



NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

FEBRUARY 2024

South Korea: Trade and Economic Report

MARKET INTELLIGENCE REPORT

Summary

South Korea Trade and Economic Update (Part 1)

- After a bumpy 2023 affected by global economic downturns, changing relations with the US and China, and fluctuation within the semiconductor industry, 2024 looks to be the year Korea focuses on stabilisation and economic growth. This is not going to be without challenge however, with domestic issues, such as the declining fertility rate, set to have a significant impact on Korea's fiscal policy and economic future. Underpinned by the Korea-New Zealand Free Trade Agreement (KNZFTA), the bilateral trade and economic relationship is an area of both success and opportunity, and there is room for significant growth. In 2024, Korea and New Zealand will hold both the KNZFTA Joint Commission and the Korea-New Zealand Joint Economic Consultations.

Report

This report provides an overview on Korea's economy as well as our bilateral trade and economic relationship.

Korean Economic Update

Last year was a challenging one for the Korean economy. According to the Ministry of Trade, Industry and Energy (MOTIE), Korea's exports saw a 7.4 percent decline in 2023, largely driven by the downturn in the semiconductor sector and global economic uncertainties. Economic issues will be at the forefront of the political agenda ahead of this April's National Assembly Election, and the government has stated that its focus for the year ahead will be to stabilise and revitalise the economy.

Korea's forecasted economic growth for 2024 is estimated at 2.4 percent. Reflecting the public's prioritisation of economic performance in voting, President Yoon focused his New Year's speech on economic revitalisation. The speech centred on increasing export activities, large scale investment into the semiconductor industry, and the financial burden of small to medium enterprises (who make up 99 percent of number of enterprises in Korea and 48 percent of exports). Electric vehicles, semiconductors, and continued economic diplomacy in the Middle East were identified as key drivers for Korea's economic recovery in 2024.

The negative economic effects of the declining fertility rate

One of the biggest economic challenges Korea continues to face is their record low fertility rate (the average number of children born to a woman over her lifetime). This is already having a detrimental impact on the country's economy and is only going to grow as the population ages, the work force reduces, schools are forced to close due to lack of students, and rural populations decline. Policy makers continue to grapple with solutions to resolve the issue. There is no easy answer.

The statistics alone tell a stark story. According to Statistics Korea:

- Korea's fertility rate continues to set world record lows, hitting 0.72 in 2023 – little more than a third of the rate required to maintain a population (2.1), assuming no immigration.
- The number of newlyweds has been decreasing year on year over the past decade, with only 1.03 million in 2022, and less than 1 million in 2023.
- Among newly married couples, 46.4 percent have no children, the highest since records began in 2015.
- Korea's population (currently 51.6 million) is expected to decline to 26.3 million by 2072 if the fertility rate does not increase.
- By 2072, Korea is expected to be the only OECD member with a workforce that makes up less than 50 percent of the total population.
- The proportion of seniors aged 65 and above is expected to rise from 17.4 percent in 2022, to 47.7 percent in 2072.

Addressing this issue is a key priority for the Yoon Government. So far, measures introduced have focused on financial incentives, including tripling monthly allowances paid to parents of children under two and a reduction of mortgage interest rates for parents. Policymakers are now looking for ways to cope with the aging society and coming to terms with the reality that it will take decades to reverse the demographic trend. A significant amount of budgetary and policy focus will be required to mitigate the effects and invest in the future.

Bilateral trade relationship

Our trade relationship has been strengthened by the KNZFTA, which came into effect in 2015. Korea is currently New Zealand's fifth largest trading partner with NZ\$8.81 billion in total trade to year end September 2023. Key New Zealand exports to Korea include dairy, aluminium, and wood (total exports: NZ\$2.86 billion), and key imports from Korea include mineral fuels and oils, and vehicles and machinery (total imports: NZ\$5.95 billion), with the trade balance favouring Korea to the tune of over NZ\$3 billion.

There are many success stories to highlight in our bilateral trade relationship, but two recent examples of note are Zespri Korea and health tech.

- Zespri Korea recently celebrated one million trays of domestically produced Zespri gold kiwifruit. While this achievement has taken over 10 years, the next million is already in the Zespri team's sights. The Zespri-licensed gold kiwifruit grown in Korea's southern island of Jeju is a real success story of bilateral agricultural cooperation. The Jeju operation consists of 292 growers and three pack houses. The Governor of Jeju has recently granted access for Zespri kiwifruit growers to a Free Trade Agreement Supporting Fund (a Korean government support fund for Jeju domestic growers), the first time access has been granted to a foreign brand.

