Trade Liberalization in South Korea’s Rice Sector: Some Policy Implications

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Executive Summary

The tension between the liberalizing agenda of the World Trade Organization (WTO) and the policies of industrial-country members of the WTO has been framed as a battle between developed countries and less-developed countries. In this contentious arena, one of the charges persistently brought against South Korea is that its domestic support policies distort the distribution of potential trade benefits that would be generated by access to its domestic rice market. This market is considerable, as South Korea, along with Japan, is one of the world’s biggest consumers of japonica or short-grain rice.

The issue of domestic support for rice has been central to the dialogue on South Korea’s trade policy since the 1994 Uruguay Round of the WTO, when South Korea committed to liberalizing a large share of its agricultural and fisheries markets by 1997 and its staple foods market, including rice, by 2004. Within a decade national imports of rice increased from 91,000 tons to 205,000 tons, and in 2006 Korea signed an agreement with the Association of Southeast Asian Nations (ASEAN) to double imports over the next 10 years without compensating for farmers’ income losses. But trade advocates still criticize these steps as a deferral of full liberalization.

At the same time, Korean farmers and civil society groups have charged that these measures reduce the nation’s primary staple grain to a tradable commodity and threaten the livelihoods of Korea’s historically significant base of farmers. Public demonstrations to block the passage of parliamentary votes on free trade agreements have become frequent occurrences in the national arena, and Korean farmers have linked up with the global food sovereignty movement in visible solidarity actions at the site of WTO ministerial meetings.

Trade in rice is clearly a politically charged debate in South Korea, intersecting discussions of national food sovereignty, rural development, and cultural and social identity. The country’s high dependence on manufacturing exports and its high protection in the rice sector present a major dilemma within the government’s trade agenda. This situation is further complicated by Korea’s sidestepping of the multilateral bargaining table in pursuit of bilateral free trade agreements (FTAs) and regional agreements within the Asia-Pacific Economic Cooperation (APEC) forum and with ASEAN members. As of 2006, Korea had pursued FTAs with Canada, China, the European Union, Japan, Mexico, Singapore, and the United States. But agricultural trade issues still figure prominently in pending discussions with China, ASEAN, and the United States, all of which also export rice. Evidently, the primary benefit to Korea in these agreements is increased market access for its manufacturing and industrial sector.

Your assignment is to suggest a long-term plan for the South Korean government that will address the international trade issues as well as the nation’s food needs and the future viability of the farming sector. With food aid to the Democratic People’s Republic of Korea still a pressing humanitarian need, propose an economic and political agenda for engaging in partnership with this country. What would a sustainable solution to these various trade and aid issues look like?

Background

The Global Context

Rice is an important agricultural commodity that dominates world agricultural production and consumption. According to FAO (2002), 90 percent of global rice consumption and production takes place in Asia, and within this region, rice makes up nearly 40 percent of food consumption. Most rice producers in the world are small-scale farmers with landholdings of less than one hectare. Global rice consumption and production increased significantly during the 1990s (Figure 1).

Despite the importance of rice as a basic food staple, especially in developing countries, rice trade accounts for only 6.5 percent of consumption (Welles 2004). This low share of traded rice in consumption is due partly to preferences for specific types and grades of rice, but also to protective agricultural policies. According to a World Bank report, the average trade-weighted global tariff for rice was 43 percent in 2000, and the complete figures on rice farmer support in Asia reveal consistent state support across the board (Beghin and Aksoy 2003). In addition to tariffs, nontariff measures (such as quotas) are very important.
rice producers, South Korea, along with Japan and Taiwan, provides much higher levels of protection for its rice sector than other countries in South and Southeast Asia. In some of these Asian countries, the protective measures have been tied to food self-sufficiency agendas.\(^1\)

The rice type most relevant to South Korea's market—medium or short-grain rice—is the most protected in the world rice trade. Wailes (2004) found that owing to the policies of Japan, South Korea, and Taiwan, world export prices are approximately half of what they would be on an openly traded market. The same study predicts that complete liberalization in medium-grain rice would increase trade by 73 percent, and in the most protected countries, such as South Korea, trade would increase by more than 140 percent. Similarly, forecasts based on the Uruguay Round effects for 2005 predicted that rice liberalization would boost exports by 147 percent (Anderson et al. 1996). Beyond the volume of trade, the potential price increase on the world market may be as high as 90 percent for this grain variety (Beghin and Aksoy 2003). The countries that would stand to gain from this increased trade include China, the United States, and, to a lesser extent, Thailand and Vietnam. The net social welfare benefit from the liberalization of rice trade has been estimated to be US$7.4 billion a year (Wailes 2004).

