

Prepared by the New Zealand Embassy in Seoul

Summary

- Government intervention and a U-turn for exports helped the Korean economy grow 1.9% in Q3, recovering from its sharpest contraction in more than 10 years.
- The Korean economy is now expected to contract by around 1% in 2020, still markedly less than other OECD countries (6-8%).
- Analysis of the latest trade statistics, and feedback from business, shows COVID continues to have a mixed impact on New Zealand business in Korea – bad for tourism and education but good for food, beverage and online retail sales.
- Goods exports have held up well.
- COVID has seen online retail sales surge, particularly for food and beverage and health supplements, such as dairy (up 16%), meat (up 18%), kiwifruit (up 15%), and wine (up 25%).
- Our COVID management has enhanced New Zealand's reputation for safe, natural and reliable goods and service.
- Timber, our largest export category (\$283 million¹) continues its steady decline in recent years, reflecting reduced demand for logs and timber in Korea.
- We are seeing a marked increase in interest in the Korean market. Since July, 51 new companies have enquired about opportunities in Korea in sectors including F&B, manufacturing, technology, and services.
- Overall trade remains balanced but New Zealand's surplus in services is likely to disappear this year.
- While overall trade remains stable at around \$5 billion, growth in sectors like F&B has been offset by falls in services trade and imports of television/electrical parts (down 17%), paper (down 13%), and iron/steel (down 15%) by Korea.
- Korea's position in our trade ranking has fallen slightly. Korea now ranks as our 8th largest trading partner, though 6th most important for goods².
- Air New Zealand suspended flights in March 2020, but both Korean Airlines and Air NZ have since restarted regular freight and (fewer) passenger flights.

Report/Findings

We provide an update on the impact of COVID on two-way goods and services trade between New Zealand and the Republic of Korea, our 8th largest trading partner³ and 6th largest export market for goods⁴.

Korea's V-shaped recovery

2 Massive government support (14% of GDP) and a bounce-back by exports (up 15.6% in Q3) helped the Korean economy post a 1.9% growth rate in Q3, recovering from its sharpest contraction in more than 10 years.

¹ All figures in NZD

² Excluding the EU as a bloc

³ Excluding the EU as a bloc

⁴ Excluding the EU as a bloc

Economists now forecast that the economy will contract by around 1% this year, the worst performance since 1998, but reinforcing Korea's status as the least affected economy in the OECD.

Overall trade remains stable

3 Total two-way (goods and services) trade between Korea and New Zealand remains well balanced in latest statistics⁵, at \$5 billion, although we expect that New Zealand's surplus in services (\$412 million) is likely to disappear this year given the impact COVID has had on the tourism and education sector.

4 Goods exports have, however, held up remarkably well, growing by 1.3% to reach \$1.7 billion. In particular, primary sector exports have increased by 24% since the Korea-New Zealand Free Trade Agreement entered into force in 2015, now comprising 75% (or \$1.3 billion) of New Zealand's total goods exports to Korea.

5 Growth in sectors like F&B has been offset by falls in exports of both services and imports of television/electrical parts (down 17%), paper (down 13%), and iron/steel (down 15%) by Korea.

6 Goods imports from Korea to New Zealand saw strong growth this year (up 18%), driven by a 25% increase (in value) in petroleum products from Korea (now \$1.1 billion) and the delivery of HMNZS Aotearoa (which alone accounted for almost \$400 million).

Timber exports continue to fall

7 Timber, our largest export category (\$283 million) has been steadily declining in recent years and fell by another 17% in value (and 10% in volume) on the previous year. This was the result of slowing construction in manufacturing in Korea, which has softened demand for timber (used for boxes, packaging, cable drums) and logs (used in building construction), with imports declining 21% and 13%, respectively, over the last year.

F&B exports performing well

8 Appetite for New Zealand food and beverage (F&B) products in Korea has continued to soar, with exports now valued at \$851 million (up 8% on the previous year, and up 68% since the Free Trade Agreement entered into force in 2015).

9 Dairy products in particular have performed well, with exports increasing by 16% on the previous year to reach just over \$260 million. Consumption of dairy in Korea now exceeds consumption of rice, with further growth expected. Domestic supply of dairy in Korea is also in decline, pushing up overall demand for imported dairy products.

