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## THE SITUATION AND DIRECTIONS FOR FARM TOURISM DEVELOPMENT IN KOREA

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### I. Introduction

With the rapid economic growth during the last three decades, Koreans became wealthier and the types of tourism have changed. As per capita income increases, working hour time is reduced while leisure time increases. In addition, family-oriented tourism becomes prevalent. These changes result in an increase in the demand for tourism. Also, the demand for recreation facilities in farming and fishing areas increases in order to experience rural life activities, which were not of interest in the past. As the mode of tourism became diverse and its volume became larger, regions with tourism resources try to activate their regional economies by developing available tourism resources.

On the other hand, in the agricultural sector, farmers recognize the limits of increasing farm household income by only increasing their agricultural income and, therefore, seek to find means to increase non-agricultural income. For instance, the farm sector tries to increase non-agricultural job opportunities by creating rural industrial complex.

Developing farm tourism is a way to increase non-agricultural income and ultimately contributes to the increase of farm household income. Originally, agriculture has an economic function of producing agricultural products, but it also has a lot of non-economic functions such as preserving the natural landscape and prevention of

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flood. In addition, its function as tourism resources is important as tourism refreshes and refines urban dwellers. In this regard, developing farm tourism not only increases farm household income, but also satisfies tourism demand by urban people.

In Korea, the MAF started to form farm tourism development areas in 1984, and this project has been continuously conducted. The designation of farm tourism areas and the establishment of farms for tourism are ongoing. However, the characteristics of farm tourism are not yet adequately figured out and the conditions for management of tourism farms are not yet delineated. As a result, its original objectives to increase the number of farms for tourism could not be met and farm tourism areas became like amusement parks or sometimes like restaurants and/or motels. Under these circumstances, developing farms for tourism cannot serve to increase farm household income.

The objectives of this paper are to examine the changes in the national tourism demand and the level of national demand for developing farm tourism; to make diagnosis on the present status of farm tourism in Korea by analyzing the situation of farm tourism and its actual management status; and to seek directions for farm tourism development.

## **II. Changes in the National Tourism Demand and Farm Tourism Development**

### **1. Changes in the National Tourism Demand**

As the economy grows, per capita income increases and people consume food other than just to survive. The food consumption pattern pursues the pattern of "recognition(nutrition) - choice (taste) - preference (fashion)."

This change in consumer behavior is well reflected in the change in living expenses. Scrutinizing the ratio of per household itemized monthly average living expenses of urban workers, the recreation and eating out expenses, which can be described as optional, increased from 2.8% and 1.0% in 1976 to 3.4% and 3.1% in 1985. The former increased to 5.0% and the latter increased to 9.6% in 1995 (Table 1).

On the other hand, with the rapid increase in income, people put more value to leisure time.

It is the tourism industry that can fulfill those needs. The tourism industry becomes important, which offers citizens the opportunity to rest and utilize their leisure time and contributes to the national economy by earning foreign currencies from foreign tourists.

Due to the rapid development in transportation, telecommunication and information delivery systems, the global community is gradually becoming an one-day living zone. Moreover, with the reformation of

**TABLE 1** Urban Worker's Income and Living Expenses per Household(Monthly Average)

Unit: Thousand Won,%

Year	Income	Living Expenses				
		Total	Eating Out		Recreation	
			Amount	%	Amount	%
1976	88.3	71.2	0.7	1.0	2.0	2.8
1977	105.9	82.8	1.3	1.5	2.5	3.0
1978	144.5	109.8	1.7	1.5	3.4	3.1
1979	194.7	145.3	2.5	1.7	4.4	3.0
1980	234.1	175.4	3.1	1.8	4.6	2.6
1981	281.0	213.4	4.1	1.9	6.5	3.0
1982	313.0	235.7	6.5	2.8	8.2	3.5
1983	359.0	295.5	7.4	2.9	9.6	3.7
1984	395.0	281.1	8.4	3.0	9.8	3.5
1985	423.8	302.2	9.3	3.1	10.4	3.4
1986	473.6	331.5	11.6	3.5	12.2	3.7
1987	553.1	379.7	17.4	4.6	13.9	3.7
1988	646.7	443.3	22.6	5.1	18.0	4.1
1989	804.9	561.7	36.7	6.5	26.3	4.7
1990	943.3	650.0	45.7	7.0	28.5	4.4
1991	1158.6	779.6	56.7	7.3	36.1	4.6
1992	1356.1	902.5	68.3	7.6	42.4	4.7
1993	1477.8	986.2	81.1	8.2	47.3	4.8
1994	1701.3	1113.7	100.3	9.0	54.6	4.9
1995	1911.1	1230.6	118.6	9.6	62.0	5.0

Source: National Statistical Office R.O.K, Annual Report on the Family Income and Expenditure Survey, 1977~1996.

