



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

*No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.*

# TRENDS AND PROBLEMS OF IMPORT LIBERALIZATION OF AGRICULTURAL MARKETS IN KOREA

LEE JAE OK\*

## I. Introduction

The agricultural sector in Korea is facing unprecedented difficulties. While the agricultural industry is not strong enough in its international competitiveness and not quite well prepared for the market liberalization, the trading partners have been continuously demanding further and wider market opening of Korean agricultural markets.

The origin of the problems surrounding Korean agriculture could be explained by scrutinizing the locus of economic growth inside Korea as well as the changes in external trading circumstances since the 1960s and 1970s. From the 1960s, through the implementation of successive Five-Year Economic Development Plans, Korea has achieved phenomenal economic growth which has no parallel in the history of economic development throughout the world.

However, Korea, lacking in capital and natural resources while being abundantly endowed with high quality labor force, has had no choice but to lay much emphasis on the production and exportation of labor-intensive industrial commodities which were considered to have international competitiveness by borrowing capital and technology from abroad.

Accordingly, most of the investments and support policies have concentrated on the industrial rather than the agricultural sector. In the meantime, agricultural policies have centered on the attainment of

---

\* Senior Fellow. Korea Rural Economic Institute

food self-sufficiency to accumulate foreign reserve which was desperately needed for the economic growth and development.

However, the Korean government tried to maintain lower prices of agricultural products, particularly of rice, to keep wages low and thus stabilize industrial commodity prices for sustaining international competitiveness.

As a result, the unbalanced policies of economic growth between the agricultural and manufacturing sectors, together with the intrinsic gap in productivity growth rates between the two sectors, had accelerated the disparities between rural and urban areas in terms of income and living environments.

On the other hand, due to the successful economic development during the past two or three decades, Korea has markedly improve its economic status and is now required to play an active role in the international arena.

In particular, because of the rapidly increased exports and successive surpluses in the international balance of payments for 1986-88, Korea has come to encounter tremendously difficult problems including trade frictions with its major trading partners and the opening of its domestic agricultural markets.

In 1989, Korea graduated from GATT Article XVIII;B which allows developing countries with poor balance of payments position to restrict commodity imports including agricultural products. Although the trade surpluses manifested in the late 1980s resulted from such ad hoc changes in trade circumstances as low interest rate, low oil prices, and substantial depreciation of the won against the yen and dollar, the GATT panel strongly urged the Korean government not to resort to GATT Article XVIII;B for the purpose of commodity import restriction.

However, from 1990, the trade surpluses have sharply declined to record deficits as the favorable trade conditions have disappeared and the wages have increased in the process of democratization. From the point of view of Korean farmers, the graduation from Article XVII;B and the opening of domestic agricultural market were hard to accept because the trade surpluses were not coming from the agricultural industry but from the trade activities of the industrial sectors.

Combined with the changes in economic situation pertaining to

Korea, changes in external circumstances have also prompted to open Korean agricultural markets.

The world agricultural market was in its most distorted state in the early and mid-1980s. World market prices across a broad spectrum of agricultural commodities were at very depressed levels, with stocks of agricultural products having been enormously built up. Furthermore, the increasing resort to export subsidies among exporting countries to get rid of surplus stocks of agricultural products had begun to heighten international trade tension.

Despite the increase in agricultural assistance, farmers' incomes were suffering all over the world. In particular, the farmers of the Cairns Group countries which exercise no subsidy measures for farmers suffered the most because of the sharp decreases in the agricultural prices arising from the escalating payment of export subsidies between the EC and the U.S.

As a result, the market order involving agricultural trade was severely distorted, and there was an increasing demand for the improvement of the distorted agricultural trade order by a large number of countries through multilateral negotiations.

The Uruguay Round negotiation, the 8th round trade negotiation under the auspices of GATT, was launched in 1986 to deal with the improvement of the world agricultural trade order and with many issues in the new fields of trade, such as services, high-technology products and intellectual property rights. In accordance with Ministerial Declaration at Punta del Este, the Uruguay Round started with the objective of resolving the world trade issues by strengthening the GATT rules and disciplines.

