



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Required Report - public distribution

**Date:** 4/22/2004

**GAIN Report Number:** KS4020

## Korea, Republic of

### Agricultural Situation

## Economic and Agricultural Overview

2004

**Approved by:**

Marcus E. Lower, Director  
Agricultural Trade Office

**Prepared by:**

Susan Phillips, Deputy Director

---

**Report Highlights:**

This report contains an economic and agricultural situation overview through March 2004. The Korean economy grew at its fastest pace in nearly two years during the fourth quarter of 2003, driven mainly by exports. Agricultural imports from the U.S. were \$3.5 billion in 2003, a 7.4 percent increase over the previous year. ATO Seoul will organize several major promotional events within the next six months focusing on U.S. consumer-oriented and other products.

---

Includes PSD Changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Seoul ATO [KS2]  
[KS]

## *I. Economic Situation*

### **A. Current state of the economy**

South Korea's economy grew at its fastest pace in nearly two years during the fourth quarter of 2003, driven mainly by exports. The Bank of Korea reported that the Korean economy grew by 3.1 percent in 2003, above many initial estimates, but still the slowest rate of expansion since the 1998 national balance of payments crisis. Three major economic indicators—consumption, production, and investment—all rose simultaneously in February 2004, the first time since December 2002, generating expectations that the Korean economy might finally be recovering.

### **B. Prospects for the Korean economy in 2004**

**GDP growth:** Despite robust exports, the Korean economy in 2004 is expected to post moderate growth of 4-5 percent, tempered by a sluggish recovery of domestic consumption according to the Korean Economic Research Institute (KERI). Economic recovery in the U.S. and rapid growth in China are expected to offer a favorable external environment. In contrast, domestic demand and, in particular, private consumption is expected to remain soft because of weak employment and persistent consumer debt problems.

**Household Consumption:** Consumer sentiment has been subdued since late 2002, a result of the household debt problem and weak employment conditions. According to KERI, private consumption in 2004 is expected to be marginally stronger than 2003, at 3 percent, slightly below the economic growth rate. Korea has huge consumer debt problems, as 3.8 million Koreans, or one-sixth of the workforce, are unable to meet their debt obligations. The Bank of Korea reported on March 29 that the outstanding debts of the average Korean citizen reached 10.1 million won (\$8,450) in 2003, up 4.6 percent from a year ago. In a further worrying trend, the number of corporate defaulters hit record numbers.

**Investment:** Korean private investment in 2004 is expected to be around 8 percent due to a recovery in the global IT industry resulting in increased investment in related sectors. This is a marked improvement over the 1.6 percent growth seen in 2003. Labor-management discord, political questions and anti-enterprise sentiments are factors that could subdue business investment. (KERI)

**Trade:** Rapid growth in exports continues to drive Korea's economic recovery. Exports surged by 39 percent in the first two months of 2004. Even with the rise in international raw material prices, imports are showing only modest growth, as Koreans cut back on the use of imported oil.

### **C. Korea-Chile Free Trade Agreement**

After five years of negotiations and a year-long debate in the Korean National Assembly, the Free Trade Agreement (FTA) with Chile became effective on April 1, 2004. Korea is to lift duties on nearly 90 percent of all industrial goods and Chile will lift duties on many agricultural goods. However, due to fervent protests by local farmers, 21 agricultural products, including rice, apples and pears, were excluded from the pact.

The two sides will decide the fate of another 337 items after the Doha Development Agenda talks are concluded. This has been the first FTA signed by Korea and it was fiercely opposed by the domestic agriculture sector. As a result, the Ministry of Agriculture and Forestry (MAF) recently unveiled a support program for farmers worth 1.2 trillion won (approximately \$100 billion) over the next seven years, whereby farmers will receive compensation for the anticipated losses caused by Chilean imports. The

Korean government is currently in the process of negotiating other bilateral trade agreements, most notably with Mexico, Japan and Singapore.