### Agriculture in South Korea

Since 1948 South Korea has transitioned rapidly from being a primarily agrarian economy to one dominated by manufacturing industry. Agriculture's share of the country's national income dropped from about 50 percent during the 1950s to about 3 percent today.

South Korea today is considered an upper-middle-income country. It ranked 12th in the world in terms of total gross domestic product (GDP) in 2005 (World Bank 2006). The change from a poor to a well-off country, which occurred in the span of two decades, has given rise to a shift in which major exports are in the manufacturing, electronics, and chemical industries. Its trade policy, and therefore its relationship with the WTO, is motivated by the drive to increase market access for

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\(^1\) Another important argument made to protect agriculture is the sector's "multifunctionality," and the value of ecosystem services (see Oh et al. 2001 for the literature for South Korea on this subject).

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commodities such as automobiles and electronic products (MOFAT 2005).

South Korea’s comparative advantage does not lie in agricultural production. Only 17 percent of its total land area is arable, and the average farm size is about two hectares (KNSO 2005). Furthermore, the nation has long been one of the most densely populated places in the world, with 48.2 million people. As a peninsular land mass, Korea is buffeted on a yearly basis by increasingly serious typhoons, hurricanes, and other natural disasters during the period when most crops become ready for harvesting, resulting in irreparable damage and loss for the nation’s farmers (MAF 2005). Finally, owing to climatic conditions in South Korea, staple foods such as rice have only one growing season per year. In 2003, for instance, the harvest dropped to a 23-year low owing to weather conditions, and South Korea could not meet the minimum food security stock amount recommended by the Food and Agriculture Organization of the United Nations (FAO) that year or give its annual 400,000 tons of rice as food aid to North Korea.

A Brief History of Domestic Rice Policies

The foundation of South Korea’s rice support policy lies in the process of state-led industrialization as well as in its prewar colonial history. South Korea’s support policies may be organized into two major periods of government intervention, based on the foundation of a comprehensive land reform that established the small-scale family farm as the basic unit of production. The two distinct phases of agricultural policy may be described as (1) the developmental period between 1950 and 1970, in which policies were weighted toward providing cheap food for the growing urban labor force and driving national industrialization, and (2) policies to stabilize the rural sector and bring more parity to rural and urban incomes from the 1970s on. Since 1968 Korea’s agricultural policies have been motivated by two main purported objectives: food self-sufficiency for major food crops and livestock products, and the reduction of the gap between rural and urban incomes (Evans 1991). Toward these aims, the government has pursued state trading, import quotas and tariffs, producer price supports, and retail price ceilings for various commodities (Evans 1991).

From the end of the colonial period in 1945 until the 1960s, the state protected and developed its manufacturing industry while taxing the agricultural sector (Anderson 1989). The government purchase prices for agricultural products did not cover production costs until 1961, when the level of agricultural protection began to be increased. In the 1960s the government switched to a policy of production support, motivated by the military dictatorship’s political strategy of attempting to gain legitimacy and rural support, but this support still amounted to less than market prices (Abelmann 1996). From the 1980s until the mid-1990s, the main agricultural support pertaining to rice was the “double-price” policy, in which the government protected both producer and consumer welfare by buying rice from farmers at higher than international market prices and selling it to consumers below the government’s purchase price (Anderson 1989). The government purchased about 20 percent of the total crop, and the purchases were allocated according to historical production figures for each region, village, and farm. The government used this rice for its military and other government requirements or sold the rice back at domestic market prices.

Rice imports, a highly controversial issue in South Korea, were essentially banned for more than a decade before the Uruguay Round Agreement on Agriculture (URAA). In the URAA, South Korea agreed to a progressively increased minimum market access (MMA) import regime. The URAA required that in 1995 South Korea import the equivalent of 1 percent of average consumption for the years 1988–1990 (51,307 metric tons [MT]), increasing that amount to 4 percent by 2004 (205,228 MT). In addition, there was a 5 percent tariff on permitted imports, and rice trade remained strictly under government control during the 10-year grace period.

