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Summary

- The **New Zealand brand** appears to be benefitting from New Zealand's successful response to COVID-19, creating a good impression with many Korean stakeholders.
- **Online retail sales** in Korea continue to soar, particularly for F&B and PPE products.
- **New Zealand horticulture** exporters report consistent sales and good market responsiveness in Korea with little disruption caused by COVID-19.
- **Manufacturers** appear to be facing headwinds, including a big decline in the market demand this year for interior and building materials exporters.
- Korean demand for primary and secondary **education** in New Zealand is expected to take a hit as a result of reluctance from Korean parents to send their children abroad, but there are signs of persistent underlying demand.
- **Outbound tourism** from Korea is suffering badly. It is expected that once employment retention support ends – around September – restructures or closures will be unavoidable for many travel agents.
- NZ-owned **Skyline**, which operates a large luge in Tongyeong – New Zealand's largest investment in Korea – report a partial recovery in sales over the long weekend period (30 April – 1 May).
- **Air freight** continues to be challenged by limited connections and rising costs, but the reintroduction of flights through Narita is a positive development.

Report/findings

Following our initial report on 20 April we provide an update on the impact of COVID-19 on New Zealand businesses in Korea. In addition to a continuation of trends we reported on last month – including strong growth in online sales for food and beverage products and Personal Protective Equipment (PPE) and inactivity in international tourism – we see signs of a partial recovery for the domestic tourism market in Korea (which has largely remained open for business) and some silver lining for education. Overall, New Zealand's successful response to the pandemic appears to have left a good impression on not only Korean consumers, but also education and tourism stakeholders.

Strong growth in online sales

2 Online retail sales have continued to experience strong growth in Korea. Government statistics show that online transactions in March were up 11.8% from the same period last year, and up 24.5% on the previous month. Compared to last year, online demand has surged in particular for

food and beverage products (up 59.4%), food delivery services (up 75%) and sanitisers and detergent (up 46.9%).

3 We have also seen shifts in the preferred method for online shopping in Korea. As of March, mobile devices now account for 67.3% of all online sales (compared with other devices such as laptops), having grown by 19.2% compared to the previous year.

Horticulture exports remain stable

4 Horticulture exporters report consistent sales and good market responsiveness in Korea. Although retail sales have declined, this has been attributed to warmer weather in Korea - rather than COVID-19 - that has resulted in the early production of fruit, around the same time as New Zealand's first shipments began arriving.

5 The wholesale of fruit to smaller supermarkets in Korea has increased driven by the tendency for people to purchase fruit from shops close to home rather than from large hypermarkets. New Zealand horticulture exporters have also shunned traditional channels for product launches in favour of webinars. Feedback from partners and major distributors in Korea has been very positive about the webinars.

6 Exporters believe that the promotion of products through word-of-mouth has had a greater impact on sales this year vis-à-vis last year. Promotional activities involving the New Zealand Ambassador this month have garnered media coverage and have reportedly resulted in stronger sales. Following the relaxation of the government's social distancing campaign, some horticulture exporters intend to move ahead with road shows (e.g. in-store, face-to-face promotions).

Headwinds for manufacturers

7 Interior and building materials exporters to Korea appear to have avoided immediate economic fallout from COVID, largely due to existing contracts stretching back as far as two years for the construction of apartments and hotels. A reduction in the value of contracts concluded this year by at least 50% due to COVID related disruptions is, however, expected to result in weaker sales from around the second half of 2022 onwards. Exporters are focused on securing additional contracts to weather the storm.

Some silver lining for education

8 Korean demand for primary and secondary education in New Zealand – historically strong – is expected to weaken, at least temporarily, as a result of growing reluctance from Korean parents to send their children abroad in the immediate aftermath of the pandemic. New Zealand's successful response to COVID-19, however, appears to have left a good impression on international education stakeholders in Korea. Anecdotal evidence from Korean education agencies suggests that many Koreans who left New Zealand following the outbreak of COVID-19 wish to return in the second half of the year to continue their studies.

9 Education agencies in Korea representing New Zealand providers report an uptick in tertiary education-related queries which may suggest continued underlying long-term demand. The

uncertainty around when New Zealand's borders will re-open for Korean students remains the biggest reported challenge. Education New Zealand is continuing to keep agents updated to ensure that New Zealand remains a favourable study abroad option whenever we might be able to return to normalcy.

10 Korean education agencies are eager to resume promotional activities to recruit students for the 2020/2021 intake. Working with Education New Zealand and providers in New Zealand, the agents have been delivering online promotional activities to replace traditional face-to-face activities in-market. Close partnerships with local education agencies will be important in delivering a successful online education offering with credits at a competitive price.

Signs of life in domestic tourism market

11 Compared to the previous year, online sales of cultural events and tour products domestically in March shrank by 88.9% and 73.4% respectively. The good news is that NZ-owned Skyline, which operates a large luge in Tongyeong – New Zealand's largest investment in Korea – report a partial recovery in sales over the long weekend period (30 April – 1 May). Visitor numbers reportedly rose to 60% and 80% of last year's average weekday and weekend visitor numbers respectively.

14 Tourism operators have begun to receive employment retention support from the Korean government. NZTE is working with operators to identify whether the Emergency Disaster Relief Allowance provided to all households (ranging from NZD500 – NZD1350 depending on income and household number) can be spent on tourism activities.

Additional losses for international tourism

15 The situation for outbound international tourism remains grim. Hana Tour, the largest wholesale travel provider in Korea recorded a loss of KRW27 billion (NZ\$36.6 million) in the first quarter and expects losses to continue in the second quarter. The company also announced unpaid leave for non-essential staff from June until August. Mode Tour, the second largest wholesale travel provider in Korea has also extended its paid leave scheme for current employees until July.

16 The Korea Association of Travel Agents report that over 280 travel agents have closed this year and over 5,500 agents have applied for employment retention support from the government. It is expected that once employment retention support ends – around September – restructures or closures will be unavoidable for many agents.

17 A recent survey by Global Travel News on the market sentiment in the Korean domestic travel industry showed that 27% respondents did not expect a recovery until July, 31.1% of respondents did not expect a recovery until after September, and 23% of respondents did not expect a recovery until the end of 2020.

Air freight

18 Air freight continues to be a challenge for New Zealand exporters due to limited connections and rising costs (2-5 times higher than normal times). NZTE are currently exploring freight capacity –

which we understand is limited – on a one-off Korean Air flight from Auckland to Incheon on 27 May. The reintroduction of Air New Zealand flights to Narita is also likely to help exporters into Korea. We understand that Mainfreight will shortly resume air freight between Auckland and Incheon via Narita although dates and frequency have yet to be determined.

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