## II. Agricultural Situation

### A. Overall Agricultural Situation

South Korea is roughly the size of the state of Indiana (99,853 square kilometers) with a population of 47 million. By comparison, Indiana has a population of one million. Because it is so mountainous, only 18.7 percent of the total land mass is available for agricultural production. The number of people employed in agricultural, forestry and fisheries has declined from 58.5 percent in 1965 to only 9.3 percent in 2002.

Agriculture has remained the most sluggish sector of the economy. In 2002, the contribution of agriculture to overall GDP was only about 4 percent. In 2003, according to the Bank of Korea, the farming sector contracted even further as a result of severe weather conditions this past summer.

Korea has one of the most protected agricultural economies in the world, consisting of high production prices, supported by government purchases, and high tariffs that protect domestic producers from import competition. This is unlikely to change, as Koreans are very sympathetic toward the farm sector and are very supportive of government protection for agriculture.

South Korea imported \$13.4 billion of agricultural, forestry and fishery products in 2003. The United States is the largest supplier of agricultural products to Korea, but imports from China are growing rapidly.

<b>Market Share</b>	<b>Country</b>	<b>Major Products</b>
26.2 %	United States	Beef, Hides & Skins, Soybeans, Wheat, Citrus
21.0 %	China	Maize, Fish, Wheat, Ginseng, Plywood
8.4 %	European Union	Pork, Leather, Whey, Vegetable Saps & Extracts
7.5 %	Australia	Beef, Wheat, Sugar, Cotton, Logs

According to U.S. Census data, the United States exported \$3.5 billion of agricultural, fish and forest products to Korea in 2003. Despite a 10 percent increase in U.S. sales, Korea slipped to the fifth largest U.S. agricultural export market, being surpassed by China.

Korea depends on imports for about 70 percent of its food and feed consumption. The demand for imported food products is expected to continue to increase as rising affluence and changing lifestyles foster greater consumption of diverse and international cuisines.

In 2004, imports from the United States are expected to decline significantly due to the current BSE ban on beef products and the avian flu restrictions on uncooked poultry. In 2003, U.S. sales of beef and poultry were \$813 million and \$35 million respectively. However, import quotas on 14 agricultural items will be increased temporarily, from March 29 through the end of 2004, according to the Ministry of Finance and Economy. The decision to temporarily enlarge Korea's tariff rate quotas (TRQ) on potatoes, corn, beans, soybeans, sesame seeds and other products used for feed and processed food came as a result of rising domestic prices.

## B. Basic Product Imports

Basic imports represented 24 percent, or \$838 million, of total imports from the U.S. in 2003, up 8.6 percent from the previous year. In the basic category, the U.S. has a 28 percent market share and the major products are soybeans, wheat, cotton, maize and tobacco.

H.S. Code		Total Imports	Imports from the U.S.	Market Share
1201	Soybeans	\$399,203	\$322,157	81%
1001	Wheat	\$610,277	\$259,961	43%
5201	Cotton	\$396,402	\$149,267	38%
1005	Corn	\$1,048,365	\$41,722	4%
2401	Tobacco	\$115,962	\$40,842	35%
	Others	\$440,362	\$24,705	6%
	<b>TOTAL</b>	<b>\$3,010,571</b>	<b>\$838,654</b>	<b>28%</b>

Korea has been the eighth largest market for U.S. soybeans in recent years. In 2003, the value of U.S. soybeans increased 19 percent to \$322 million (1.2 million tons) and is expected to continue to grow in 2004 as a result of improved financial conditions in the crushing industry and the almost doubling of the world soybean price over the past 14 months. The U.S. had an 81 percent share of Korean soybean imports.

Imports of U.S. wheat increased to \$260 million (1.4 million tons),

up 24 percent by value in 2003. The U.S. had a 43 percent market share of total Korean wheat imports. Local production is unlikely to increase significantly due to the limited demand for wheat flour made from locally grown wheat and limited production area. However, Australia and Canada, principal competitors in the milling wheat market, continue to gain market share by conducting extensive market research on taste preferences.