While the Round has covered 15 areas, the agricultural trade negotiation has been recognized as the crucial determinant of the success or failure of all other negotiations in the Uruguay Round.

The importance of agricultural trade negotiation had arisen from strong positions of the U.S. and the Cairns Group countries, and a successful conclusion of agricultural trade negotiation should be a prerequisite of the success of the Uruguay Round negotiation.

At the negotiation table, the U.S. has continuously called for a complete agricultural trade liberalization by eliminating all trade barriers within an agreed period of time.

In addition, the U.S. proposed the tariffication of all non-tariff

barriers, by converting the difference between domestic and world prices into tariff, i.e., tariff equivalents, which should be reduced within a certain period of time.

Furthermore, the U.S. had suggested that all sorts of agricultural internal and export subsidies to the farmers be appropriately classified, and subsidies which have distortional effects on production and trade be subject to substantial reduction in order to attain the goals of the fair and market-oriented agricultural trade regime of the world.

At the same time the U.S. is arguing that there could be no exception in adopting the market opening format of tariffication of agricultural products including rice in the case of Korea and Japan. It is the U.S. argument that food security can surely be attained by the constant supplies by the exporters rather than through maintaining self-sufficiency.

The positions of exporting countries suggesting such a revolutionary reform schedule of the world agriculture had originated from the difficult economic situation of steady increases in trade deficit partly due to the sluggish agricultural exports.

In particular, the U.S. had suffered most from the ever-increasing trade and fiscal deficits since the beginning of 1980s.

Based on the belief that the trade deficit was generated by the unfair trade practices and trade barriers of its trading partners rather than by the decreases in the competitiveness of the U.S. industries, the U.S. began to exert every effort to open agricultural markets of other countries directly and bilaterally.

Side by side, the U.S. had taken an initiative to launch a multilateral trade negotiation to ameliorate the problems of trade deficits.

In summary, Korean agriculture is now facing a crisis caused by the mounting external pressures of market liberalization and by the aggravating internal situation of agriculture.

The purpose of this paper is to analyze past trends and future prospects of import liberalization of agricultural products in Korea and to enumerate problems following the rapid import liberalization.

## **II. The Trend of Agricultural Import Liberalization**

During the last several decades, Korean agricultural market has been

opened at an accelerating speed because of the shortages of domestic food supplies and of external market opening pressures as described before.

While the overall demand for food has been increasing in line with the increased per capita income and population growth, food consumption patterns have substantially changed, moving toward consuming more higher-quality food.

As per capita income increases further and consumption pattern is westernized, grain consumption has declined, while the consumptions of income-elastic food such as meat, dairy products, fruits and vegetables, and oils and fats have rapidly increased (Table 1).

However, the production structure has not been fully adjusted in parallel with these changes in the structure of food consumption.

**TABLE 1.** Trend of Per Capita Food Consumption : 1970-92

	1970	1975	1980	1985	1990
Food Grains	216.1	192.9	185.0	185.3	175.8
Rice	133.8	119.8	132.8	128.0	120.9
Meat	8.4	9.3	13.9	16.5	23.6
Beef	1.6	2.1	2.6	2.9	4.1
Pork	3.6	2.8	6.3	8.4	11.8
Potatoes	38.4	35.0	22.5	11.9	11.1
Fruits	12.0	13.9	16.2	26.6	29.0
Vegetables	65.6	62.5	120.6	98.6	132.8
Milk Products	3.0	4.4	10.8	23.1	31.9
Oil and Fats	1.5	2.7	5.0	9.2	14.3

Source: Korea Rural Economics Institute, *Food Balance Sheets*, 1991

The increased consumption of meat was satisfied by direct imports of meat from abroad and by the expansion of domestic livestock production which resulted in a huge amount of feed grain imports. Table 2 shows the trend and structure of agricultural imports during the period of 1970-1991.