- In December 2023, Korean AI cancer diagnostics company Lunit announced their US\$193 million acquisition of New Zealand based Volpara Health – renowned for its AI-enabled software for early detection and prevention of breast cancer. This is a major investment which recognises New Zealand’s expertise in the health tech sector.
-

Bilateral economic cooperation

Beyond trade, Korea and New Zealand enjoy many areas of positive economic cooperation, including in science and technology, tourism, education, energy, and agriculture.

Science and technology: This year Korea and New Zealand will hold the annual Korea-New Zealand Joint Commission Meeting on Science and Technology. Health technology, agritech, and AI are emerging as key areas of mutual priority for Korea and New Zealand. While Korea and New Zealand are yet to cooperate on issues of space research, Korea has been emerging as a key player in the space industry, developing its own indigenous rockets and contributing to space research and development.

Tourism: In 2019, Korea was New Zealand’s seventh largest tourism market in terms of visitor numbers (86,608) and an important source of visitor income. Tourist numbers had risen steeply in the last several years but were hit hard by the COVID-19 border restrictions. Air New Zealand’s announcement of a pause in direct flights from April 2024 and Korean Air’s reduction in number of flights per week will likely have further impacts on these numbers.

Education: Korea was New Zealand’s third largest education market for international students, according to 2022 enrolment data. In the aftermath of COVID-19, New Zealand education providers have seen a revitalisation of student numbers. The school sector (primary and secondary) remains the most popular with Korean students, with 965 Koreans studying in 2022, although still significantly lower than the 2,590 in 2019. The tertiary sector is the second most popular with 515 students in 2022 compared to 545 in 2019. The English language sector has seen the most significant hit, falling from 2,159 in 2019 to 150 in 2022. New Zealand education remains competitive in Korea, particularly in primary and secondary education, with numbers slowly but steadily rising and returning to pre-COVID-19 levels.

Energy: Korea is seeking to dramatically phase down coal-fired power generation and raise nuclear and renewable energy. Importation of green hydrogen is a key strategy for their low-carbon transition, but fossil fuels will likely remain a large part of Korea’s energy reliance in the near future. Clean energy supply is one of Korea’s main challenges, so it is looking to likeminded partners (like New Zealand) as a source of this.

The Korean Embassy hosted a Smart Collaboration Forum in October 2023 to foster discussions on cooperation between New Zealand and Korea on our respective green transitions.

Agriculture: Uniquely, our FTA is the only one for both New Zealand and Korea that has a standalone chapter mandating agricultural cooperation. Through this cooperation arrangement, Korean officials and students conduct yearly exchanges to New Zealand to receive training, conduct technical cooperation activities, and learn from our systems and processes relating to agricultural, forestry, and fisheries management (for example biosecurity surveillance, pest risk analysis, import risk analysis).

This year will provide several opportunities to continue improving the trade and economic relationship, through bilateral engagement (KNZFTA Joint Commission, Joint Economic Consultations) and collaboration in regional and multilateral fora. As our fifth largest trading partner and a top fifteen global economy, Korea has been a successful and significant partner to New Zealand and continues to hold significant potential and opportunity to advance our trade and economic interests.

Summary

South Korea Trade and Economic Update (Part 2)

- As Korea's economy grows, so too does its proactivity on the international stage. We are seeing a more assertive Korea under President Yoon, guided by its Indo-Pacific Strategy. This presents a chance for New Zealand and Korea to step up our cooperation on economic issues of mutual interest, particularly those that align with Korea's current priorities: economic security, supply chain resilience, and energy security.

Report

This report focuses on Korea's external economic policy, its position in regional and global architecture, and its response to global economic issues.

Economic foreign policy approach

Economic security has been a key priority for President Yoon since his inauguration last year. At the end of 2023, while announcing the establishment of a new bureau dedicated to economic security in the Presidential National Security Office, a spokesperson stated that for Korea, “the barrier between diplomacy and economic affairs is blurring”. In addition to the new bureau, the Ministry of Foreign Affairs (MOFA) has an additional National Security Adviser, Wang Yun-jong, in the president's office, who will be responsible for economic security.

