CURRENT INVESTMENT AND LOAN FOR AGRICULTURE IN KOREA AND ITS IMPLICATIONS*

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Abstract
This report described investment and loan plans for the agricultural sector following the changing circumstances of Korea’s agricultural policies, the direct payment programs, the agricultural crop insurance and the management risk control schemes, which are considered to be key support policies for stabilized farmers’ management. The future agricultural policies should be oriented in the direction of creating future demand for advanced agri-food, controlling management risk of large-scale farmers, and improving old and small-scale farmers’ welfare and the rural living environment.

Examination was made for the direct payment programs, the agricultural crop insurance, and the scheme for supporting management recovery by the farmland bank as detailed support policies. It is necessary to clarify the direction of direct payment programs, about whether it would be the single payment scheme as in the EU or the individual direct payment scheme. The agricultural crop insurance is necessary to prepare for conversion to price insurance and income insurance in terms of farmers’ management risk control. The management recovery support system faces diversified management risks with the increasing number of large-scale farmers. It is necessary to develop support systems of diversified types that can effectively control farmers’ management risk.

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1. Introduction

In the era of open agricultural market since the UR Agreement on Agriculture in 1993, Korea’s agricultural market is now open to the world. There is a growing sense of crisis, rather than a new potential, led by the relative low position and inevitable reduction of subsidies by the Korean government in the global agri-product market. The Korean government established and promoted a plan for investment and loan for the agricultural sector so as to minimize damages to the agricultural sector from the open market and the changed direction of policies, and to enhance competitiveness.

Recently, the Korean government has promoted FTAs through bilateral negotiations. The FTA between Korea and the EU has come into effect following the FTA between Korea and Chile in 2003, and the Korean government has signed 8 FTAs with 45 nations in total. While both the Korean and Chinese government officially announced the beginning of FTA negotiation, there is a high possibility that Korean agriculture will suffer damages from imported Chinese agri-products, and there is a strong need for actions to be taken to address the issue.

Meanwhile, sharp growth and increasing demand for bio-energy in new emerging economic countries including Brazil, Russia, India and China (BRIC) (with large population) are contributing to sharply increasing the demand for grains and unstable global grain prices. Climate change, such as global warming, also changes the condition of producing agri-products. People also have become more interested in food safety and they are laying emphasis on the importance of environment-friendly agriculture.

With respect to changing conditions of Korean agriculture, commercialization and scaleup by large-scale farmers is in progress, but the farming scale still remains small. The current challenges are aging agricultural labor and shortage of prospective farmers. Social polarization is increasing due to dropping income from farming due to strict farmers’ terms of trade and widening income gap. As a result, it is impossible to fully address the issues of declining rural areas and worsening residential conditions in the market, which should be addressed by the government through policy actions.

Changing domestic and overseas conditions may be a risk factor, but can be converted to an opportunity factor for growth depending on how to overcome the risk and make an effort. That is, because agriculture and rural districts are re-