According to the URAA, the replacement of the MMA was to be negotiated with South Korea’s trading partners before December 31, 2004. Negotiations continued through much of 2004 and culminated in an agreement just before the deadline, setting the rules for Korean rice imports for 2005–2014. Under the agreement the minimum-access import quota will almost double in size by 2014, but there is no provision for imports above the quota. The tariff within the quota remains at 5 percent. The South Korean government is committed to resell a portion of the imported rice.
into the Korean market with an allowed markup on the price.\(^2\)

The minimum import quota for 2005–2014 is divided into two sections. One section, consisting of the 205,228 MT quota size reached in 2004, is to be divided each year among four exporting countries: China (116,159 MT, the United States (50,076 MT), Thailand (29,963 MT), and Australia (9,030 MT) (all on a milled basis). A second section, consisting of the increments added to the quota each year from 2005 to 2014, is open to exporters on a most-favored-nation (MFN) basis, so that exporters in any country that has MFN standing with South Korea can try to sell rice within the quota. The initial MFN section of the quota in 2005 was 20,347 MT, and the quota increases by 20,347 MT each year thereafter, until the total quota size is 408,700 MT, with the MFN section equal to 203,472 tons in 2014.

**Policy Issues**

**Dependency of Rice Farmers**

In 2003 rice constituted about 27 percent of total South Korean agricultural production, three times more than the next largest category (pigs), even as paddy land dedicated to this crop has declined since a high in 1988 (MAF 2005).\(^3\) This dominance is also reflected in farmers' livelihood dependence on rice: in 2001, 41 percent of average farm income came from rice, making it the primary source of income (MAF 2005). According to national statistics, despite the decline of paddy field area, rice cultivation area per farm household expanded from 0.66 hectare in 1980 to 1.08 hectares in 2003, and rice yields per hectare have steadily improved during this period.

The government's policies from the 1970s on have directly shaped the priorities of farmers. Rice producers have constituted the majority of producers receiving state support (Evans 1991). In the years immediately before 1990, rice producers received 90 percent of their state support from price intervention policies. In 2000 WTO database information on support for commodities revealed that South Korea spent nearly US$1.5 billion on market price support for rice, compared with US$64 million for the next-largest category, fruits and vegetables (WTO 2004). Between 1985 and 2000 the rice price to the consumer increased by 156.6 percent, matching the overall government purchasing price increase of 154.4 percent. According to the WTO, consumers in South Korea paid three times the world price for rice (WTO 2004). It is important to note that the market price support for rice is a trade-distorting “amber box” measure subject to reduction commitments under the URRA.\(^4\) Like many developing- and developed-country members of the WTO, South Korea has promised to move more of the “amber box” subsidies into the unlimited “green box” supports.\(^5\) According to the Ministry of Agriculture and Forestry, the government will opt out of government purchases and begin to pursue a selective direct payment program in order to stabilize farm income as well as encourage the development of off-farm income sources (MAF 2005). This measure lies within the green box of the URRA. As Table 1 shows, total rice production fell from 1985 to 2003, and the share of rice purchased by the government dropped from roughly 20 percent to 10 percent (MAF 2005). Meanwhile, in terms of productivity per hectare, the Ministry of Agriculture and Forestry found that the rice yield per tenth of a hectare had increased from 356 kilograms (kg) in 1985 to 516 kg by 2001 (MAF 2005).

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2 Japan is pursuing the same policy. The government's intention in conducting trade and managing the domestic market instead of leaving trade to the private sector is, presumably, to avoid sharp price declines and to provide some protection to rice farmers.

3 The government policy of raising rice prices in the domestic market contributed to maintaining the importance of rice in the economy. At world market prices, however, the share of rice in agricultural production and GDP would be much smaller.

4 The “amber box,” an expression that developed during the General Agreement on Tariffs and Trade (GATT) negotiations, uses a traffic light analogy to rank policies. According to this analogy, an amber box policy is subject to careful review and reduction over time. Amber box policies include market price support, non-exempt direct payments, and input subsidies.