Economic security, supply chain resilience, energy security, and critical mineral security are public features of nearly every diplomatic engagement for Korea, reflected in joint statements following last year's high-level visits to the Middle East and UK for example. At the end of 2023, Korea signed an FTA with the Gulf Cooperation Council (GCC), and a Closer Economic Partnership Agreement (CEPA) with the UAE, further reflecting their focus on energy security and supply chain resilience. Korea will also shortly commence the second round of FTA upgrade negotiations with the UK, where these issues will likely feature strongly.

Globally, Korea is asserting itself as a middle power leader, actively promoting the rules-based order, including in the multilateral economic space. Its “Global Pivotal State” approach under Yoon aligns with New Zealand's values-driven and independent foreign policy. Korea often sees value in cooperating with Australia, New Zealand, Canada, and Japan, and has placed a marked priority on the Indo-Pacific region in its global engagements. Already closer to the US than the previous government, President Yoon has worked hard to further strengthen and formalise engagement with the US as well as Japan, while also closely managing its important relationship with China.

Global issues and foreign policy

We, Korea and New Zealand, often find ourselves in the same position, as regional mediators. For Korea, this is often through a role as the bridge between the US and Asia. This has been evident, for example, during recent APEC meetings, in IPEF, RCEP, ASEAN and in increased engagement between Korea, the US, and Japan. Korea's approach to regional economic architecture and the Indo-Pacific more broadly under the Yoon Administration largely aligns with New Zealand's. We both seek to ensure the stability of the rules-based order, and provide balance in addressing geopolitical challenges, while also aiming to strengthen existing regional architecture (particularly ASEAN and PIFs).

Regional/multilateral trade architecture

In 2025, Korea will host APEC. Korea is keen to see an increased mechanism for likeminded partners to discuss key issues in the margins of APEC. It sees APEC as an important economic grouping and has the aim to bring every APEC leader to Korea in 2025 – which would be the first time since the COVID-19 pandemic.

Korea continues to hedge on CPTPP, we expect that the decision-making point for Korea's accession request will follow the April's National Assembly Election.

A key focus of Korea's Indo-Pacific Strategy is digital trade leadership. In 2023 Korea joined the Digital Economic Partnership Agreement (DEPA). We can expect trade digitalisation to feature in Korea's APEC priorities, and it is already a prominent focus of its Indo-Pacific Strategy Action Plan. Digital trade will also likely be a key feature of the UK-Korea FTA negotiations.

Korea is a keen advocate of IPEF as a manifestation of US leadership and good faith engagement in the region, and as a contribution to upholding the rules-based order. Korea also sees a role for itself here in mediating between ASEAN interests and the US.

Climate change leadership

Korea shares New Zealand's commitment to achieving a net-zero carbon economy by 2050. Energy security is a key driver for Korea's decarbonisation plans, with the result that cooperation on energy and climate change is now being seen through a more traditional geostrategic security lens. Korea is focused on securing stable energy supplies and is looking for collaboration in clean hydrogen and renewables. Launched at COP28, its "Carbon Free Alliance" is part of Korea's international climate action promotion. This initiative accepts that there are difficulties in accessing renewables, so instead promotes an "alternative" to the RE100^[1] which is focused solely on renewables, the Carbon Free Alliance utilises all available sources to achieve carbon neutrality, including nuclear and carbon capture and storage technology.

Korea is also stepping up its role as a sustainability leader on the international stage.

It is doing so through its positioning as a hub of world-leading green technology and transport, its hosting of both the Green Climate Fund (GCF) and the Global Green Growth Institute (GGGI) Headquarters, and as host of the fifth and final round of negotiations on an international treaty on plastic pollution later this year.

As Korea's economy grows, so too does its leadership on the global stage. We are seeing strong synergies between Korea's foreign policy approach under President Yoon and its economic diplomacy. While the global economic situation and domestic issues will certainly provide challenges to Korea's economy, we can expect its outward focus and assertiveness on the international stage to remain. As a likeminded partner of choice, we will have ample opportunity to engage with Korea on priority economic issues both bilaterally and through multilateral architecture.

[1] The RE100 is a global corporate renewable energy initiative bringing together hundreds of large and ambitious businesses committed to 100% renewable electricity.

More info

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 learn more about exporting to this market, New Zealand Trade & Enterprise's comprehensive [market guides](#) cover export regulations, business culture, market-entry strategies and more.

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.