The total value of agricultural, forestry, and fishery imports in 1991 was US \$ 6, 931 million, which was almost 15 times as much as the value of imports in 1970. The imports of feed grain, fruits,

livestock products, and taste food have soared to become major parts of the total imports of agricultural and livestock products.

This increasing trend of imports of high-quality and processed food reflects the fact that food consumption patterns in Korea have changed.

**TABLE 2.** Trend of the Agricultural Imports, 1970-91  
(Uni : million US dollars)

	1970	1975	1980	1985	1990	1991
Agricultural and Livestock Products	341	1,020	2,215	1,791	3,751	4,420
Cereals	24	703	1,261 (2,140) <sup>1</sup>	1,157	1,646	1,646
Vegetables	0.3	1.8	0.8	9.1	24	29
Fruits	0.6	2.2	7.8	7.4	36	231
Livestock Products	10	15	66	64	446	691
Processed Food	2	4	31	49	248	359
Oil and Fats	19	54	125	153	183	243
Feed Grains	23	1	6	50	269	262
Forestry Products	128	274	912	629	1,665	1,934
Fishery Products	0.4	10	37	91	370	577
Total	469	1,304	3,164	2,511	5,789	6,931

Note: 1<sup>1</sup> Indicates the value of cereal imports in 1981.

Source: *Major Statistics of Agriculture, Forestry and Fisheries*, 1992, Ministry of Agriculture, Forestry, and Fishery(MAFF)

However, the rapid increase of agricultural imports since the mid-1980s can be largely attributed to the launching of internationalization and open-door policies following trade frictions. In the case of beef imports, the market was re-opened in 1988 as a consequence of bilateral trade disputes with the U.S. and the beef panel of dispute settlement in GATT.

Beef exporting countries asserted at the panel that beef import restriction measures of Korea during 1985-87 had been a violation of GATT rules. After the liberalization, the actual amount of beef imports far exceeded the agreed import quotas of 58,000-62,000 tons



in 1990 and 1991. Korea's beef imports amounted to 85,000 tons in 1990 and 128,000 tons in 1991.

Despite the continuous bilateral talks between Korea and its related beef exporting countries such as the U.S., Australia, and New Zealand, the formats of liberalization of the Korean beef market has not yet been agreed upon.

In addition, as pointed out above, to cope with trade friction with major trading partners and the internationalization trend of the national economy, the Korean government has continuously taken further steps to open its agricultural markets under an import liberalization schedule since 1984.

As shown in Table 3, import restrictions were lifted for 29 items including lemons, limes, figs and coffee in 1984, 37 items including purebred breeding animals and grapefruits in 1985, 21 items including turkey meat, edible offal of poultry, and tomato sauce in 1986, and eight items including lemon juice and grapefruit juice in 1987. In 1988, additional 43 products were market liberalized, including avocados, preparation of fruits, and canned anchovies.

**TABLE 3.** Trend of Import Liberalization of Major Agricultural Products: 1984-1988.

	1984	1985	1986	1987	1988
Agricultural and Livestock Products	Lemon, Limes, Coffee (19)	Grapefruit, Pig Semen (28)	Turkey meat, Tomato Source (10)	Canned Pork, Fruit Juice (8)	Preparations of Fruits, Vegetable Juice(27)
Fishery Product	Chubmackerel, Trout(10)	Puffers, Oysters(8)	Seabream, Codfish(11)		Canned Anchovies, Canned Horse Mackerel (13)
Forestry Products		Almond			Tree Barks(3)
Total	29	37	21	8	43

Note: The numbers of commodities are based on CCCN 8 digits before 1988 and HS 10 digits in 1988.

Source: Ministry of Agriculture, Fishery, and Forestry



In addition to these market-opening measures for 1984-1988, as part of an effort to avoid possible U.S. designation of Korea as a "priority foreign country" suspected of exercising unfair trading practices, the Korean government announced a three-year (1989-91) market-opening schedule to liberalize imports of 243 farm, livestock, forestry and fishery products.

As shown in Table 4, 82, 76, and 85 items were market liberalized in 1989, 1990, and 1991, respectively.

