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### Summary

- The Korean economy contracted by only 1% last year thanks to no lockdown, massive government intervention and strong exports in the last quarter. The economy is now projected to rebound by as much as 3% this year.
- Our trade with Korea has held up relatively well (+1%) when compared to the overall performance of New Zealand's two-way trade with the world (-13%).
- The strong performance of food and beverage products in Korea (such as kiwifruit, wine, meat, and dairy) has softened the impact of COVID on two-way trade.
- New Zealand exporters are well positioned to capitalise on fast growing e-commerce opportunities in Korea and the New Zealand brand continues to thrive.
- But performance in other areas was mixed, with exports of timber, electrical machinery, seafood, and iron/steel to Korea declining.
- There is persistent underlying Korean demand for New Zealand education which Education New Zealand has been working with partners to capitalise on.
- But the worst is yet to be reflected in tourism statistics which do not currently capture the impact of COVID on summer peak tourism season.

### Report/findings

We report on the performance of goods and services trade with the Republic of Korea in 2020, our 7th largest trading partner<sup>1</sup> and 5th largest export market for goods<sup>2</sup>.

#### **“Bright outlook for the Korean economy” – President Moon**

2 Although Korea was one of the first countries hit by COVID, and continues to suffer from a stubborn tail of cases, the government has been rewarded for successfully containing the virus within manageable levels with no lockdown.

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<sup>1</sup> Excluding the EU as a bloc

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3 The Korean economy contracted by only 1% last year - the highest growth rate in the OECD – supported by massive government intervention (more than 14% of GDP) and a recovery for exports (up 5.2% in Q4).

4 The Korean economy is now projected to rebound by as much as 3% this year. President Moon has trumpeted the “bright outlook” which he hopes will help the economy “return to its pre-COVID-19 state in the first half of this year”.

#### **Overall two-way trade is balanced but patchy**

5 New Zealand trade with Korea has held up relatively well – up 1% to \$4.8 billion<sup>3</sup> – particularly when compared to New Zealand’s overall two-way trade with the world (which declined 13% due to falling exports and imports).

6 While total exports to Korea declined 5.4% (due in large part to collapsing services exports), this was offset by a 6.7% increase in imports from Korea, thanks to the delivery of the HMNZS Aotearoa, without which Korean imports would have fallen.

7 The strong performance of agricultural exports (such as kiwifruit, wine, meat, and dairy) helped to drive goods exports up 1.6%. Primary exports now account for 76% of our total goods exports to Korea – and are up 80% since the Korea-New Zealand Free Trade Agreement (KNZFTA) was concluded in 2015.

8 In other areas, export performance was mixed. Exports of electrical machinery (-25%), seafood (-19%), and iron/steel (-50%) all struggled. Timber, our largest goods export category (\$289 million) has been steadily declining in recent years and fell by another 7% due, in part, to slowing construction and manufacturing in Korea.

9 Trade in services has fallen precipitately due to COVID restrictions on international travel and transport, with a 27% decline in exports to Korea and 30% decline in imports from Korea. However, the worst has yet to be seen as statistics do not reflect the impact of COVID on the summer peak tourism season.

#### **The good news: F&B exports soar**

10 COVID has strengthened Korean appetite for New Zealand food and beverage products (F&B), with exports growing 7% to \$839 million.

11 Kiwifruit exports reached new highs, growing 25% in value and 17% in volume. Korean consumers are willing to fork out more for high quality produce, and have driven kiwifruit exports up by 200% (in value) and 105% (in volume) since 2015.

12 Exports of wine broke new ground to reach \$9 million (up 109%). By comparison, the overall Korean wine market grew only 27% last year. Wine Intelligence has rated Korea the ‘second most

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<sup>3</sup> All figures in NZD

attractive wine market globally' due to the high growth of wine consumption in Korea over the past decade (up by more than 60%).

13 Our meat products have performed well, with a 22% increase in exports (now \$176.5 million). Lamb exports (\$13 million) have tripled in value since 2015 but strong international demand has made it a challenge securing a steady supply of New Zealand meat at consistent prices in Korea.

14 Dairy exports held strongly (\$248.6 million), up 3%. Korean demand for whey (+80%), cheese (+28.7%), and infant formula (+11.6%) grew, although butter exports declined 20% and continue to face stiff competition from US and EU butter products who enjoy a tariff advantage.

#### **Online retail sales dominate during COVID era**

15 New Zealand exporters have capitalised on the growth of e-commerce in Korea through dominant local platforms such as Naver, Coupang and Ebay Korea (which operates Gmarket, Auction, G9). Online transactions in Korea grew 19% last year and 70% of all online sales are now completed through mobile devices. Online sales of groceries (+14.4%), fast food (+13.4%), and home appliances and electronic goods (+12.4%) have been particularly successful.

16 To help exporters grow sales through e-commerce channels and digital promotion and marketing strategies, New Zealand Trade and Enterprise (NZTE) has employed an additional Business Development Manager (based in Seoul).

#### **Rebuilding education: strong underlying demand**

17 Korean demand for education in New Zealand took a hit due to our border settings and reluctance from Korean parents to send their children abroad, but there are signs of underlying demand for education. For example, Education New Zealand's Korean blog was viewed 13,644 times over the last six months.

18 Latest statistics show there are almost two thousand Korean students in New Zealand, down 70% from 2019 levels. The majority are in the school sector (down 55% from 2019 levels) but there are also almost 500 Korean students outside New Zealand that hold a valid student visa.

19 Encouragingly, from March 2021 students can begin studying in Korea towards a New Zealand qualification, made possible thanks to a new partnership between ENZ, eight New Zealand universities, and UK-based education pathway provider Northern Consortium United Kingdom (NCUK).