5 The “green box” describes domestic support policies that are not subject to reduction commitments under the Agreement on Agriculture. These policies are assumed to affect trade minimally and include direct payments, research, extension, food security stocks, disaster payments, and structural adjustment programs.
Table 1: Government Purchase of Rice, 1985–2003 [thousands of metric tons]

<table>
<thead>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice production (A)</td>
<td>5,626</td>
<td>5,606</td>
<td>4,695</td>
<td>5,291</td>
<td>5,515</td>
<td>4,927</td>
<td>4,451</td>
</tr>
<tr>
<td>Government purchase (B)</td>
<td>1,153</td>
<td>1,203</td>
<td>792</td>
<td>456</td>
<td>416</td>
<td>397</td>
<td>472</td>
</tr>
<tr>
<td>B/A (%)</td>
<td>20.5</td>
<td>21.5</td>
<td>16.9</td>
<td>8.6</td>
<td>7.5</td>
<td>8.1</td>
<td>10.6</td>
</tr>
</tbody>
</table>


Rice Self-Sufficiency

The goal of food self-sufficiency can be traced to the agricultural structure of imperial Japan during its occupation of the Korean peninsula (1910–1945). In the colonial period, Japan's own self-sufficiency goals for rice protected the rice sector in the Korean and Taiwanese colony from world prices (Anderson 1989). Owing to Japan’s extensive investment in the rice sector, Korea's level of rice production and exports increased significantly. At the same time, however, annual rice consumption by Koreans fell by a third because the native population could not afford it, whereas Japanese consumers maintained their average consumption levels (Anderson 1989). This period of deprivation, as well as the memories of the food shortage caused by the subsequent war (1950–1953) and reconstruction period (1950s and 1960s), still figure in the national interest in food self-sufficiency.

By 2004 the Ministry of Agriculture and Forestry reported that the goal of 100 percent rice self-sufficiency had been reached (Table 2). This self-sufficiency figure reflects the fact that domestic demand for rice has decreased.\(^6\) This drop is attributed to the increased growth of national income as well as the diversification of the national diet owing to urbanization and exposure to Western food habits (MAF 2005). The self-sufficiency achievement has also been dependent on the import and intensive use of chemical inputs such as fertilizer.

\(^6\) Per capita consumption of milled rice increased from 100 kg a year in 1961 to 135 kg in 1980. Since then per capita consumption has been declining. The present level of consumption is about 80 kg per capita annually (MAF 2005).

Domestic Support and WTO Commitments

South Korea has fully implemented its multilateral commitments on agriculture and provides assistance well within WTO obligations (WTO 2004). Nonetheless, South Korean agriculture receives high support and has low levels of market orientation. Producer support—as measured by the producer support estimate (PSE) of the Organization for Economic Cooperation and Development (OECD)—was 60 percent in 2003, down from 68 percent in 2002, and almost double the OECD average of 32 percent. The decline was due mainly to steep rises in world prices for several commodities. Support levels are as high as 74 percent for rice and 89 percent for oilseeds.

South Korea's total agricultural support (net of specific sectoral budget receipts) of US$20.4 billion in 2003 and its share of GDP, at 3.9 percent, were among the highest among OECD members. More than 90 percent of assistance is market price support (US$15.5 billion in 2003), paid for by consumers through higher prices. In 2003 total transfers from consumers (including on imports) amounted to US$20.3 billion. The support measures more than doubled producers' gross farm receipts on average (giving them the equivalent of US$16.9 billion additional income). Such high levels of support within its WTO commitments suggests that multilateral disciplines have done little to reform South Korea's farm policies, and considerable scope exists to increase assistance without exceeding commitments.
Table 2: Food Self-Sufficiency Figures for Major Grains, 1975–2003

<table>
<thead>
<tr>
<th>Year</th>
<th>Rice</th>
<th>Barley</th>
<th>Wheat</th>
<th>Soybeans</th>
<th>Corn</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-1979</td>
<td>96</td>
<td>96</td>
<td>3</td>
<td>66</td>
<td>6</td>
</tr>
<tr>
<td>1980-1984</td>
<td>88</td>
<td>100</td>
<td>3</td>
<td>29</td>
<td>4</td>
</tr>
<tr>
<td>1985</td>
<td>71.6</td>
<td>63.7</td>
<td>0.4</td>
<td>22.5</td>
<td>4.1</td>
</tr>
<tr>
<td>2003</td>
<td>100</td>
<td>49.7</td>
<td>0.3</td>
<td>7.3</td>
<td>0.8</td>
</tr>
</tbody>
</table>


Food Aid to North Korea

One important element that is usually not presented within the global trade debates lies beyond South Korea's border to the north, in the decade-long food shortage of North Korea. South Korea is the largest nation-state donor of direct food aid to North Korea. This aid linkage between North and South Korea is increasingly informed by policies aimed at the gradual economic and political integration of North and South Korea. North Korea's future food needs are perhaps the most important and least understood element of food security in relation to South Korea. South Korea's rice policy is not only aimed at domestic consumption, but also an important element of a food aid program to North Korea.7