Among others, the market liberalization of banana, pineapple, soybean oil brought about profound adverse effects on domestic agricultural industries.

**TABLE 4.** Timetable of Import Liberalization: 1989 - 1991

	1989	1990	1991
Grains, Beans (19)	Egypt Bean, Lentz Bean Broad bean(3)	Wheat(4), Corn(1) Canned Citrus,	Rapeseed, Haricot bean(10)
Fruits(20)	Papays, Fresh Strawberry	Pecan, Kiwi(2)	Melon, Walnut, Banana(7)
Livestock Products (24)	Duck Meat(non-cut fresh), Livers of Cattle and Pig(7)	Cut Duck Meat, Pork Offal(10)	Duck Meat(non- cut, frozen), Animal Liver, Vension(7)
Feed(10)	Perilla Seed, Meal, Assorted Feed(5)	Alfalfa, Others(4)	Soybean Meal(1)
Processed Food (64)	Meat Juice, Peanut, Oil Canned Strawberry(26)	Canned Pineapple, Tomato Juice, Sunflower Seed Oil(20)	Soybean Oil, Canned Peach, Sausage(18)
Fishery Products (97)	Cod(Fresh Chilled), Canned Salmon(26)	Canned Herring Anchovy(33)	Frozen Albacore Tuna, Others(38)
Other(9)	Other(4)	Other(1)	Oak Leaf, Silk Yern, Others(4)
	243	82	76
			85

Note: the numbers of commodities are based on HS 10 digits  
Source: MAFF

However, Korea's agricultural import liberalization has been accelerated and proceeded further because of the graduation from the GATT Article XVIII;B in 1989.

At the time of the graduation, the Korean government promised to eliminate its remaining import restrictions or otherwise bring them into conformity with GATT provisions by July 1, 1997. It was also recommended that phasing out its remaining restrictions should be carried out in a generally even manner under two three-year liberalization program.

According to this GATT obligation, Korea drew up a three-year market liberalization program of 137 products and is implementing the program now as shown in Table 5.

**TABLE 5.** Program of Import Liberalization: 1992 - 1994

	1992	1993	1994
Agricultural Products (Excluding Livestock Products)	Frozen Citrus and Grape Sugar Processed Fruits	Frozen Garlic Canned Citrus Peach Juice, Canned Apple and Grape	Fresh Pear, Fresh Peach, Tea Sugar,
Livestock Products	Processed Pork, Deer, Mutton, Animal Stomach	Cow Tongue, Fresh Milk, Honey	Fresh Chicken, Fresh and Frozen Pork, Yogurt
Fishery Products	Octopus, Canned Sardine Horse Mackerel	Sea Cucumber, Sardine	Cuttlefish, Eel, Flatfish
Forestry Products		Acorn	
Total	46	46	45

Source : Ministry of Agriculture, Fishery, and Forestry

In addition, the Korean government is presently setting up the second three-year import liberalization program of 142 agricultural and fishery products covering the years of 1995, 1996, and 1997.

As the flexibility of choosing the products for liberalization decreases, it is getting much harder to draw up the liberalization schedules. Remaining import restrictions of 142 products include important and crucial commodities in terms of farmers' incomes and agriculture in itself such as pepper, garlic, onion, orange, sesame,

beef, pork, and dairy products.

Because of the increasing internal demand for imports and external pressure of import liberalization, the ratio of agricultural import liberalization has been sharply increased in a short period of time as shown in Table 6.

**TABLE 6.** The trend of Agricultural Import Liberalization Ratio(%)

	1970	1985	1988	1991
Total	68.4	72.6	80.4	87.2
Agricultural and Livestock Products	71.1	76.1	83.4	88.4
Forestry Products	93.4	94.9	95.0	97.5
Fishery Products	54.2	40.2	58.5	74.2

Source : MAFF

Since the Uruguay Round negotiation on agriculture is aimed at the fundamental reform of the world agriculture by eliminating all kinds of non-tariff barriers, the import liberalization ratio will again increase further when the Uruguay Round negotiations are concluded.

