



Korea's Countermeasures on Agricultural Trade Liberalization

Dr. Jeongbin Im

Professor, Seoul National University, Korea

1. Introduction

The launch of WTO system in 1995 with agreement of the UR trade negotiations resulted in the acceleration of market liberalization in the Korean agriculture sector. Korea has also actively pursued bilateral trade liberalization with major trading partners through Free Trade Agreement (FTA) with major trading partners since the late 1990s.

However, the agricultural trade liberalization through WTO system and bilateral Free Trade Agreement, has been the biggest challenges in Korean agriculture as well as Korean farmers. In Korea, it is widely recognized that trade liberalization through WTO and FTA will profit the overall Korean economy, but the agricultural sector will clearly suffer from market opening because of its low competitiveness. In its efforts to prepare for the liberalization of the agricultural market, the government implemented several grand projects for minimizing the negative impacts on the Korean agricultural sector. Particularly, the government has basically introduced a diverse range of policies for compensating the farmers' income enhancing its agricultural competitiveness, and improving living conditions in the rural community.

2. Agricultural Policy in the Age of Globalization

2.1 Agricultural Development Projects

The expansion of trade liberalization is expected to have a substantial impact on Korean agriculture, which is not yet internationally competitive in most commodity trades. So, it is necessary for government to make some countermeasures to minimize the negative impacts on Korean agriculture and to ensure its smooth transition to the Age of Globalization. In this regard, the Korean government has announced a series of large agricultural development projects in response to agricultural market opening scheduled by WTO and FTA.

The focuses of long-term investment and loan plans were put in the structural adjustment to enhance competitiveness with the aim of coping with the opening of agricultural markets, expansion of income safety net to stabilize farm incomes, and maintain rural vitality. It also aims to establish social safety net to create a balanced development between urban and rural areas. The long-term projects coping with agricultural trade liberalization, have led to the expansion of government finance to the agricultural sector and rural areas in Korea. The long-term plan can be divided into three periods: the first period from 1992 to 1998, the second period from 1998 to 2003, and the third period from 2003 to 2013.

According to the proceedings of the UR negotiation on agriculture which was started in 1986, the Korean government announced “Agricultural and Rural Structure Improvement Measures” in July of 1991. Based on this policy plan, the Kim Young-Sam administration (1993~1998) made a long-term project to inject 42 trillion won into agricultural sector for 10 years from 1992 to 2001. The main goals of this plan were to increase agricultural competitiveness and improve the living conditions in rural areas after the agricultural market opening. With the conclusion of the Uruguay Round Agreement on Agriculture in 1994, the implementation period of this project was advanced by 3 years, i.e. the 42 trillion won investment plan was completed by 1998. This kind of long-term investment plan for agriculture is usually set at 10 years, but it could be adjusted in consideration of the situation at the time of the planning. Also the government made “Special Rural Development Tax,” in 1994, which enabled the additional financial resources of 1.5 trillion won each year for 10 years from 1994 to 2004. This special tax program was again extended for a second 10-year period in 2004 to 2014.

As a follow-up measure to the 42 trillion-won plan, the Kim Dae-Jung government

(1998~2003) created the next plan for restructuring the agricultural industry and developing the rural areas, which was to inject 45 trillion won during a five-year period from 1999 to 2003. Due to the financial crisis of 1997, the prices of agricultural materials rapidly increased since the beginning of 1998. Consequently, the circumstances for agriculture greatly worsened, and many farms went bankrupt. The government, therefore, put highest priority on stabilizing the economy of farm households and creating ways to rehabilitate the rural economy. To do so, the government enacted the Special Law on the Reduction of the Debts Owed by Farmers and Fishermen and postponed the reimbursement of debts owed by farm households and reduced or exempted the interest.

In order to respond to further market opening resulting from the Doha Development Agenda (DDA) of the WTO and FTAs with its major trading partners, The Roh Moo-Hyun administration (2003~2008) worked out the investment and loan plan for agriculture and rural areas worth 119 trillion won from 2004 to 2013 as a follow-up measure to the 45 trillion-won plan. The four special laws were enacted or amended as laws and institutions for agricultural and rural development: Special Act on FTA Implementation; Act on Special Tax for Agriculture; Special Act on Farmers' Quality of Life Improvement; and Special Act on Farmers' Debt Burden Alleviation. These laws were made in preparation for an expanded agricultural support to respond to further market opening resulting from the Doha Development Agenda (DDA) of the WTO and FTAs. Currently, the government is at the end of implementing a comprehensive agricultural plan that requires a financial input of 119 trillion won for a 10-year period from 2004 to 2013.

