major Legislation
 - The National Basic Livelihood Security Act
- Increased Scope of Anti-Poverty Policy to Include the Near Poor
 - 'The Participation Government 'of President *Roh* implemented the Hope of Korea 21 project, which expands the coverage of anti-poverty policy to deal with the near poor.
 - The key points are first, less strict standards for responsible household

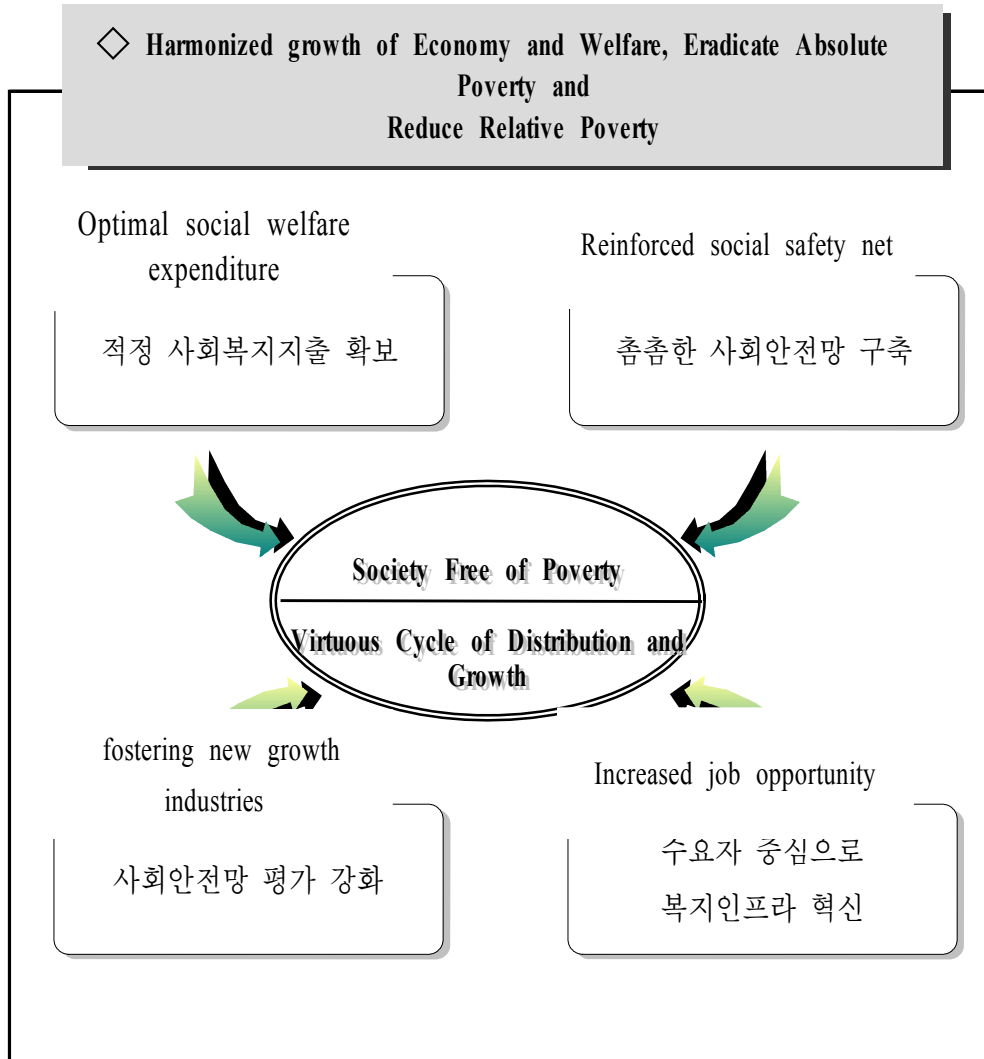
supporters to make 120,000 among the non-beneficiary poor eligible for the basic livelihood benefits; second, the provision of housing, medical, and/or educational benefits to the near poor, depending on their needs and wants; and third, the payment of benefits for different types of beneficiaries including a disablement allowance and an old-age pension.

Diagram 2. *A Proposal for the Improvement of the Public Assistance System*



- Social Circumstances in 2006 (current)
 - Declining poverty among the non-able-bodied and able-bodied poor
 - Continuing issue of polarization

4. South Korea's Future Vision for Fight Against Poverty



IV. Strategic Implications for Poverty Reduction in Other Asian Countries

Alleviation of Absolute Poverty Through Economic Growth and Policy of Combating Poverty

- South Korea was able to reduce absolute poverty by pursuing economic growth and a policy of combating poverty
 - In other words, it fought against absolute poverty by seeking economic growth for the able-bodied (those capable of working) and by a policy of providing public assistance to the non-able-bodied (those incapable of working).

Different Poverty Reduction Strategies for Different Stages of Economic Growth

- In order to alleviate poverty with limited resources, it is desirable to expand the groups that are the target of policies of combating poverty in the following order as suggested in John Rawls' definitions of distribution:
 - the non-able-bodied poor → the able-bodied poor → the near poor
- This means different poverty reduction strategies and policies should be set for different stages of growth.

Relationship Between Inequality and Growth

- A general view among scholars of economics is that the more serious the inequality, the slower the economic growth. This perspective also accords with South Korea's experience.

- So, policies should be implemented that strike a balance between equality and efficiency .

Globalization and Poverty Reduction Strategy

- As globalization proceeds, economic bipolarization is widening in many countries around the world.
- Hence there is a desperate need to strengthen the social safety net and establish a virtuous cycle between economic growth and welfare.

Minimization of Negative Side Effects of Welfare Expansion

- Excessive welfare may create problems including weakening the motivation to work.
- Thus, re-motivation programs should be put in place along with the expansion of welfare programs.

V. Suggestions for Asia's Poverty Reduction

- The most efficient way is to consider poverty eradication and income distribution matter from the initial level of mapping out strategies for development and growth.
- But putting too much importance on distribution from the initial level of development will weaken the potential of economic growth and efficiency.
- As in the "Fool in the Shower" of Milton Friedman, plying between growth and distribution will cost a lot of social expenses while controlling its side effects.
- For long-term and sustainable development, emphasizing one side is not desirable.
- It is important to set a policy direction which can establish positive relation between growth and distribution as well as harmonize efficiency and equality.
- Korea's "Participation Government" is emphasizing the importance of co-growth while trying to embody the vision of Social Investment State into policies.