South Korea's sense of responsibility for its northern neighbor must also be understood in the context of less than enthusiastic food donations from Western countries to North Korea in the wake of that country's famine in the early 1990s and subsequent food crises. For example, in response to North Korea's request for food aid during a then-unpublicized famine of 1995, assessments of total need by both the World Food Programme (WFP) and the Food and Agriculture Organization of the United Nations (FAO) were underreported because of the conviction that few donors would commit these amounts as a result of tenuous foreign relations with North Korea. This food shortage amounted to nearly 50 percent of the country's food requirements (Natsios 2001). At this scale, the deficit of needed food was greater than the one that led to the 1985 Ethiopian crisis, which killed a million people. Mortality figures from the famine of the 1990s range widely. U.S. Congressional staffers who visited the country concluded that from 1995 to 1998 between 900,000 and 2.4 million people had died from starvation or hunger-related illnesses, with deaths peaking in 1997. By extrapolating from interviews with refugees in China and observations on the ground, some nongovernmental organizations (NGOs) produced estimates of famine-related deaths on the order of 2.8–3.5 million (Noland et al. 2001).

North Korea's food insecurity has a complex and contested lineage and cannot be detailed in full here. The need for food aid or imports is due in part to the lack of arable land and the limited yield increases. Only about 15 percent of North Korea's land is arable, and it ranks near the top 10 countries that have the lowest ratios of arable land per person (Ahn 2005). By comparison, the U.S. ratio is six times that of North Korea. The country's arable land capacity has been further reduced owing to a combination of natural disasters, such as flooding, and human-induced soil degradation resulting from environmentally damaging agricultural policies and practices (Ahn 2005; Noland et al. 2001). Multiple reports suggest that agricultural production may have peaked in 1989 but has since declined (Noland et al. 2001), with the exception of an improved harvest in 2003 (Ahn 2005).

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7 It should be noted that South Korea does not need to rely on domestic production to provide food aid to North Korea. The government can import low-cost rice from Vietnam or India and export it as food aid to North Korea. North Koreans consume indica rice (which the South Koreans used to consume when per capita income was low until the early 1970s), so Vietnamese or Indian rice would pose no problem for consumer acceptance.
With relatively few sources of foreign exchange and curtailed possibilities for trade due to sanctions, North Korea will continue to depend on food aid for the near future (Ahn 2005). This need is estimated to amount to 1 million metric tons of food aid per year. The WFP estimates that an average North Korean’s guaranteed diet is about 280 grams of cereals a day, although the internationally recommended minimum is 550 to 590 grams a day, with the condition that this is part of a nutritionally balanced diet.

But why does South Korea have a special role in this situation? For one, helping North Korea to meet its food deficit through direct food aid is important for the security of South Korea and an important element of South Korea’s strategy of maintaining peace on the peninsula. North Korea has substantial military might, and starvation of its people may provoke the government of North to attack the South. The South Korean government must take this concern seriously in formulating its foreign policy.

Furthermore, the security concerns of many donor states about North Korea’s nuclear program significantly temper the amount of aid they allot (Natsios 2001). Research has shown that much food aid has been motivated by donors’ non-famine-related foreign policy aims. Some question the sustainability of this approach because of the dependence and variability that stem from the conditions accompanying these diplomatic negotiations (Noland et al. 2001). This conditionality is especially true in the case of United Nations (UN) donations in comparison with South Korea’s. In 1995 South Korea’s response to the famine was a public offer of unconditional food aid, whereas the UN negotiated multiple political concessions via the United States in exchange for food aid.

Although UN organizations, primarily through the WFP, have been the largest donors of food aid to North Korea, the second-largest category of aid giver has consisted of individual countries, and South Korea has given the most direct aid of any country, accounting for nearly 30 percent of aid from the international community (Ahn 2005). This contribution has been rising in recent years. During the 1995–2001 period, South Korea’s aid amounted to US$450 million, whereas the international community donated US$989 million in the same period, or a little more than double South Korea’s contribution (Ahn 2005). Since 2001, food aid donations to North Korea have dropped significantly. According to the WFP, North Korea needs US$171.2 million in food aid, but by late 2004 only 54 percent of this need had been met (Ahn 2005). The United States, one of the largest aid donors, decreased its donations by 80 percent after 2001 (Watts 2004).

