

Prepared by the New Zealand Embassy, Seoul

Summary

- The Korean economy continues to manage the pandemic with steady growth, on track to rebound by 3.8 - 4% this year.
- Similarly New Zealand's exports to Korea continue to grow (up 3%). Korea is now our 5th largest export goods market.
- The strength of our primary sector exports is offsetting the impact of COVID and supply chain disruptions.
- Honey, kiwifruit, wine, meat and pet food are meeting strong demand.
- But there are challenges, including for timber (falling prices), meat (maintaining consistent supply), and avocados (competition / supply chain issues).
- Tourism and education travel remain suspended, but there has been an uptick in interest in New Zealand as a tourist destination.
- Education New Zealand is exploring innovative 'metaverse'-based tools to meet growing demand for online education in Korea.
- Business leaders continue to push for resumption of travel to New Zealand to support operations and investments.
- Overall New Zealand exporters remain well positioned to capitalise on the good management of COVID in both New Zealand and Korea. Online sales are surging and the New Zealand brand continues to resonate with stakeholders.

Report

We report on the performance of bilateral trade with the Republic of Korea in the year ending September 2021. Partly due to declines elsewhere, Korea has risen to be our 5th largest goods trading partner¹ and 5th largest export market for goods².

Korean economy rebounds

Korea's economy continues to perform steadily, though below average for the G20 and OECD. It is on track to grow by around 3.8 - 4% this year, an improvement on last year's growth of 1%. Robust private consumption (which generates nearly half of Korean GDP) and surging exports are key drivers, helped by high vaccination rates, slowly easing COVID restrictions and largely open borders.

But momentum is expected to fall slightly next year, with forecasts of around 3% growth, as manufacturing and exports slow amid ongoing supply chain disruptions (including a shortage of urea water solution needed to

¹ Excluding the EU as a bloc

² Excluding the EU as a bloc

operate diesel vehicles). Government spending will drive the debt-to-GDP ratio to 50.2%, the largest on record, but still well below that of most OECD countries.

Two-way trade holds strong

Two-way trade has held up relatively well – down only 1% to \$4.44 billion³. The headline number tends to move around, driven by highly volatile products such as logs, aluminium and oil. But food and beverage exports show solid growth, helping to drive exports up by 3% this year. Primary exports now account for 77% of total goods exported to Korea, up 80% since the Korea-New Zealand Free Trade Agreement was concluded in 2015.

Headwinds ahead for timber

Timber, our largest goods export category (\$324 million) rebounded by 15% this year thanks to surging log prices. But the outlook for prices has turned negative.

Although prices for logs had soared to US\$150 per cubic metre in May (thanks to strong global demand for logs, a Russian ban on certain log exports from 2022, and a Chinese suspension on log imports from parts of Australia), prices have fallen to US\$90. Slowing demand for timber in China, driven by stagnant housing and the debt crisis faced by Chinese real estate developer Evergrande (and other developers) is seen as a key driver.

Honey, kiwifruit, wine, and pet food soar to new heights

New Zealand Manuka honey exports have reached a new high, with 15% growth, and are now worth \$4.7 million. Exporters have benefitted from low domestic supply of honey in the Korean market and capitalising on growing demand for health supplements.

Consumption of kiwifruit in Korea also broke new ground, with exports rising by 23% in value and 16% in volume to reach \$191 million. Korea is now our 4th largest kiwifruit export market. Consumer demand is expected to remain strong.

New Zealand wine exports continue to surge and are up almost 200% to reach just over \$20 million. The Korean market for wine is growing rapidly, as younger consumers shun whiskey, beer, and soju in favour of white wine. New Zealand exporters report strong sales through hypermarkets and convenience stores in particular. New Zealand is the fastest-growing wine exporter to Korea.

New Zealand pet food is also doing well. Exports grew 22% to \$7.7 million. The COVID pandemic has driven up pet ownership and now one in four Korean households owns at least one pet. Consumers are seeking higher quality and healthier products for their animals, where New Zealand has a competitive advantage.