10 New Zealand meat products are also doing well in Korea, with an 18% increase in exports compared to last year (now valued at \$165 million). This indicates a return to pre-2019 levels after a decrease of 18% last year.

11 New Zealand kiwifruit exports to Korea (\$155 million / 34,000 tonnes) reached new highs in the past year, rising by 20% in value and 10% in volume. Kiwifruit remains popular in Korea, particularly among middle-aged consumers, due to the fruit's perceived health benefits.

12 Consumption of New Zealand alcohol in Korea also appears to be breaking new ground, with wine exports growing 25% to reach \$4.3 billion, and beer exports soaring off a low base (of \$168,000) to reach \$355,000 – a 345% increase. Sales of wine through hypermarkets and convenience stores has been particularly strong.

⁵ Trade in services statistics are only available for the year ending June 2020.

Online retail sales surge

13 Online retail sales continue to surge in Korea, reflecting increased demand, especially for health supplements and Home Meal Replacements (HMRs), as more Koreans dine at home.

14 New Zealand food and beverage on Korean e-commerce websites (such as Coupang and Market Kurly) have seen steady growth. Some New Zealand exporters have had to fill additional orders as stocks have sold out.

Resuscitation of horseracing industry

15 Horseracing in Korea stopped in February because of COVID and resumed in June, only to be suspended a second time by the Korean Racing Association (KRA) in September. With limited off-course betting and no online betting in Korea lack of public attendance threatened the collapse of the industry income. Racing has again resumed.

16 The government is giving prizemoney to all horses (with reduced stakes for winning) to support the industry and horse owners. The resumption of racing restores the prospect of importing more New Zealand horses.

17 As we reported in June, three (of nine) New Zealand horses imported by the Seoul Racehorse Owners Association after the conclusion of a Memorandum of Arrangement between the two racing industry authorities in November 2019 ran well in their first race since arriving in Korea (also the first race day after COVID restrictions were lifted). The strong showing – taking 1st, 2nd, and 5th places (out of 11) – generated new interest in Bloodstock New Zealand. All eight other horses were from the United States.

18 Developing this area for New Zealand exports builds on the strong brand New Zealand has around agriculture and animal husbandry, but in a sector traditionally dominated by US-sourced horses.

Underlying demand for education

19 Education and tourism make up most of New Zealand's \$524 million in services exports to Korea (down 9%) – but have fallen precipitately due to COVID. We expect that New Zealand's surplus in services is likely to disappear this year once more recent statistics become available.

20 Korean demand for education in New Zealand has taken a hit because of New Zealand border settings and reluctance from Korean parents to send their children abroad at this time, but there continue to be signs of persistent underlying demand.

21 Education travel services accounted for \$239 million (down 7%) in the year ending June 2020. Some 2,592 Korean students remain enrolled in New Zealand, down 60% from pre-COVID levels. With current border settings, these students (including 1,492 primary/secondary students) will need to decide whether to remain in New Zealand until the new term starts in 2021, or withdraw from their studies to return to Korea.

22 Pre-COVID, Korea was New Zealand's fourth largest source country for international students, the highest per capita source of international students in New Zealand among competitors, with a growing trend towards primary/secondary education rather than tertiary.

Tourism suffering badly

23 After returning to growth just before COVID hit, outbound tourism from Korea is suffering badly. 68,097 Koreans visited New Zealand in the year ending June 2020, a 22% decrease on 2019. Korea is our seventh largest market for both visitor arrivals and holiday arrivals with tourism exports valued at \$193 million (down 20%).

24 Although Air New Zealand was obliged to suspend direct flights between Auckland and Seoul in March 2020 due to COVID (after launching them in November 2019), both Korean Airlines and Air New Zealand have since restarted regular freight and (fewer) passenger flights.

25 New Zealand imported \$109 million in services from Korea this year, led by transportation services (\$42 million), and government services (\$6 million).

Investment opportunities

26 Korean investment in New Zealand remains relatively low compared to the profile of bilateral trade. Korea has a strong history of investment in commercial forestry as well as food processing and mining. Existing investment has tended to target securing supply chains for Korean manufacturing.