Rural Depopulation and the Rural Elderly

A brief statistical overview of the farming sector in South Korea shows a picture of a population in decline. In 2003 the farming population was about 3.5 million, or 7.4 percent of the total population, a 17 percent decline since 1995 (MAF 2005). Owing to rapid rural depopulation and the lack of entrants into the agricultural sector and communities, the average age of South Korean farmers is now 57.7 years. In 2003 farming income lagged about 24 percent behind urban income (MAF 2005). Recognizing this demographic change, in 1996 the Korean government instituted incentives for elderly farmers to continue cultivating rice as well as to encourage those retiring to sell their land to rice farmers (Skeldon 1999). Elderly farmers near retirement age were ensured a specific income level to support their agricultural labor.

Small Farms and Large-Scale Commercialization

Owing to South Korea’s postwar land reform and subsequent policies, the vast majority of the nation’s farmers are small-scale farmers, with the maximum area limited to a three-hectare holding. For instance, in 1995 the highest percentage of farm households farmed 0.5 hectare or less, with 86 percent of all households on tracts of 2.0 hectares or less (KNSO 2005). In 2004 the number of households farming 0.5 hectare or less increased to 36 percent, and those on 2.0 hectares or less was more or less stable, at slightly above 84 percent of farming households (KNSO 2005).

Thus, the majority of farms in South Korea are small in scale, although farm lot sizes are increasing. The debate about the productive capacity of small farms is quite polarized. Some argue that small farms are inefficient because labor productivity for this sector is little more than one third of the national average (WTO 2004). Arguments in favor of small farms, and relevant to Korea’s experience,
say that they use labor efficiently, are better environmental managers, and contribute to the local economy of goods and services, thus maximizing growth linkages (Ellis and Biggs 2001). In Brazil, Colombia, India, and Malaysia, small farms were found to have higher productivity than the largest farms, in part because of the double- and intercropping practices of small-scale farmers (Ashley and Maxwell 2001).

The liberalization of agriculture has accelerated the decline of the farmer population through the 1990s and into the 21st century. It has also led to simultaneous growth in the population of tenant farmers working on smaller plots of land and increased holdings and commercialization by large-scale farms to produce larger quantities. The emergence of a dual farm structure raises a challenge for South Korean farmers in competing with rice imports. The unit cost of rice production in South Korea must be compared with that in potential japonica rice-exporting countries and regions, such as northeastern China (for example, Heilong Jiang Province) and the United States (for example, the Sacramento Valley). South Korea faces a cost disadvantage, presumably because of its small farm size (compared with the United States) and the high cost of its labor (compared with China). Further consolidation of farms toward larger holdings in South Korea may be difficult because of high land prices that result from the capitalization of subsidies. When a landowner changes her or his residence or engages in nonfarm activities, land is more likely to be transferred for cultivation through the tenancy market.

Stakeholders

South Korean Manufacturers

South Korea’s manufacturers are overwhelmingly oriented toward export. In 2002 total exports amounted to US$162 billion, and 92 percent of these exports were industrial goods such as electronic products (semiconductors, cellular phones and equipment, computers), automobiles, and machinery (WTO 2004). The current levels of agricultural protection, however, may reduce the manufacturing industry’s competitiveness and its further access to foreign markets. First, higher food prices may lead to higher production costs (owing to higher wages), making South Korea’s manufactured goods more expensive on the world market than those of competitors. In addition, agricultural protection causes conflicts between South Korea and its major importers, such as China and the United States, which may seek to expand their agricultural exports to the country. The divergent international interests concerning trade liberalization have created a dilemma for South Korean policy makers.

Korea’s Small-Scale Farmers, Farmers’ Organizations, and Citizen Support Groups

Food sovereignty is an important part of the attitude of many Korean farmers’ organizations toward agricultural trade. Because of the drop in incomes from liberalization and their high levels of debt, many Korean farmers have become more vocal and organized against government trade policy. Various national and regional nongovernmental farmers’ organizations and federations have been active in speaking on behalf of farmers nationwide. These groups include the Korean Peasants’ League, which has more than 10,000 members, and the Korean Catholic Farmers Federation, as well as myriad regional and local organizations that are part of the national associations. In addition, citizen groups such as the Citizen’s Committee for Economic Justice and many urban-based civil society groups support the farmers’ demands to leave agriculture out of WTO and other trade agreements. The impact of agricultural liberalization is seen as even more grave because of the high level of farmer debt, which rose to more than 80 percent of income in 2002 (WTO 2004).9

South Korean Consumers

The main argument made by WTO members and economists is that liberalized rice trade would benefit consumers by lowering prices. In the case of South Korean rice, consumers have been paying higher market prices for the past several decades, and increases in imports as well as full liberalization

9 The accumulation of farmers’ debt started in the mid-1970s, when agriculture suffered labor shortages as rural people migrated to the urban areas amid farming commercialization. Since the 1980s, natural disasters, failures in adjustment policies, and, more recently, the Southeast Asian financial crisis have worsened the debt problem.