The Korean textile industry remains strong, and domestic demand combined with increased textile export opportunities will increase Korean cotton consumption. Korea was the ninth largest market for U.S. cotton in 2003. As the Korean textile industry shifts its focus to the production of higher quality products, demand for U.S. and Australian cotton is expected to increase at the expense of China and Uzbekistan. Imports of U.S. cotton increased to \$149 million (116,893 tons), up 29 percent by value. The U.S. had a 38 percent share of Korean cotton imports.

Corn imports from the U.S. dropped significantly in the past two years due to imports from China. Imports of U.S. corn were \$41 million (274,770 tons) in 2003, down 63 percent by value. With the change in China's corn export policy in 2004, Korean buyers purchase on the basis of optional origin contracts, which provide for loading in China, Brazil or the U.S. So far, suppliers have opted to fulfill their optional origin contracts for feed corn by supplying from the U.S. Brazil has been the primary origin for processing corn due to non-GM contract specifications. When logistical constraints preclude Brazil, such as when vessels are all being used for soybeans, identity preserved non-GM corn from the U.S. can become attractive for the Korean processing sector. Nevertheless, the total volume of non-GM U.S. corn to Korea is expected to remain quite low. Korea imported \$2 million (3,157 tons) of popcorn from the U.S. in 2003, a 68 percent market share. The U.S. share of total Korean corn imports was 4 percent in 2003.

Korea currently maintains a minimum market access (MMA) regime limiting rice imports to 4 percent of the country's domestic rice market, and requiring that the shipments be controlled directly by the government's rice distribution monopoly. Under the terms of the 1994 Uruguay Round agreement, however, which allowed Korea to maintain quotas and delay the levying of tariffs on rice imports for up to 10 years, the country is obliged to conclude talks on opening its rice market by the end of 2004. South Korea purchased 30,000 tons of U.S. medium grain rice in 2001, 40,000 tons in 2002 and 55,000 tons in 2003. None of this rice has been allowed to enter the domestic table market, but was channeled to industrial uses.

### C. Intermediate Product Imports

Imports of intermediate products (products that receive some processing, but are generally not yet ready for final consumption) represented 23 percent or \$823 million of total imports from the U.S. in 2003, down 2.3 percent from the previous year. In the intermediate products category, the U.S. has a 27 percent market share and the major products were hides and skins, hay and fodder, leather of bovine, animal feeds, and soybean meal.

H.S. Codes		Total Imports	Imports from the U.S.	Market Share
4101	Hides & Skins (Bovine)	\$471,252	\$427,809	91%
1214	Hay & Fodder	\$104,869	\$91,835	88%
4104	Leather (Bovine)	\$135,294	\$52,640	39%
2309	Animal Feeds	\$118,885	\$39,488	33%
1507	Soybean Oil	\$89,776	\$23,080	26%
2304	Soybean Meal	\$314,655	\$22,859	7%
4301	Raw Furskins	\$54,706	\$22,492	41%
1517	Margarine & Shortening	\$19,333	\$12,474	65%
1901	Malt	\$45,115	\$11,586	26%
2101	Extracts & Essences	\$33,282	\$11,343	34%
	Others	\$1,675,465	\$107,518	6%
	<b>TOTAL</b>	<b>\$3,062,632</b>	<b>\$823,124</b>	<b>27%</b>

Hides and skins represented more than half of the total intermediate products category. Imports from the U.S. were \$428 million in 2003, down 6 percent by value. Although these products accounted for a large share of intermediate product imports, it is likely they will continue to decline slightly each year as the tanning industry moves to lower labor cost areas such as China. The U.S. had over a 90 percent share of this market.

Hay and Fodder imports have been steadily increasing; imports were \$92 million (488,825 tons), up 13 percent by value in 2003. Currently, Korea imports grass hay within a TRQ for Forage Products established under the Uruguay Round Agricultural Agreement which covers fodder roots (1214-90-1000), forages excluding alfalfa meal, pellets and bales (1214-90-9090), and vegetable materials (excluding acorns, chestnut hulls and cotton seed hulls (2308-00-9000). The tariff within the TRQ is 2 percent and the Korean government set the quantity at 495,000 tons in 2003 and 700,000 tons in 2004. The U.S. has an 85 percent share of Korean hay and fodder imports.