Mixed performance by meat, dairy and avocados

Meat exports held up well, up 7%, and are now valued at \$180 million. The impact of COVID restrictions on the food service sector was offset by strong online retail sales of groceries for home cooking. Red meat is well positioned to benefit from soaring prices and limited international supply. But maintaining consistent meat supply to Korea has been a challenge due to high demand (and high prices) in China.

The performance of New Zealand dairy in Korea has been patchy. Overall, dairy exports to Korea fell 17% to \$217 million. The market for drinking milk in Korea is shrinking and COVID has adversely affected the sale of school milk. But exporters are optimistic about the sale of butter, cheese and protein in a market which is growing.

³ All figures in NZD

New Zealand avocado exports grew 12% to reach \$2.3 million but are still only one-third of pre-COVID levels. Exporters face competition from cheaper Peruvian imports, and ongoing disruptions to shipping. Delays to sea freight passing through China have directly affected the arrival of avocados into Korea, including instances where consignments have needed to be destroyed due to spoilage.

Technology a growing success story

Technology firms that participated in New Zealand's third annual Tech Roadshow in Korea (held virtually this year on 25 – 26 August), are exploring business leads with potential Korean investors and customers. New Zealand firms working on artificial intelligence (AI) report new partnerships in Korea. New Zealand firm Skyline marked a milestone with the opening this summer of its second luge operation in Busan.

Innovation in education

Education New Zealand (ENZ) is exploring 'metaverse'-based (a portmanteau of "meta-" and "universe") tools to meet growing demand for higher quality online education in Korea. The term refers to the convergence of physical, augmented, and virtual reality in a shared online space, and is said to offer a more immersive and interactive experience, particularly for those fatigued by the limitations of Zoom.

Several elementary, middle, and high schools in Korea will move to "metaverse-based" classes this month. This will include the introduction of new curriculums based on augmented reality and virtual reality. In Seoul, metaverse-based science classes for 2,100 students will be introduced later this year.

ENZ has also begun operating a 'New Zealand-Korea Digital Student Exchange' online initiative. Under the programme, Korean students are able to interact with New Zealand students through interactive virtual classrooms to improve their English language skills, learn about New Zealand, and make new friends.

Pent up demand for business travel

Korean stakeholders continue to push for the re-opening of business travel to New Zealand at the earliest possible opportunity to support their business operations and investments. We are also seeing business travellers from New Zealand starting to return to Korea.

Since the beginning of July, fully vaccinated visitors to Korea have been able to skip an otherwise compulsory two week-quarantine if they are visiting family, or travelling for business, academic or public interest reasons (but not tourism) – so long as they did not travel through one of 21 countries deemed high risk.

Eligible travellers must have been inoculated with a WHO-approved vaccine and need to apply in advance via their nearest diplomatic missions, submitting proof of vaccination and documents proving family ties or other reasons for travel. A negative COVID test is also required before departure and on arrival.

Rebuilding tourism and aviation links

Air New Zealand continues to operate direct flights between Auckland and Incheon: one passenger flight per month (two flights in February 2022) and one cargo flight per week. In early November Korean Air signalled its confidence in the New Zealand market by moving from charters to scheduled flights between Auckland and Incheon, operating both passenger and cargo flights weekly.

After opening travel to Saipan for tour groups in July, Korea has recently opened travel corridors for all vaccinated travellers to destinations including Singapore, Thailand, and Guam. Reciprocal quarantine-free travel with Singapore started on 15 November.

Tourism New Zealand (TNZ) report an uptick in public enquiries about tourism in New Zealand. TNZ is working

on a number of events to be ready to capitalise on a resumption of travel, including celebrating in December the 20th anniversary of the release of the Lord of the Rings: The Fellowship of the Ring.

Supply chains disruptions continue

Shipping and logistics remain difficult, causing delays in arrival from New Zealand – typically a 1-month delay from New Zealand, and a considerably higher price. Nonetheless, customers understand the challenges and compared with other markets, such as the US where delays are worse and prices have more than doubled, some businesses report that New Zealand is in an advantageous position.

Comments

The strength of our primary sector exports is helping to offset the impact of COVID and supply chain disruptions on trade with Korea. Although there are a number of headwinds (including for timber, meat, drinking milk and avocados), New Zealand exporters remain well positioned to capitalise on the good management of COVID in both New Zealand and Korea. Online sales are surging and the New Zealand brand continues to resonate with consumers, education and tourism stakeholders.