20 ENZ has strengthened its partnership with Seoul's Metropolitan Office of Education by signing an Education Cooperation Arrangement. The Arrangement will promote education opportunities and support student exchanges during COVID (virtually) and post-COVID (physically).

#### **The bad news: Tourism to get worse**

21 After returning to growth just before COVID, outbound tourism from Korea is suffering badly. The worst is yet to show up in the numbers as statistics do not reflect COVID impact on summer peak

tourism. 26,326 Koreans visited New Zealand in 2020, a 70% decrease on 2019. Although Korea remains our seventh<sup>4</sup> largest market for visitor arrivals, the value of travel exports has dropped 30% to \$328 million.

22 Air New Zealand and Korean Air both maintain regular freight (once a week by Air New Zealand and twice a month by Korean Air) and passenger flights (once a month by Air New Zealand and twice a month by Korean Air).

### **What lies ahead?**

23 The strength of our primary sector exports (such as kiwifruit, wine, meat, and dairy) has helped to soften the blow of COVID on trade with Korea. But while there may be a silver lining for education, the dire situation for tourism, falling imports, and patchy performance of other exports (such as electrical machinery, seafood, and iron/steel) suggests the road to recovery will be long.

24 The good news is that New Zealand exporters are 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 benefit from our successful response to COVID which is resonating with consumers, education and tourism stakeholders.

ENDS

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<sup>4</sup> Behind Australia, US, UK, China, Germany and Canada

ANNEX 1: NZ/SOUTH KOREA TRADE STATS: FULL YEAR 2020<sup>5</sup>*Total (goods and services) trade*

	TOTAL TRADE	TOTAL EXPORTS	TOTAL IMPORTS
<b>2020</b>	<b>\$4.81 billion (+1%)</b>	<b>\$2.1 billion (-5.4%)</b>	<b>\$2.71 billion (+6.7%)</b>
2019	\$4.76 billion (-9.5%)	\$2.22 billion (-6.3%)	\$2.54 billion (-12.1%)
2018	\$5.26 billion (+30%)	\$2.37 billion (+18%)	\$2.89 billion (+43%)

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

	TOTAL TRADE	TOTAL EXPORTS	TOTAL IMPORTS
1. China	\$31.4 billion	\$18.6 billion	\$12.8 billion
2. Australia	\$22.4 billion	\$11.6 billion	\$10.8 billion
3. US	\$17.5 billion	\$9.8 billion	\$7.7 billion
4. Japan	\$7.2 billion	\$4.1 billion	\$3.1 billion
5. Singapore	\$5.1 billion	\$1.4 billion	\$3.7 billion
6. UK	\$4.84 billion	\$2.7 billion	\$2.1 billion
<b>7. South Korea</b>	<b>\$4.81 billion</b>	<b>\$2.1 billion</b>	<b>\$2.71 billion</b>
8. Germany	\$4.7 billion	\$1.4 billion	\$3.3 billion
9. Thailand	\$3.2 billion	\$1 billion	\$2.2 billion

*Top (goods and services) exports to South Korea*

CATEGORY	2020	2019	2018
1. Travel	\$328 million (-30%)	\$471.4 million (-17%)	\$573.5 million (+19%)
2. Wood	\$289 million (-7%)	\$311.7 million (-19%)	\$388.5 million (-6%)
3. Dairy	\$248.6 million (+3%)	\$239.5 million (+13%)	\$210.5 million (+23%)
4. Aluminium	\$240.4 million (+19%)	\$202 million (+12%)	\$179.5 million (+41%)
5. Meat and edible offal	\$176.5 million (+28%)	\$137.7 million (-22%)	\$177.1 million (+10%)
6. Fruits and nuts	\$168.2 million (+21%)	\$138.6 million (+9%)	\$126.3 million (+41%)
7. Misc. Food Stuffs	\$100.6 million (-21%)	\$127.5 million (+7%)	\$118.4 million (+15%)

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

CATEGORY	2020	2019	2018
1. Mineral fuels and oils	\$1.04 billion (-2%)	\$1.06 billion (-15%)	\$1.26 billion (+116%)
2. Ships and boats	\$393 million (+590,000%)	\$66,548 (-99.9%)	\$72 million (+146,000%)
3. Vehicles	\$334 million (-22%)	\$434 million (-3%)	\$451 million (-0.22%)
4. Machinery	\$160 million (-3%)	\$166 million (-16%)	\$200 million (+15%)
5. Plastics	\$90 million (-12%)	\$103 million (+7%)	\$95 million (+6%)
6. Iron and steel	\$83 million (-33%)	\$125 million (+13%)	\$109 million (+31%)

*Goods trade*

	TOTAL GOODS TRADE	TOTAL GOODS EXPORTS	TOTAL GOODS IMPORTS
<b>2020</b>	<b>\$4.3 billion (+5.8%)</b>	<b>\$1.71 billion (+1.6%)</b>	<b>\$2.62 billion (+8.8%)</b>
2019	\$4.1 billion (-9%)	\$1.68 billion (-3.3%)	\$2.41 billion (-12%)
2018	\$4.5 billion (+32%)	\$1.74 billion (+16%)	\$2.76 billion (+44%)

*Services trade*

	TOTAL SERVICES TRADE	TOTAL SERVICES EXPORTS	TOTAL SERVICES IMPORTS
<b>2020</b>	<b>\$474 million (-27%)</b>	<b>\$389 million (-27%)</b>	<b>\$85 million (-30%)</b>
2019	\$656 million (-13%)	\$534 million (-15%)	\$122 million (-5.4%)
2018	\$759 million (+18%)	\$630 million (+20%)	\$129 million (+11%)

<sup>5</sup> All figures in NZD