Animal feeds and pet food product imports were \$39 million in 2003, up 42 percent by value. Korea has become one of the fastest growing pet food markets in the world. Korean pet owners spend an estimated \$250 million annually on pet food. The market is increasing not only because people are buying more pets, but also as a result of rising incomes, pet owners are more willing to purchase higher quality pet food. Currently, 24 percent of locally consumed pet food is imported. Australia dominates the canned food market while the U.S. is the main supplier of dry food.

Malt imports from the U.S. were \$12 million in 2003, up 30 percent, and include food preparations of flour, starch or dairy products (not containing cocoa powder), preparations for infant use put up for retail sale, and corn-soya milk blends. Extracts and Essences from the U.S. were \$11 million in 2003, up 8 percent and include mostly instant coffee packaged for retail sale, coffee extracts, essences and concentrates, and preparations with a basis of coffee.

#### D. Consumer-Oriented Product Imports

Imports of consumer-oriented products (or high-value products) represented 45 percent or \$1.6 billion of total imports from the U.S. in 2003, up 16 percent from the previous year. In the consumer-oriented products category, the U.S. had a 41 percent market share and the major products were frozen beef, fresh/chilled beef, edible offals, citrus, fruit juices, and poultry.

H.S. Code		Total Imports	Imports from the U.S.	Market Share
0202	Beef, Frozen	\$951,359	\$728,083	77%
0805	Citrus Fruit, Fresh/Dried	\$118,414	\$115,025	97%
0201	Beef, Fresh or Chilled	\$119,969	\$85,155	71%
0206	Edible Offals	\$107,699	\$73,967	69%
2004/2005	Other Vegetables	\$86,281	\$52,428	61%
2009	Fruit Juices	\$105,116	\$41,557	40%
0207	Poultry Meat & Offals	\$96,496	\$35,420	37%
1806	Chocolate	\$99,124	\$33,295	34%
0802	Other Nuts	\$35,453	\$32,099	91%
0406	Cheese & Curd	\$93,829	\$17,083	18%
	Others	\$1,965,437	\$349,636	18%
	<b>TOTAL</b>	<b>\$3,779,177</b>	<b>\$1,563,748</b>	<b>41%</b>

In 2003, the U.S. had a 77 percent share of Korean frozen beef market and a 71 percent share of the fresh/chilled market. Ninety percent of beef imports from the U.S. were frozen product amounting to \$728 million in 2003, up 32 percent by value from the previous year. Imports of fresh/chilled beef from the U.S. were \$85 million in 2003, up 120 percent by value. As of December 27, 2003, the Korean Government placed a ban on BSE associated commodities such as ruminants and ruminant products from the United States. However, products such as raw hides, milk and milk products, semen and tallow are permitted.

Edible offals are considered a delicacy in Korea, especially items like pork feet, intestines, livers, oxtails, and tongue. Korea will pay top dollar for these items. Imports were \$74 million in 2003, up 12 percent by value.

Poultry imports were \$35 million in 2003, a decrease of 37 percent from the previous year. Korean consumers preferred Thai chicken because they could provide cleaner deboned meat products. When Hi Path Avian Influenza (HPAI) broke out in Thailand, U.S. chicken became somewhat more popular; however, after the outbreak of HPAI in Texas, uncooked poultry products from the U.S. were banned. The local poultry industry has also been hit with HPAI causing a dramatic decline in local consumption of poultry. The Korean government and the local industry made a concerted effort to increase consumption by addressing consumer's food safety concerns.

Imports of U.S. citrus products, mostly navel oranges grew steadily in 2003 and are expected to increase further next year due to the poor domestic fruit crop and competitive U.S. prices. Citrus imports from the U.S. were \$115 million in 2003, up 26 percent by value. In 2004, the TRQ for citrus is effectively phased out as the TRQ and the out-of-TRQ tariff rates are equal at 50 percent. The FTA with Chile is expected to result in a greater availability of Chilean citrus in the Korean market, which will compete strongly with U.S. citrus.