Statistics: NZ-Korea bilateral goods trade (YE Sept 2021⁴)

Total (*goods*) trade

	TOTAL TRADE	TOTAL EXPORTS	TOTAL IMPORTS
2021	\$4.44 billion (-1%)	\$1.78 billion (+3%)	\$2.65 billion (-3%)
2020	\$4.49 billion (+10%)	\$1.73 billion (+1%)	\$2.75 billion (+16%)
2019	\$4 billion (-5%)	\$1.71 billion (+1%)	\$2.36 billion (-8%)

New Zealand's top (*goods*) trading partners

	TOTAL TRADE	TOTAL EXPORTS	TOTAL IMPORTS
1. China	\$33.8 billion	\$19.4 billion	\$14.4billion
2. Australia	\$15.1 billion	\$7.8 billion	\$7.3 billion
3. US	\$11.9 billion	\$6.5 billion	\$5.3 billion
4. Japan	\$7.3 billion	\$3.3 billion	\$3.9 billion
5. South Korea	\$4.4 billion	\$1.7 billion	\$2.6 billion
6. Germany	\$3.8 billion	\$814 million	\$3 billion
7. Thailand	\$3.8 billion	\$994 million	\$2.8 billion
8. UK	\$2.8 billion	\$1.4 billion	\$1.4 billion
9. Singapore	\$2.6 billion	\$1.1 billion	\$1.4 billion

Top (*goods*) exports to South Korea

CATEGORY	2021	2020	2019
1. Wood	\$324.40 million (+15%)	\$282.68 million (-17%)	\$342.68 million (-12%)
2. Aluminium	\$223.69 million (-3%)	\$230.77 million (+15%)	\$200.98 million (+17%)
3. Dairy	\$217.63 million (-17%)	\$263.65 million (+17%)	\$226 million (+8%)
4. Fruits and nuts	\$196.55 million (+22%)	\$160.63 million (+9%)	\$146.69 million (+24%)
5. Meat and edible offal	\$179.95 million (+7%)	\$167.84 million (+19%)	\$141.50 million (-18%)
6. Misc. Food Stuffs	\$107.78 million (+5%)	\$102.58 million (-27%)	\$140.21 million (+35%)
7. Paper products	\$82.67 million (+42%)	\$58.38 million (-6%)	\$62 million (-17%)

⁴ All figures in NZD

Top (**goods**) imports from South Korea

CATEGORY	2021	2020	2019
1. Mineral fuels and oils	\$1.13 billion (-4%)	\$1.19 billion (+25%)	\$955.74 million (-16%)
2. Vehicles and parts	\$536.46 million (+75%)	\$306.73 million (-31%)	\$444.60 million (-0.04%)
3. Heavy machinery	\$108.11 million (+14%)	\$161.99 million (-11%)	\$182.07 million (-9%)
4. Plastics	\$102.06 million (+4%)	\$95.19 million (-5%)	\$99.96 million (+5%)
5. HS98: Items not identified and valued below \$20,001	\$93.88 million (+20%)	\$78.17 million (-2%)	\$80 million (-8%)
6. Iron and steel	\$93.71 million (+5%)	\$89.52 million (-34%)	\$135.99 million (+40%)
7. Electrical machinery	\$73.83 million (+3%)	\$71.83 million (-13%)	\$82.41 million (+14%)

More reports

View full list of market reports from MFAT at www.mfat.govt.nz/market-reports

If you would like to request a topic for reporting please email exports@mfat.net

To get email alerts when new reports are published, go to our [subscription page](#).

To contact the Export Helpdesk

Email exports@mfat.net

Call 0800 824 605

Visit Tradebarriers.govt.nz

Disclaimer

This information released in this report aligns with the provisions of the Official Information Act 1982. The opinions and analysis expressed in this report are the author's own and do not necessarily reflect the views or official policy position of the New Zealand Government. The Ministry of Foreign Affairs and Trade and the New Zealand Government take no responsibility for the accuracy of this report.