Russia and the liberalization of Eastern Europe, the appearance of the era of global community is being accelerated due to the destruction of "the wall", which prohibited people from travelling certain countries due to differences in ideologies. These kinds of changes promote the growth of the tourism industry.

The international trend of these changes can be equally perceived in Korea. After successfully completing the first to the sixth five-year socio-economic development plans, Korea became a role model of economic development to developing and underdeveloped countries. Its per capita GNP exceeded \$5,000 in 1990, and just joined the industrial society. Material prosperity such as economic growth and increased income generally changes the value system of Korean people and upgrades the quality of life.

As shown in Table 2, the Korea National Tourism Corporation(KNTC) presumed regarding the long-term needs of domestic visitors that the number of total national visitors will be increased from 182 million in

**TABLE 2** Estimated Demand of National Tourism by Type

Classification	Year				Average Annual Growth Rate (1988~2001)
	1988	1991	1996	2001	
Population(1,000 people)	42,593	44,094	46,366	48,351	1.0
<b>Lodging Travel</b>					
Participation Proportion(%)	57.3	57.6	57.9	58.2	-
Per Capita Number of Visits(times)	1.0	1.2	1.8	2.0	5.5
Total Visitors(1,000 people)	118,409	148,685	242,865	299,776	7.4
<b>One-day Travel</b>					
Participation Proportion(%)	55.5	55.8	56.0	56.3	-
Per Capita Number of Visits(times)	1.5	2.7	4.5	4.8	9.4
Total Visitors(1,000 people)	63,890	119,054	208,647	232,085	10.4
Total National Visitors (1,000 People)	182,299	267,739	451,512	531,861	8.6

Source: KNTC 'Report on the Long-Term Comprehensive Plan for National Tourism Development', 1989, p.265(Excerpt).

1988 to 531 million in 2001, which is a 2.9 times increase in 13 years with an annual increase rate of 8.6%. The annual population growth rate from 1988 to 2001 is only 1%. Especially, the number of one-day course visitors is expected to increase greatly. For example, the average one-day course visit per head was 1.5 times in 1988, but it is expected to increase to 4.8 times in 2001. The number of one-day visit will exceed that of lodging travel. According to this presumption, in the year 2001, national per capita travel whether it is a one-day travel or a lodging travel will increase by 11 times a year or almost once a month. Therefore, it is urgently requested to expand the supply of travel facilities and travel programs to meet the tourism demand.

## **2. The Demand Prospects for the Farm Tourism Development**

It is the most important procedure to understand how the needs of tourists for farm tourism will change from now on in order to establish future development plans.

Table 3 shows the survey results conducted by the KNTC in August and October, 1988. The survey inquired the tourists at the tour sites about things to improve and the degree of satisfaction. According to the table, sightseeing landscape and visiting historic and cultural sites are the major reasons for tourism, while experience of rural life through visiting farming and fishing communities are not important throughout the whole areas.

However, it is estimated that the number of tourists who merely sightsee natural landscape decreases, while the desire to experience rural life activities increases except in Chungnam and Chungbuk areas. In Jeonnam and Cheju areas, the rates are 4.5% and 5.7%, respectively. Nationally, the rate is expected to increase from 6.6% at present to 7.9% in the year 2001.

Since the total number of national visitors in 2001 was estimated as 531 million as shown in Table 2 and the rate of rural life experiencing activities was 7.9% as shown in Table 3, the potential tourism demand for rest areas in farming and fishing communities seems large. A systematic approach to adequately accommodate the demand is needed.