### *III. Promotional Opportunities*

ATO Seoul focuses promotional efforts on several major activities throughout the year aimed at promoting mainly U.S. consumer-oriented food products. Upcoming events include:

- May 2004      National Restaurant Association 2004  
ATO Seoul will sponsor food service importers to the Show.  
For more information: [SangYong.Oh@usda.gov](mailto:SangYong.Oh@usda.gov)
- May 2004      All Things Organic/FMI  
ATO Seoul will sponsor organic processed product buyers to the Show  
WUSATA will host this group in the Pacific Northwest.  
For more information: [YoungSook.Oh@usda.gov](mailto:YoungSook.Oh@usda.gov)
- May 2004      Culinary Camp  
ATO Seoul will organize a culinary workshop for menu development training targeting restaurant chains chefs. This activity will teach chefs about the advantages and applicability of U.S. value-added (further-processed) products.  
For more information: [SangYong.Oh@usda.gov](mailto:SangYong.Oh@usda.gov)
- May 2004      Seoul International Wine Expo  
ATO Seoul will organize a U.S. wine pavilion and seminar for Korean wine buyers.  
For more information: [SangYong.Oh@usda.gov](mailto:SangYong.Oh@usda.gov)
- Jun 2004      All Candy Expo 2004  
ATO Seoul will sponsor a buying mission with the assistance of the National Confectioner's Association and the Mid-America International Agri-Trade Council (MIATCO).  
For more information: [SehWon.Kim@usda.gov](mailto:SehWon.Kim@usda.gov)
- Aug/Sep 2004      U.S. Retail Product Promotion  
ATO Seoul will organize a U.S. product promotion with a major retailer in Seoul.  
ATO Seoul will recruit interested importers who can deliver currently available U.S. products.  
For more information: [SehWon.Kim@usda.gov](mailto:SehWon.Kim@usda.gov)
- Nov 2004      Busan 2<sup>nd</sup> International Seafood Expo  
ATO Seoul will organize a U.S. pavilion with the assistance of the Southern U.S. Trade Association (SUSTA).  
For more information: [SehWon@usda.gov](mailto:SehWon@usda.gov)

#### **IV. KEY CONTACTS AND FURTHER INFORMATION**

**For further information about the Korean agricultural market, please contact:**

U.S. Agricultural Trade Office

Korean Address: Room 303, Leema Building, 146-1, Susong-dong, Chongro-ku, Seoul, South Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-ATO, APO, AP 96205-5550

Telephone: 82-2 397-4188 Fax: 82-2 720-7921

E-mail: [atoseoul@usda.gov](mailto:atoseoul@usda.gov)

Website: [www.atoseoul.com](http://www.atoseoul.com)

Agricultural Affairs Office

Korean Address: U.S. Embassy, 82, Sejong-ro, Chongro-ku, Seoul, South Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-AgAff, APO, AP 96205-5550

Telephone: 82-2 397-4297 Fax: 82-2 738-7147

E-mail: [agseoul@usda.gov](mailto:agseoul@usda.gov)

**For more information on how you can register for USDA/FAS's Supplier List:**

The United States Department of Agriculture's Foreign Agricultural Service (USDA/FAS) offers information and services that can be beneficial to both new and experienced exporters. For example, the U.S. Suppliers Service is a searchable database of over 5,000 U.S. exporters and their products, which is used by USDA/FAS worldwide to help facilitate connecting potential buyers with U.S. suppliers. This database is used by more than 85 USDA FAS Overseas offices, such as the ATO in Seoul to help export agents, trading companies, importers and foreign market buyers locate U.S. suppliers. It is also used to recruit U.S. exporters to participate in market development activities sponsored by USDA and federal export programs.

You can register online for this service at <http://www.fas.usda.gov/agexport/exporter.html>

Additional FAS/Seoul commodity, sector and product reports can be found on the FAS Website at <http://www.fas.usda.gov/scriptsw/attacherep/default.asp>.