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would undoubtedly depress the domestic market price and result in an increased consumer surplus. The World Bank study conducted by Wailes (2004) also showed this to be true: based on estimates of the impact of full trade liberalization in 2000, rice consumers in rice-importing countries (in the world as a whole) would gain almost US$33 billion a year, whereas producers would lose about US$27 billion.

Nonetheless, some urban consumers, which make up the bulk of the population, still advocate support for the farming sector. In South Korea, as in all countries in Asia, rice is as symbolic a product as cheese or wine in France. Urban majorities can be sentimental about the farming life, a legacy of the fact that many still trace family links to the countryside.

World and Regional Trade Partners

Although bilateral FTAs emerged as a policy option in the 1990s, South Korea did not begin to ratify FTAs until 2002 with Chile. As of 2006 Korea had pursued FTAs with Canada, China, the European Union, Japan, Mexico, Singapore, and the United States (MOFAT 2005).

At the world and regional level, and for most of the 20th century, the biggest exporters of rice were Thailand, Myanmar, Cambodia, and Vietnam. Between 1998 and 2000 the largest five exporters of rice were Thailand, Vietnam, China, the United States, and India (FAO 2002). Other key exporters emerging more recently are Bangladesh and Pakistan. By increasing rice imports to nearly 8 percent of its average consumption for the years 1998–1990 by 2014 to meet MMA requirements under the WTO, and in pursuing additional bilateral agreements on free trade, South Korea has demonstrated a commitment to strengthening a regional trade network (WTO 2004).

A full analysis of the benefits of trade to these rice-exporting countries should include the net benefits as well as the effect of trade on domestic consumption within these countries. The research on rice price variations shows that trade liberalization and resulting world price changes can affect the welfare of both producers and consumers in exporting countries. In many of these countries, domestic consumers, especially the poor, depend on affordable prices for rice, which makes up the bulk of their diet. For them, even a slight increase in rice price may result in a substantial decrease in their consumption of this staple food, with consequent negative effects on nutrition. In addition, because rice is a staple food that has inelastic demand, an increase in rice price leads to an increase in total expenditure on rice that leaves less income to meet other basic needs (nonrice food, education, health care), with negative effects on overall livelihoods. Therefore, it has yet to be answered how liberalization of Korean rice trade would affect those Southeast Asian populations and how benefits from trade would be distributed within these countries.

Policy Options

Some of the following measures constitute forms of support that lie within the “green box” of the URAA, which can be generally defined as those policies that do not distort trade. If price support policies must be phased out, according to the schedule and commitments that South Korea has made, what policy options would still permit the existence of rural households and ensure a certain minimum level of rice production?

Rural Livelihood Diversification

The South Korean Ministry of Agriculture and Forestry is already pursuing government support for the diversification of agriculture. This is not a comprehensive national policy, but rather involves state support for marketing initiatives and the provision of resources, such as computers and Internet access, to facilitate market information sharing in rural areas.

Diversification in the rural sector can take the form of shifting production to more high-profit and export-based crops such as fruits, vegetables, and spices. Such a shift may require different types of production inputs, skills, and technology. To this end, the Korean government has protected some of the fruit, flower, and value-added food production industries.

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Like Japan, Korea could set up public works employment projects and other nonagricultural sources of income that are not dependent on the production of agricultural products. In 2003, Korean farmers’ level of dependence on farming (41.6 percent) was significantly higher than that of Japanese farmers (14.5 percent) (MAF 2005). If other means of making a livelihood in rural areas were available, young people might migrate back into the countryside. This approach could require significant investment, however, and require a long-term plan for the construction of public works projects. This activity would also change the character and nature of these rural villages and towns.