**TABLE 3** The Component Ration of Tourism Activities for Different Regions(1988 and 2001)

Types	Unit = %											
	National		Kyonggi/ Kangwon		Chung Nam-buk		Chonla Nam-Buk		Kyong Nam-Buk		Cheju	
	1988	2001	1988	2001	1988	2001	1988	2001	1988	2001	1988	2001
Appreciation of Natural Landscape	21.1	5.3	20.1	5.2	16.9	4.7	26.1	7.6	16.1	4.2	27.0	4.8
Visiting Historic and Cultural Sites	16.0	12.2	14.6	12.2	7.6	11.2	18.3	13.5	12.5	14.1	25.7	14.6
Rural Life Experiencing Activities	6.6	7.9	7.0	7.7	5.7	4.4	3.8	8.3	4.1	5.6	7.9	13.6
Recreation	11.6	6.0	14.2	7.4	11.9	3.8	9.1	5.8	14.2	7.2	6.6	4.5
Mountain Climbing/ Camping	8.4	11.8	7.8	12.1	12.9	13.3	8.9	15.8	4.2	6.8	6.3	10.5
Waterside Recreation	9.2	17.5	7.5	15.5	14.5	24.7	7.4	10.6	9.4	16.3	17.0	20.5
Leisure Activities	0.5	1.9	0.4	1.3	0.2	1.1	0.1	0.7	0.7	1.5	1.2	0.5
Sports	0.4	0.9	0.6	1.4	0.6	0.9	0.4	1.6	0.6	2.3	0.1	1.2
Others	26.2	36.5	27.8	37.2	29.7	35.9	25.9	36.1	38.2	42.0	8.2	29.8
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: KNTC, 'Report on the Long-Term Comprehensive Plan for National Tourism Development', 1989, pp.253~254(Excerpton).

### **III. Analysis on the Situation of Farm Tourism Development**

#### **1. Changes in the Policies of the Farming and Fishing Communities Household Income Source Development Project**

Recently, the form of tourism has been transferring from a simple sightseeing or a pleasure-seeking picnic to a sound living-oriented type such as taking rest with family in the beautiful nature.

It is the basic objective of the farm tourism development to connect natural resources in the farming and fishing communities with tourism demands by urban people for farming and fishing to increase farm household income.

The farm tourism development project, which was initiated by the MAF as a device to increase farm household income, formed 12 model areas in 1984 which was the first year of the project, thereafter, designated additional model areas each year and has given financial support funds to them.

By 1996, there were 407 designated farms for tourism and a total of 84,988 million won were subsidized to them. In the initial stages, a target for the farm tourism development were mainly direct sales of farm products, but recently the farm tourism development program also includes farm lease, place offering farms, integrated tourism farms, juvenile natural study farms and the youth mind-and-body practice farms.

In addition, as a part of the farming and fishing communities household income source development project, resort areas were established in 1990, and a supporting program for lodging communities started in 1991.

The conditions for development types, size, qualification for participation, subject areas, designation of areas and supporting funds to bring up the farming and fishing communities household income source development project have been changed much since 1988. First of all, the eligibility to participate in the farm tourism development project has changed. By 1987, a participant should reside in the designated development area and engage in farming for three years. In addition, five or more households should jointly participate. However, from 1988 to 1990, non-farmers and those who moved in from other areas could also participate in the project, and hence, it became an object of speculation. It brought about a sense of incompatibility with



regional inhabitants or tough social criticism. As a result, the eligibility of participants has changed so that five or more regional inhabitants must participate jointly. Also, in regard to supporting funds, until 1990, new areas could borrow 200 million won or less and existing areas 150 million won or less on the condition to repay equally for 7 years with a three year grace period with an annual interest rate of 8%. From 1991, less than 150 million won were subsidized to new areas and 200 million won or less to existing areas. From 1994, the funds was increased to 200 million won or less to new farming areas and 250 million won or less to existing areas. From 1992, the interest rate on loans was decreased from 8% to 5%.

## **2. The Result of Management and the Financial Structure**

In order to analyze the result of management and its financial structure, 108 farm tourism areas were analyzed. They were 108 areas from the original 136 areas designated in late 1990 minus 25 cancelled areas and three areas whose information was not available.