Considering the fact that Korean agriculture still does not have enough adaptive ability to cope with internationalization and to the opening of the domestic market, such an accelerating market liberalization of agricultural products will deliver a fatal blow to the agricultural sector in Korea.

### III. The Problems of Rapid Liberalization of Agricultural Markets

Agriculture in Korea is now undergoing a very difficult transition period destined for internationalized and commercialized modern agriculture.

However, every circumstance surrounding Korean agriculture is getting worse and unfavorable. The rapid economic growth had been inevitably accompanied by the undesirable side effects of skyrocketing land prices and rapid migration of farmers to urban areas.

As a result, it is much harder for farmers to attain the economies of scale by purchasing farm land. It is essential to enlarge farm size for the enhancement of productivity in Korea since the average farm size is around 1 hectare.

As described above, the disparity of income and living conditions between farm households and wage-earning urban households has widened due to unbalanced development policies as well as the inherent productivity growth gap between the agricultural and industrial sectors.

**TABLE 7.** Trends of Farm Labor Forces (Unit: thousand persons)

	1970	1985	1988	1991
Total Population(A)	32,241	40,806	41,975	43,268
Farm Household Population (B)	14,422	8,524	7,272	6,068
B/A	44.7	20.9	17.3	14.0
Male	7,164	4,246	3,560	2,931
Female	7,258	4,275	3,712	3,137
Under 14 yrs	6,271	2,114	1,501	1,175
14 - 19	1,497	1,271	1,071	647
20 - 49	4,404	2,830	2,306	1,876
50 - 59	1,107	1,129	1,166	1,115
60 -	1,143	1,177	1,228	1,255

Source: Economic Planning Board, MAFF

Accordingly, most young capable farmers have been migrating to the urban areas to find more highly paid jobs, leaving only the aged and female farmers in rural areas.

In 1991, approximately 40% of the Korean farmers were more than 50 years old as shown in Table 7.

The substantial proportion of aged farmers will be the primal cause of the lack of vitality and international competitiveness of Korean agriculture because aged farmers are not eager to adjust to the newly changed circumstances.

In the meantime, due to the stagnant and negligible investments in agriculture in the past, the infrastructure of agricultural production

is very weak and vulnerable. For example, the rates of readjustment of paddy fields and upland necessary for the farm mechanization are only 43 and 0.02 percent, respectively.

Furthermore, the production technologies of capital- and technology-intensive products needed to lead future agriculture in Korea still remain in its infant stage. By contrast, most advanced countries have taken numerous measures for the period of 50 - 150 years to resolve agricultural problems arising from industrialization.

In addition to the challenging internal problems of agriculture, external pressures of import liberalization is aggravating the situation. In particular, since the reform of world agriculture is being discussed in the Uruguay Round, the conclusion of the Round will adversely and broadly affect Korean agriculture.

Considering the weak infrastructure of agricultural production, a substantial reduction in agricultural subsidies together with the elimination of non-tariff barriers in the context of tariffication as discussed in the UR will combine to accelerate the disparity between the urban and rural sectors.

Additional migration of farmers into large cities will result in not only transportation, pollution, and housing problems of large cities of which conditions are already serious but also the evacuation problems in rural areas. All of these problems will impede further economic growth in Korea.

In addition, further agricultural import liberalization will inevitably bring about huge unemployment in the agricultural sector. As well recognized, agricultural resources are immobile among sectors.

The old farmers will lose means of livelihood because they are not easily able to find jobs in the industrial sectors after the complete liberalization of the agricultural market. It is true that farming land is not the only thing that becomes unemployed after liberalization.

In order to enhance international competitiveness and to increase farm household income, it is most essential that the present small farming size needs to be expanded to attain economies of scale, followed by farm mechanization to cope with severe labor shortages in rural areas.

However, if the subsidies of interest concession is not allowed by the agreement of the Uruguay Round, investments in farm land

and machines will be deterred because of the 6-7% internal rate of returns from the agricultural investment, which is far lower than the market interest rate of 10-15%.

