

SOUTH KOREA
Agricultural Economy and Policy Report
January 2, 2009

General Political Situation

On February 25, 2008, the opposition Grand National Party's Lee Myung-bak was sworn in as South Korea's 17th President on a platform of economic growth and closer ties with the United States. Although he won the election by a landslide, securing close to 50% of the vote in a 12-man presidential field, his popularity plummeted shortly thereafter mainly due to Korean public perceptions about his handling of the U.S. beef issue.

Macroeconomic Situation and Trends

The Lee administration has undertaken macroeconomic reforms, pumping billions of dollars into the sagging export driven economy. However, these reforms have had little impact as the ongoing liquidity crunch has put downward pressure on business investment and consumer spending. Local economic think-tanks have all lowered their 2009 projections for economic growth to 2-3 percent, down from earlier projections of around 6 percent.

Contracting world demand will dampen Korea's annual export growth to about 3.0 percent in 2009, which is significantly lower than previous year's double-digit growth levels.¹ Falling exports will especially squeeze the Korean auto and tech industries. Imports next year are also forecast to soften due to expected decreases in consumer spending and a weaker won, which lost 40 percent of its value against the U.S. dollar in 2008.

The Economy As It Relates to Agriculture

Agriculture's share of GDP has steadily declined to about 3 percent as the amount of agricultural land and the rural population has decreased in the past two decades. This trend is expected only to accelerate in the future. People are leaving the rural areas because of a lack of jobs, income, educational opportunities, medical support and modern housing. Those involved in agriculture account for only 6 percent of the labor force and 63 percent are over the age of 60.² South Korea is a major food importing country with few resources to expand its agricultural capacity. In 2007, Korea's agriculture trade deficit was \$17 billion and in 2008, that amount is likely to come close to \$20 billion.³

Domestic Agricultural Policy Overview

South Korea has been supporting its agricultural sector at a relatively high level compared to other countries with the goal of supplying safe food, strengthening domestic production and its competitiveness, and increasing farmer's incomes and the vitality of the rural areas. Public intervention has consisted mainly of setting high production prices supported by government purchases, together with high tariffs that protect domestic producers from foreign competition.⁴ South Korea's import barriers began to be reduced, first through negotiations required under the General Agreement on Tariffs and Trade (GATT) in the late 1980s, and then under the terms of the Uruguay Round Agreement on Agriculture (URAA), implemented in 1995.

Since implementing its first bilateral agreement with Chile on April 1, 2004 and concluding its second major bilateral agreement with the United States on April 1, 2007, the South Korean

¹ SERI Outlook for Korea's Economy in 2009

² "Farm Trade Deficit to Top \$10 Billion," Korea Times, 24 December 2007.

³ Global Trade Atlas data for all agriculture, forest and fishery products.

⁴ Beghin, John C., Jean-Christophe Bureau, and Sung Joon Park, "Food Security and Agricultural Protection in South Korea," Center for Agricultural and Rural Development, Iowa State University, September 2001.

government has adjusted its comprehensive investment plan for agricultural and rural development to alleviate concerns that these agreements negatively impact the agricultural sector.

The Ministry of Food, Agriculture, Forestry & Fisheries (MIFAFF) and the Korean Food and Drug Administration (KFDA) are both responsible for ensuring that the food supply is safe. MIFAFF regulates produce, grains, livestock, dairy and fishery products, whereas KFDA regulates processed products and the manufacturing sector. The Ministry of Strategy & Finance (MOST, formerly called the Ministry of Finance and Economy) sets and collects tariffs for agricultural products and oversees the Korean Customs Service (KCS) which is responsible for ensuring that imported goods have met all relevant regulations prior to clearing customs.

General and Agricultural Trade Situation

South Korea is a member of the World Trade Organization (WTO) and has been since 1997. The government actively participates in international agricultural standard setting bodies, such as the World Organization for Animal Health (OIE), Codex Alimentarius and the International Plant Protection Convention (IPPC). As a member of the G-10 group of import-sensitive countries, South Korea favors a modest approach to agricultural trade reform and adamantly opposes tariff caps and TRQ expansion. South Korea is also a member of the G-33 group of developing countries. South Korea's self-designated status as a developing country with special differentiated treatment is controversial. The G-33 group has expressed concerns about the treatment of special products, namely, the need for increased exemptions in tariff line cuts in comparison to the percentage of sensitive product tariff lines afforded to developed countries. Concerns have also been raised by the G-33 countries regarding the need for an effective and flexible special safeguard mechanism (SSM) to address the needs of developing countries susceptibilities to import surge disturbances and the negative effects of down swings in prices.

In December 2004, South Korea reached an agreement with its principle suppliers to extend special treatment (Annex V) for rice until 2014, with a fifth year multilateral review in 2009.

South Korea has actively pursued bilateral trade agreements starting with Chile in 2004, Singapore in March 2006, and the European Free Trade Association (EFTA) in September 2006. Agreement on the commodity sectors was reached in the free trade agreement (FTA) negotiations with the ASEAN countries in August 2006. In the FTA with ASEAN, 71 sensitive agricultural products of South Korea are exempt from tariff reductions. FTA negotiations with the United States were completed on April 1, 2007; however, the FTA has not been ratified in either country. FTA negotiations are currently under way with the European Union, Canada, and Mexico.

Korea is heavily dependent on imported agricultural commodities due to limited domestic agricultural capacity. Total imports of agricultural, fishery and forest products in 2008 (Jan-Nov) totaled \$22 billion, of which \$6.3 billion (or 28.5%) was from the United States. Korea is the fifth largest market for U.S. agricultural products. Key U.S. exports to Korea include corn (\$2.4 billion), wheat (\$660 million), hides and skins (\$300 million), pork (\$209 million), beef (\$165 million) and soybeans (\$240 million).

USDA Stakeholders

American Forest & Paper Association
American Soybean Association
Blue Diamond Growers/Almond Board of California
Brewers Association, Inc.
California Agricultural Export Council
California Cherry Advisory Board
California Citrus Quality Council
California Kiwifruit Commission
California Table Grape Commission
California Walnut Commission
Cotton Council International
Cranberry Marketing Committee
Distilled Spirits Council
Food Export Association Midwest USA
Food Export USA NE
Ginseng Board of Wisconsin
National Honey Board
National Potato Promotion Board
North American Export Grain Association
Northwest Wine Promotion Coalition
Organic Trade Association
Raisin Administrative Committee
Southern United States Trade Association
Sunkist Growers, Inc
The Popcorn Board
U.S. Dairy Export Council
U.S. Dry Bean Council
U.S. Grains Council
U.S. Hide, Skin and Leather Association
U.S. Livestock Genetics
U.S. Meat Export Federation
U.S. Wheat Associates
USA Poultry and Egg Export Council
USA Rice Federation/US Rice Producers
Washington State Fruit Commission
Welch Foods Inc.
Western United States Agricultural Trade Assoc.
Wine Institute