In order to understand the general outlook of the farms, the actual conditions for management and the state of managing profits, and survey materials administered by the NACF Department of Rural Development were used.

Break-Even Point(BEP) analysis was used as a simple indicator to analyze the profit from the farm tourism management. BEP is the point where total cost and total revenue equals. Net revenue occurs when revenue is equal or more than break-even point. In case of farm tourism, when the capital is put into fixed assets such as farming facilities, restaurants, stores and offices, the same amount of fixed cost increases. The cost is constant regardless of an increase or decrease of visitors.

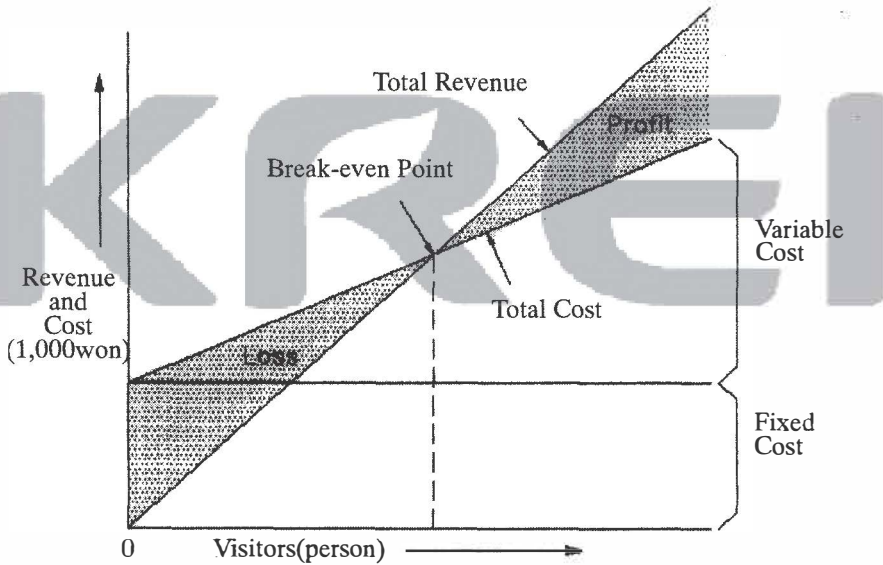
However, as visitors increase, total revenue increases and so does the variable cost (food producing cost and wages). At this time, the point of intersection where the total cost, which is the addition of constant cost and variable cost, matches the total revenue is the break-even point. If the number of visitors is more than this BEP, the farm makes a profit. If it is less than the point, it sustains a loss.

The number of break-even visitors can be calculated by Figure 1, which shows the profit-loss status of a farm for the total cost according to the increase or decrease of users<sup>1</sup>. This can be indicated as the following numerical formula :

$$\text{Break-even Visitors} = \frac{\text{Fixed Cost}}{\text{Average Revenue / Visitor} - \text{Variable Cost / Visitor}},$$

where, Average Revenue / Visitor = Total Revenue / Total Visitors.

FIGURE 1 BREAK-EVEN CHART



<sup>1</sup> Fujii, Nobuo, Invitation to Leisure Farming, Boomin Association, pp.117~118, 1972.

The status of managing profit, which was analyzed by this formula, shows that out of 108 areas except Sindong in Chunseong, Meereuk in Jungwon and Bukkyae Euryong, the number of break-even visitors appear to be higher than that of actual visitors. It means that the profit status of tourism farms is generally bad. Moreover, even the areas with 100,000 or more visitors cannot reach the number of break-even visitors. This means that the total revenue is so low compared to the number of visitors that the plan to increase the average total revenue per visitor shall be considered or that over-investment has been made to fixed assets in the tourism farms.

Since visitors have been mainly the passers-by or the one-day stay type, it is necessary to develop a way to transform them into the pass-and-stay type or lodging-travel type. Also, plans such as charging entrance fees to visitors who only come to appreciate farms for tourism or who only use the space of the farms shall be considered. Also, in case of newly formed farms for tourism, investment in the fixed assets should be minimized.

