

# Review of KNZF TA

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Final report, 20 October 2021



**SENSE PARTNERS**  
DATA LOGIC ACTION



## Key points

- This desk-based review of KNZFTA provides an independent, data-driven assessment of the impact of KNZFTA on trade in goods, services and investment, compares New Zealand's market access into Korea against those of our competitors, and identifies potential areas for upgrading KNZFTA.

### **KNZFTA has seen bilateral goods trade grow solidly...**

- Two-way trade has grown by an average of 5.2% from 2015-2019, compared to an average of 4.0% between 2010 and 2015.
- Growth in New Zealand's goods exports to Korea has more than doubled since the KNZFTA entered into force, from 1.4% between 2010-2015 to 3.0% between 2015-2019.
- The aggregate preference utilisation for New Zealand exporters is 94%, with most key export products seeing utilisation rates between 90% and 100%.
- Key products experiencing benefits from KNZFTA include kiwifruit, butter, cheese, deer velvet, lamb and squid/mussels.
- There is also evidence of the KNZFTA encouraging growth in more niche areas, such as dress patterns, smoked salmon, teeth cleaning powder, avocado oil and white chocolate.
- This has contributed to a marked diversification of New Zealand's export profile into Korea since 2015.
- Korea's total goods exports to New Zealand grew by an average of 7.2% in the 2015-2019 period, marginally faster than in the pre-KNZFTA period. This growth rate was maintained after COVID-19 struck the global economy, in contrast to New Zealand's much lower import growth from all sources.
- Korean exports have grown slightly faster than New Zealand's imports from all sources, meaning Korea has increased its market share. Iron and steel products, automotives and parts, foodstuffs and some hi-tech items have performed particularly well.

### **...although New Zealand has lost market share in aggregate**

- Korea's imports from other sources also with FTAs have grown faster than its imports from New Zealand.
- For example, imports from Australia grew by an average of 7.4% between 2015 and 2019, and by an average of 10.4% from the US.

### **Korea's utilisation of KNZFTA's preferences is relatively low**

- In 2019, 77.2% entered under MFN, 10.1% entered under KNZFTA concessions and 12.6% enter under 'Other concession or preference'.
- Preference utilisation is only around 40% for products which enjoy a tariff margin of 5.0% or less over MFN rates.



## **Commercial services trade has not grown markedly**

- The services trade relationship has (pre-pandemic – been dominated by tourism (travel and transportation), which is unlikely to have been affected by the KNZFTA.
- Business services trade has not grown materially in either direction since KNZFTA was implemented.

## **Investment has grown significantly since KNZFTA entered into force**

- New Zealand's direct investment in Korea has grown by 60-70% per year since KNZFTA was implemented, albeit from a low base.
- Foreign direct investment and portfolio investment in New Zealand by Korean firms have not grown so strongly since KNZFTA entered into force. However, Korean 'Other investment'<sup>1</sup> has expanded by an average of 10-15% per year.

## **Our competitors' FTAs provide superior market access in several key products of interest**

- A 2020 snapshot comparing New Zealand's market access with that of Australia, Chile, Canada, the EU and US at the tariff line level indicates that they have superior tariffs and ad valorem equivalents of TRQs in areas such as:
  - Beef products such as ribs, frozen boneless beef, chilled beef
  - Sheep meat products
  - Deer velvet
  - Dairy products such as mozzarella, butter, infant formula, frozen cream, casein, ice cream
  - Offal and animal stomachs, guts and bladders
  - Prepared or preserved crustaceans, molluscs, etc.
  - 'Other' vegetables in vinegar.
- These products have generally underperformed in terms of the bilateral relationship after seeing tariff reductions or TRQ access improvements in KNZFTA.

## **Upgrade opportunities will help to modernise KNZFTA**

- Our analysis suggests valuable upgrade opportunities could come in the form of:
  - Steeper-than-currently-phased tariff reductions and TRQ expansions for the key products noted above
  - Improved access to Korea's commercial services and digital sectors
  - Reduced investment barriers.

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<sup>1</sup> Borrowing and lending using loans, trade finance and deposits, where the transactors are unrelated or have less than 10% ownership interest in each other.