The government investments and loans in the agricultural sector until now were largely distributed for hardware, including modernization of facilities, improvement of distribution and marketing and mechanization of agriculture. In the long-term investment and loan period in 1990s, more than 60% of the agricultural budget was spent to establish the effective production base and infrastructure including agricultural mechanization and facility modernization, and improvement of distribution and marketing.

However, policy priority has been changed from hardware-oriented toward software-oriented measure such as direct payment and risk management. The expansion of financial investments and loans to raise the competitiveness of the agricultural industry inspired

farmers and created active investment in agriculture in the first half of the 1990s. Investment increased and new technologies were adopted by utilizing government subsidies and low-interest policy funds. As a result, productivity rose and production expanded, but the lack of new demand after 1996 and the financial crisis of the following year cut prices and lowered farmer's incomes. These changing conditions led to an increase in the budget allocation for software rather than hardware, towards stabilizing farm income, development of rural regions, and expansion of welfare programs for farmers.

Table 1. Major Agricultural Projects by Phase

Period	1992-1998	1998-2003	2003-2013
Name	Agricultural and Rural Structure Improvement Measures	Agriculture and rural development plan	New breakthrough project for agriculture and rural areas
Resource	<ul style="list-style-type: none"> . 42 trillion won fund for restructuring agriculture and rural areas . Special tax for rural and fishing areas 	<ul style="list-style-type: none"> . 45 trillion won fund for the investment & loan plan for agriculture and rural areas 	<ul style="list-style-type: none"> . 119 trillion won fund for the investment & loan plan for agriculture and rural areas
Agricultural Policy Goals	<ul style="list-style-type: none"> . Higher agricultural competitiveness . Living conditions improvement in rural areas . Enhanced welfare schemes for farmers 	<ul style="list-style-type: none"> . Higher agricultural competitiveness . Introduction of direct payment system for income support . Enhancement of agriculture's function as public goods . Environmentally-friendly agriculture . Measures to stabilize farm management 	<ul style="list-style-type: none"> . Constitutional improvement of agriculture . Stabilization of farm income and management . Rural area development . Enhanced quality of living of rural residents
Major Projects	<ul style="list-style-type: none"> . Projects for higher competitiveness - Production infrastructure improvement, mechanization, 	<ul style="list-style-type: none"> . Measures for farm household debt reduction . Direct payment system 	<ul style="list-style-type: none"> . Direct payment system for rice income preservation and expanded implementation of direct payment system

	facility modernization, competitiveness strengthening by commodity	. Environmentally friendly agriculture . Introduction of disaster insurance, etc.	. State insurance systems . Strengthened food safety
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2.2 Direct Payment Programs

Major changes in agricultural policies have occurred internationally in the process of agricultural trade liberalization after the WTO system was launched in 1995 and the agreement on agriculture of Uruguay Round was forged. Particularly, direction of agricultural policy has been changed from price support into the direct payment programs as a measure to counter market liberalization and reduced price supports since the late 1980s in developed countries such as USA, EU, and Japan etc.

Actually it has been recognized that agricultural direct payment might be a useful policy instrument under the situation of fulfilling the reduction commitment of agricultural tariff and domestic support in the WTO system. Some direct payment programs, as 'green box' measures would be essential to support agricultural sector and reduce the impact on farm income through market liberalization under the WTO regime. Policy application of direct payment program as an important agricultural policy instrument has internationally increased. It is expected that the role of direct payment program in a field of agricultural policy will be expanded gradually and steadily.

According to such a movement of international trend and disciplines, the Korean government has introduced several direct payment programs as a means to ease structural adjustment, to support the income of farmers and to boost multifunctional roles of agriculture. After the launch of WTO system in 1995, a series of agricultural policy reforms have been conducted in Korea. Particularly coping with the agricultural market liberalization, Korean government has introduced the various kinds of direct payment programs after introducing the initial direct payment program for aged farmers' retirement in 1997. The government has employed the ten types of agricultural direct payment programs until now. Currently seven kinds of direct payment programs are put in operation in 2013. The share of budget on direct payment has been increased from 0.8% in 1997 to 23.6% in 2012. However the share of

budget on direct payment is still very low. Direct payment programs employed in Korea have been concentrated on rice farming. The budget share of direct payments for rice farming accounted for 95% of total direct payments in agricultural sector.