**Product Differentiation and Sector Competitiveness**

Studies have shown that consumers are often nationalistic about home-grown rice varieties. Differentiating domestic rice as a high-value product, as Japan has done, is one option that might support minimum consumption levels and thus provide a source of income for rice farmers. Funding for agricultural research may be shifted from high-yield varieties to high-quality yields. Current efforts to raise rice quality include setting a higher price band for better-quality rice (W 4,500/kg [US$3.8/kg] in 2003 compared with a standard price of W 2,300/kg [US$1.9/kg]), distributing improved seed varieties, and enhancing processing and marketing using rice-processing complexes (WTO 2004).

The trend toward expanding and consolidating land holdings to larger parcels in South Korea has thus far been the result of both absentee landlord behavior and real estate speculation. If larger farms are considered more competitive than smaller farms, the government may need to pursue a more concerted and coordinated policy effort to increase farm size. Otherwise, it should pursue a different set of policies aiming to enhance the efficiency of smaller farms. Meanwhile, agricultural investment and improved technology should be sought to enhance productivity and thus competitiveness and to provide consumers with higher-quality rice. A key policy priority is to reduce high farm debt, which escalated to W 27.6 trillion (US$23.2 billion) in 2002. Currently, farm debt is being restructured at lower interest rates for poor farmers (through the Act on Special Measures for Debt Reduction of Farmers and Fishermen of 2001).

**Decoupled Payments**

Government purchases aimed at maintaining high farm prices provide substantial subsidies to rice farmers that stimulate production and input use, thereby distorting agricultural trade, with potentially adverse effects on the environment. Direct payments, if sufficiently de-linked from production, however, are far less distorting than market price support. At present, direct payments based on area, input use, and overall farm income each accounted for 3 percent of South Korea’s producer support in 2003, with almost all area payments contingent on having environmentally friendly farming practices (WTO 2004). Such schemes include direct payments for environmentally friendly farming for reduced fertilizer and pesticide use. Although some of these direct payments still stimulate production and input use, they are likely to be less distorting than output-based market price assistance. More decoupled payments for rice and other agricultural commodities could include general farm services such as infrastructure and agricultural research and development (R&D).

In 2003 the MAF budget increased by 6.5 percent to W 8.7 trillion (US$7.3 billion), or 7.1 percent of the government’s total budget, and late that year a 10-year “blueprint” for developing agriculture, aimed at gradually reducing direct price support and introducing or expanding existing “green box” measures, was finalized. South Korea plans to raise total agricultural investment to W 119 trillion (US$99.8 billion) to boost rural farm and nonfarm incomes and to compensate farmers for reduced protection. Efforts to include the rice sector in the transition toward more decoupled payments are needed. Recent moves toward this end include the revision of the Rice Income Compensation Act and the Food Grain Management Act in March 2005 by the Korean National Assembly.

**Food Aid to North Korea**

Given that South Korea has already achieved self-sufficiency in rice and that domestic demand for rice has declined since the 1980s, heavy government subsidies will likely to induce overproduction of this crop in the future. In fact, there has been an increase in rice stocks in recent years (MAF 2005). If the MFA import regime undergoes no drastic changes before its scheduled expiration in 2014, strategies to solve South Korea’s potential overproduction problem will be needed. One of
these strategies could be the use of food aid to North Korea. Countries such as the United States have long used food aid as a mechanism to dispose of domestic food surpluses. Although WTO disciplines constrain countries from adopting trade-distorting measures, food aid is not subject to tight disciplines under the URAA, and rules governing food aid are not subject to dispute settlement. The URAA sets forth only guidelines to govern the provision of food aid.

All food aid is potentially trade distorting. These trade-distorting effects are much smaller, however, in places where food is severely insufficient or where there is no functioning market. These conditions apply in North Korea, where 23 million people suffer from hunger owing to food shortages. Because the provision of food aid from South Korea is in grant form and North Korea does not commercially import food from elsewhere, the impact of food aid on North Korea’s agricultural market will be minimal. This fact also means that the provision of food aid by South Korea will comply with Article 10.4 of the URAA that refers to the need to avoid trade displacement and to respect the FAO’s “Principles of Surplus Disposal and Consultative Obligations.”

Assignment

Your assignment is to suggest a long-term plan for the South Korean government that will address the international trade issues as well as the nation’s food needs and the future viability of the farming sector. With food aid to the Democratic People’s Republic of Korea still a pressing humanitarian need, propose an economic and political agenda for engaging in partnership with this country. What would a sustainable solution to these various trade and aid issues look like?

Additional Readings


References