27 As of September 2020, Korean investments in New Zealand were valued at \$508 million. New Zealand investments in Korea were valued at \$851 million. NZTE has assessed that there is good potential to increase investment from Korea particularly in hydrogen, wood processing, dairy and pet food production.

NZTE's new customers

28 There has been a noticeable increase in New Zealand companies interested in the Korean market. Since July 2020, NZTE had 51 companies new to the NZTE office in Seoul make enquiries about export opportunities or to further develop their business in Korea. These new companies are in a range of sectors: 25 food and beverage; 14 manufacturing; 6 technology; and 6 others (services/agri-tech).

29 These companies have chosen Korea for greater focus for several reasons. Some companies are looking to diversify out of China and are seeking an alternative Asian market. Other companies have seen that the Korean economy is doing (relatively) well and are considering it as part of their export growth plan.

30 There have also been a number of cases where potential Korean partners have sought out New Zealand companies through web searches, highlighting the need for a strong digital/online presence.

31 NZTE in Korea are running a number of activities to help New Zealand exporters that are unable to travel further develop their business in the market.

ANNEX 1: TRADE WITH SOUTH KOREA: STATISTICS⁶

Total (goods and services) trade (year ending June 2020)

	TOTAL TRADE	TOTAL EXPORTS	TOTAL IMPORTS
2020	\$5 billion (+3%)	\$2.2 billion (-6%)	\$2.8 billion (+13%)
2019	\$4.9 billion (+3%)	\$2.3 billion (+9%)	\$2.5 billion (-2%)
2018	\$4.7 billion (+17%)	\$2.1 billion (+9%)	\$2.6 billion (+26%)

New Zealand's top (goods and services) trading partners (year ending June 2020)

	TOTAL TRADE	TOTAL EXPORTS	TOTAL IMPORTS
1. China	\$32 billion	\$19 billion	\$13 billion
2. Australia	\$25 billion	\$13 billion	\$12 billion
3. US	\$18 billion	\$9.8 billion	\$9 billion
4. Japan	\$8.2 billion	\$4.4 billion	\$3.7 billion
5. Singapore	\$5.9 billion	\$1.7 billion	\$4.2 billion
6. UK	\$5.6 billion	\$2.9 billion	\$2.6 billion
7. Germany	\$5.4 billion	\$1.5 billion	\$3.8 billion
8. South Korea	\$5 billion	\$2.2 billion	\$2.8 billion
9. Thailand	\$3.7 billion	\$1.1 billion	\$2.5 billion

Goods trade (year ending September 2020)

	TOTAL GOODS TRADE	TOTAL GOODS EXPORTS	TOTAL GOODS IMPORTS
2020	\$4.48 billion (+10%)	\$1.73 billion (+1.3%)	\$2.75 billion (+16%)
2019	\$4.08 billion (-4.5%)	\$1.71 billion (-1.4%)	\$2.36 billion (-8.5%)
2018	\$4.27 billion (+25%)	\$1.68 billion (+12%)	\$2.58 billion (+34%)

Top goods export (NZ to Korea) categories (year ending September 2020)

	2020	2019	2018	2017
Timber	\$282 million (-17%)	\$342 million (-11%)	\$388 million (-8%)	\$424 million (+6%)
Dairy	\$263 million (+16%)	\$226 million (+7%)	\$210 million (+17%)	\$178 million (+30%)
Aluminium	\$230 million (+14%)	\$200 million (+16%)	\$172 million (+37%)	\$125 million (+51%)
Meat	\$167 million (+18%)	\$141 million (-18%)	\$173 million (+4%)	\$166 million (+1%)
Fruit	\$160 million (+10%)	\$146 million (+23%)	\$118 million (+29%)	\$91 million (+23%)

Services trade (year ending June 2020)

	TOTAL SERVICES TRADE	TOTAL SERVICES EXPORTS	TOTAL SERVICES IMPORTS
2020	\$627 million (-10%)	\$520 million (-9.5%)	\$107 million (-16%)
2019	\$702 million (+0%)	\$574 million (-0.8%)	\$128 million (+5%)
2018	\$701 million (+11%)	\$579 million (+17%)	\$122 million (-5.4%)

⁶ All figures in NZD

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