According to the result of the break-even point analysis based upon actual visitors to 50 farms for tourism, which operated normally in the late 1990, the total visitors of 24 farms had less than 25% of break-even point visitors, while only 3 farms had 100% or more. Regarding the per farm household average visitors, the majority (5,117 people) were in the range of 25%-50%, while only 697 people were in the range of 75%-100%. On the other hand, the average per visitor expense was the highest in the range of 75%-100% at 17,000 won (Table 4)<sup>2</sup>.

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<sup>2</sup> Ryu, Seung-Woo. 1994. "The Trend of Development and Management Conditions for Leisure Farming in Korea", *Journal of Leisure Farming*, Vol.1, No.1, The Society of Korea Leisure Farming, pp.91~92.

**TABLE 4** Profit and Loss Analysis based on the Actual Number of Visitors

Unit: Areas, Households, Persons, Thousand Won

Achievement Proportion of Break-even	Number of Tourism Farm	Number of Participating Farm Household	Average Visitors Per Farm Household	Average Revenue Per Visitor
0-Less than 25%	24	173	1,528	3
25% - 50%	13	121	5,117	2
50% - 75%	6	40	2,657	5
75% - 100%	4	61	697	17
More than 100%	3	70	914	4

Note: Achievement Proportion of Break-even = (1990 Total Visitors/Break-even Visitors) × 100

#### IV. Development Directions for Farm Tourism

The development of farm tourism is expected to have positive effects on farm household income in the following three aspects. First, it is the effect of utilizing natural resources of farms which are not used or used only minimally. As the conventional agriculture-oriented society was rapidly replaced by the industrial society and the need for leisure has greatly increased as national income increases, conventional free goods become more important as economic goods. For example, fresh air, water, abundant green areas and farming activity itself became attractive resources of tourism to urban people. Also, farm's labor in the farmer's leisure season is the resource which is being used at a very low cost. By utilizing these resources through farm tourism development, farm household growth can be effectively accommodated.

Second, various farm products and special products from farm households can be sold directly to urban tourists, who are the final consumers and the value-added of farm products can be increased by reducing the margins in distribution. Third, as farm tourism is

initiated, it is expected that visitor's leisure time can be used for farm production to supplement agricultural manpower in the busy season for farmers.

To maximize these effects, the farm tourism development should be developed in the following types according to the conditions of each location :

1) Farm products participation type : Inducing direct participation in farming, forestry and fishing.

2) Recreation and facility offering type : Farm tourism type based upon farming, forestry and fishing.

3) Lodging offering type : Farm tourism type based upon recreation.

It causes no problem to choose any one of the above three types, but in general, it is desirable to estimate whether the location is suitable for farming, forestry, fishing, or for tourism so that its best specialty can be made. In the case of farm products participation type, it is effective to develop "the Weekend Farming" operation type in which high income class residing in big cities can gather products from farming, forestry, fishing or grow and harvest agricultural products. In this case, farm tourism should be developed to have the characteristics of "farming, forestry, and fishing plus something else", but in the early stage, emphasis should be put on developing farm tourism which offers deep impressions and pleasure to harvest visitors by unifying the products in the early stage.

The facility offering type sells farm and special products and offers recreation. It is more dependent on tourism service than agriculture and the rate of commercial sales of products to tourists is generally low. The locations of these farms are somewhere near well-known tourist areas. It is also noted that the distance should be less than 2 hours by car from the user's residence to the farm.

The lodging offering type is for farms for tourism where well-known tourist areas exist in the vicinity, but are located long distance from big cities or where transportation facilities are bad. In this case, it is desirable to develop farms with lodging or camping facilities, where visitors can stay overnight and enjoy natural landscapes.

Therefore, the lodging type should aim at development of lodging purpose farms for tourism which includes outdoor recreation facilities and food sales as well as farming, forestry and fishing

activities. Of course, it shall be able to sell regional agricultural products to the lodgers and offer touring service.

For the successful development of farm tourism in the future, it is desirable to adequately combine the primary industries of farms and tourism services and in order to achieve this, a complex farm tourism development project should be designed.

Therefore, in order for the rural tourism development project which has been administered by the Department of Agriculture and Forestry since 1984 to increase farm household income of participating farms, various development strategies should be sought including attraction of more visitors, of value-added agricultural products and of new farm tourism types which combined sales of food, special regional products and lodging.

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