Lastly, it is generally accepted that agriculture, as a basic economic sector, is related to the vital economic and other non-trade or non-economic concerns such as food security, balanced development of land, protection of environment, and in some cases socio-political stability.

In particular, as the rate of agricultural import liberalization increases, it is more difficult to attain national food security. Each country has its own traditional basic foodstuff which is necessary for maintaining the livelihood of the people.

It is undesirable for a nation to rely solely on foreign sources for the supply of basic foodstuff, because there are always uncertainties in securing stable supplies with reasonable prices. The possibility of food shortage always remains, as agricultural production and trade are influenced by elements beyond control.

#### **IV. Summary and Conclusions**

Notwithstanding Korea's remarkable economic growth over the past quarter of a century, it has vulnerable economic structural problems such as the widening gap between the agricultural and industrial sectors in terms of income and competitiveness.

In the process of economic growth, it was inevitable that the Korean government had laid much emphasis on production and exportation of industrial products for the attainment of rapid economic growth. Accordingly, most investment and industrial support policies have centered on the industrial sector rather than the agricultural sector.

Consequently, the implementation of unbalanced development policy of export-oriented industrialization, together with the fundamental productivity gap between the two sectors, has resulted in serious income disparity between farm and urban households.

Since a large number of economically capable young farmers have migrated into big cities, the quality of rural labor force is decreasing, while the wages in rural areas are increasing sharply.

Despite the enormous difficulties of the agricultural sector, Korea has continuously implemented market opening measures, which in turn have deteriorated the rural economy further.

Owing to the rapid increase in exports and successive surpluses in the balance of payments during 1986-88, Korea has come to encounter trade frictions with the major trading partners.

In particular, Korea was recommended to graduate from the import restriction benefits allowed to developing countries with poor balance of payments position under GATT Article XVIII:B.

In addition to market opening measures of 138 items for 1984-88, as a part of an effort to avoid possible designation of Korea as a "priority foreign country," a country suspected of engaging in unfair trading practices, by the U.S. trade law, Korea announced a three-year (1989-91) market opening schedule of 243 agricultural, livestock, forestry and fishery products.

In 1991, under the context of GATT obligations, Korea additionally drew up a program to open 137 products between 1992-94. With regard to the remaining restrictions of 142 products, Korea is supposed to eliminate the import restrictions or otherwise bring them into conformity with GATT provisions including the agreements in the Uruguay Round by July 1, 1997.

As a result of continuous market opening measures, the import liberalization rate has rapidly accelerated from 68.4 percent in 1986 to 87 percent in 1992.

In conclusion, past ten-odd years really have been a period of unprecedented catastrophe for Korean agriculture which has been threatened by unfavored internal economic environment as well as unsurmountable external market opening pressures.

Considering the currently prevailing apprehension of newly arising protectionism and regionalism of the world trade system, now is the time to cooperate for the revival of multilateralism of GATT, which has made remarkable contribution to the world economic growth for more than 45 years.

Since Korea has benefited greatly from the opportunities provided by GATT, it would be quite natural that Korea should assume the expanded responsibilities as an industrialized country in the international trading system.

However, notwithstanding the normative roles Korea should



play, there must be some reservation in the speed and format of agricultural trade liberalization. As outlined above, agriculture in Korea needs to be structually readjusted requiring much longer time before liberalizing its agricultural market.

In this context, a sufficient grace period should be given to importing developing countries for structural adjustment of agricultural sector.

In particular, since rice is regarded as the principal manifestation of the so-called Non-Trade Concerns in Korea, due and proper consideration must be given to this product in the process of liberalization.

## REFERENCES

- Lee, Jaeok, " Agriculture in Korea and Agricultural Trade Negotiations in the Uruguay Round, " Background Paper for thr Seminar Sponsored by UNCTAD and KREI in Seoul, 1989.
- Lee, Jaeok, "Agriculture", *The Overall Review of the Uruguay Round*, Korea Institute for International Economic Policy, 1992.

빈 면

KREI