Although seven kinds of direct payment programs are operated currently, these can be categorized into three types as follows: (1) direct payment for income support; (2) direct payment for environmentally friendly farming or multifunctional agriculture; (3) direct payment for structural adjustment and creating large scale farm.

<Table 2> Outlines of direct payment programs in Korea

Types of direct payment	Introducing -ending period	Major objective	Eligible producer/product
Early retirement of aged farmers	1997-current	Structural adjustment	Aged farmer/rice
Environment-friendly farming practice	1999-current	Environmental friendly farming	Licensed farmer/all products except livestock
Paddy-Field environment conservation	2001-2004	Environmental friendly farming	Rice farmer/rice
Rice farmers' income stabilization	2002-2004	Income stabilization	Rice farmer/rice
Set-aside of paddy-field	2003-2005	Structural adjustment	Rice farmer/rice
Environment-friendly livestock farming practice	2004-current	Environmental friendly farming	Livestock farmer/livestock
Less-favored area	2004-current	Multifunctional role of agriculture	Less-favored area
Landscape conservation	2005-current	Multifunctional role of agriculture	Landscape area
Rice income stabilization payment	2005-current	Income compensation	Rice farmer/rice

Direct payments for upland farmers	2012-current	Income compensation	Farmers/26 commodities such as barley, wheat, corn, onion, red pepper etc.
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Source: Ministry of Agriculture, Food and Rural Affairs(MAFRA)

The direct payment for rice which began in 2005 is divided into flexible direct payment and fixed direct payment. Flexible direct payment is a government compensation program in which the government compensates 85% of the gap between target price and national average price of rice when the average price falls below target price (about 170,083 Korean won per 80kg). The fixed direct payment provides a direct payment of 700,000 Korean won per 1ha of rice paddy. Strengthening plan of the direct payment for rice farmers is currently under discussion between government and congress such as increase in target price.

An important characteristic of the current government policy in Korea is the expansion of the direct payment for farmers. Background of expanding the direct payment program is mainly because of the necessity of policy change from price support into direct income support under the WTO rules. Reducing the income disparity between urban and rural areas has been a very important policy objective in Korea.

2. 3 Compensation Programs for Facilitating FTA Pursuit

In the early part of 2000, negotiations for Free Trade Agreement (FTA) started to make progress amid a global wave of trade liberalization. Although Korea was passive about FTA initially, the country saw a turning point with the conclusion of an FTA with Chile in 2002. From the following year on, Korea actively took part in the negotiations. As of May, 2013, the number of countries with which Korea has signed a free trade agreement with and went into effect stands at 46. These include USA, 27 EU members, 10 ASEAN countries, 4 EFTA countries, India, Peru and Chile. FTA negotiations are also underway with many countries, which include China and Japan.

The Korean agricultural sector is the most sensitive and difficult area to forge an agreement with FTA with major trading partners. It is basically because of the remarkable differences in agricultural competitiveness between Korea and other countries. A comprehensive and high standard free trade agreement will create the severe negative impacts

on Korean agricultural sector. Therefore, it is necessary to make not only an effective external negotiating strategy in consideration of agricultural sensitiveness but also a preparation for reducing the negative impact on agricultural sector in order to facilitate bilateral FTA and minimize the resistance from agricultural sector in Korea. For example, Korea signed its first FTA with Chile. The negotiations were completed in October of 2002, but fierce resistance from fruit growers and farmer's associations prevented the parliament from authorizing the agreement until February of 2004. As the first FTA signed by Korea, the agreement with Chile brought significant fear to farms. Already having experienced the difficulties created after the UR implementation, farmers have extreme distrust of free trade agreements of any kind. Farm households began to resist liberalization as a whole, and violent demonstrations took place all over the nation.

In order to reduce farmer's resistance, the government created compensation programs, as well as plans to enhance the competitiveness of the domestic industry which is damaged from FTA. A special act to support farmers in response to FTAs was created and a decision was made to raise a 1.2 trillion won fund over a seven-year period (2004~2010) to assist farmers who will be negatively affected by FTAs in the future. In the fruit industry, where negative effects of the FTA were going to be most felt, various compensation schemes were created to maintain the revenues of orchards. One of the most highlighted measures was the introduction of direct payment for compensating the import damage in the fruit industry. In the case of the Korea-Chile FTA, compensation has primarily focused on orchard farms and the fruit industry which was expected to have negative impacts by FTA with Chile.

In particular, negotiations for an FTA with the United States began in February of 2006. There were many industry areas with conflicting interests between the two countries, not only in the agricultural field, but also in the area of manufacturing. There was significant domestic opposition as well, from farmers and a variety of other groups that considered an FTA with the United States considerably different from the agreement with Chile. While only a few agricultural products, including grapes, kiwis and pork were imported from Chile, nearly every agricultural product could be imported from the United States, and the effects were expected to be significant. Farmers voiced intense opposition to an FTA with the United States. Therefore the government announced more strengthened compensation programs than those that were made in FTA with Chile before, as well as plans to enhance the

competitiveness of the agricultural industry in order to reduce farmer's resistance on FTA with the United States. To prepare the Korean-US FTA domestic countermeasures, government made a plan for comprehensive investment and financing of total 20.4 trillion Korean won over the 10 years from 2008 to 2017. Agricultural investment for the Korea-US FTA supplementation policies will be concentrated on competitiveness improvement support and direct payment program for compensating the damages from farm revenue loss which took place during the implementation of the Korea-US FTA. Additionally the government has strengthened the direct payment for compensating FTA damage in 2008 in preparation of the Korean-US FTA. The payment was designed to recover 85% of revenue losses when the market price falls below a base price, which is an average of the market price over the last 5 years with the highest and lowest years dropped (5-year Olympic average).

3. Summary and Conclusion

The period after the early 1990s was characterized as the era of globalization. The Korean agricultural market became increasingly integrated into the international trend of trade liberalization, and the agricultural sector had to adapt to the international standards. The government has initiated a number of agricultural policy reforms, reorganizing laws and policies for the market orientation of agriculture.

Along with multilateral trade negotiations, Korea is also actively pursuing bilateral Free Trade Agreement (FTA) with some countries and economic blocks. It is considered inevitable for the Korean economy, which has poor resources and is heavily dependent on foreign trade, to facilitate trade with other countries. However, many agricultural products in Korea will suffer from freer trade due to increased imports. The ratification at the National Assembly was a painful process facing strong resistance from farmers who were deeply concerned about the import surges of agricultural products from FTA partners with lowered or eliminated tariffs. Farmers asked "proper compensation for the loss" and finally government agreed to establish an FTA fund to help farmers who would be adversely affected by the FTA. The Korean farmers and politicians are asking additional and comprehensive compensation measures for minimizing the negative impacts on agricultural sector. However Korea's agriculture policy in response to trade liberalization has been significantly restricted by WTO regulations. For that reason, Korea is converting its agriculture policy towards minimizing

market distortions within the confines of WTO rules. Good examples of such policies are 1) strengthened agricultural infrastructure and public service program to enhance the competitiveness, 2) direct income payment policy to compensate the revenue loss, 3) value-added improvement programs through the reinforcement of linkages with secondary and tertiary industries related to agriculture such as processing and storage industries, 4) marketing promotion programs for brand building and distribution efficiencies, 5) agricultural insurance program for risk management and 6) increased education program for farmers.

The liberalization of Korea's agriculture market is expected to be further accelerated as 1) it is likely that WTO will likely reach an agreement on DDA negotiation and 2) Korea aggressively pursues FTA negotiations. Even if Korea maintains its developing country status in the WTO negotiations, the magnitude of market liberalization is expected to be bigger than the UR agreements. FTA negotiations with China will also likely begin, bringing the greatest impact to the domestic agriculture sector subsequent to the Korea-US FTA. In addition, with negotiation planned or currently under way with MERCOSUR, Australia, Canada, Mexico and Japan, market liberalization through bilateral negotiations is also expected to pick up speed.

Agriculture trade is expected to expand significantly, driven by imports rather than exports. In addition, demand for high quality and diverse range of agricultural products is expected to increase in line with Korea's economic growth and changes in social demographics. Despite the decline in the share of the domestic agriculture due to expansion of agriculture market liberalization and subsequent increase in agriculture imports, social needs for multifunctional roles of agriculture (environment preservation, balanced national development, succession and development of traditional culture, food safety, etc.) is increasing. Accordingly, the important challenge facing policy-makers is figuring out how to achieve a balance between changes in agriculture trade environment and the social need for agriculture. In particular, with expansion of the market opening through WTO and FTA, the risks of agriculture management and farm income are inevitably increasing. Therefore it is believed that the government has to introduce effective policy tools which reduce agricultural management risks and stabilize farm income. In this regard, the expansion of crop insurance programs including the introduction of revenue insurance and the strengthening of direct

payment programs that relieve the effects of market opening are now actively being considered in Korea.

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