## Table of contents

KEY POINTS .....	I
TABLE OF CONTENTS .....	III
TABLE OF FIGURES .....	III
<b>1. SCOPE AND OBJECTIVES .....</b>	<b>1</b>
<b>2. GOODS TRADE UNDER KNZFTA .....</b>	<b>2</b>
2.1. TWO WAY TRADE .....	2
2.2. NEW ZEALAND'S EXPORTS TO KOREA.....	3
2.3. KOREA'S EXPORTS TO NEW ZEALAND.....	8
<b>SOURCE: GLOBAL TRADE ATLAS .....</b>	<b>8</b>
<b>3. SERVICES AND INVESTMENT UNDER KNZFTA .....</b>	<b>11</b>
3.1. SERVICES TRADE .....	11
3.2. INVESTMENT FLOWS.....	13
<b>4. REVIEW OF OTHER FTAS.....</b>	<b>16</b>
<b>5. POTENTIAL AREAS FOR IMPROVING KNZFTA.....</b>	<b>18</b>
<b>APPENDIX A .....</b>	<b>19</b>

## Table of figures

FIGURE 1 BILATERAL TRADE BETWEEN NZ AND KOREA.....	2
FIGURE 2 GROWTH IN KOREA'S IMPORTS PRE- AND POST-KNZFTA .....	3
FIGURE 3 NEW ZEALAND EXPORTS STAR PERFORMERS .....	4
FIGURE 4 NZ'S EXPORT CONCENTRATION INTO KEY MARKETS .....	5
FIGURE 5 NZ'S UNDERPERFORMING SECTORS: EXPORTS OVER \$1 MILLION .....	6
FIGURE 6 NZ EXPORTERS' UTILISATION OF KNZFTA PREFERENCES, 2019 .....	7
FIGURE 7 GROWTH IN NZ'S IMPORTS PRE- AND POST-KNZFTA .....	8
FIGURE 8 KOREAN EXPORTS TO NEW ZEALAND BY PREFERENCE MARGIN AND CONCESSION TYPE .....	10
FIGURE 9 KOREAN EXPORTS TO NEW ZEALAND BY PREFERENCE MARGIN AND CONCESSION TYPE - SHARES .....	10
FIGURE 10 NEW ZEALAND SERVICES EXPORTS TO KOREA.....	12
FIGURE 11 KOREAN SERVICES EXPORTS TO NEW ZEALAND .....	12
FIGURE 12 STOCK OF INVESTMENT BY BOTH COUNTRIES, MARCH YEARS .....	13
FIGURE 13 OUTBOUND: GROWTH IN STOCK OF NEW ZEALAND INVESTMENT IN KOREA AND THE WORLD.....	14
FIGURE 14 INBOUND: GROWTH IN STOCK OF INVESTMENT IN NEW ZEALAND FROM KOREA AND THE WORLD .....	15



# 1. Scope and objectives

The Korea-New Zealand FTA entered into force in December 2015. Since then the Asia-Pacific regional economic architecture has evolved significantly, with the conclusion of the Regional Comprehensive Economic Partnership (RCEP) and the entry into force of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Our bilateral trade agreements with other trade partners have also evolved.

As such, it is important that necessary steps are taken to ensure that KNZFTA remains a high quality, modern agreement that keeps pace with the other regional developments and continues to deliver benefits for both partners.

At the end of the RCEP negotiations, the Trade Ministers of Korea and New Zealand agreed to continue discussions on ways to improve bilateral trade and investment through a review of KNZFTA.

This report seeks to inform that review, by identifying:

- The impact of KNZFTA on trade in goods, services and investment.
- Areas in other FTAs, in particular, CPTPP, RCEP, and Korea's agreements with Australia, the EU and USA, which provide our competitors with favourable market access relative to KNZFTA.
- Areas of KNZFTA that require improving to grow trade in goods, services and investment.

We focus on the post-FTA period to 2019, since the COVID-19 pandemic in 2020 and 2021 has affected trade flows in ways that are not related to KNZFTA or other trade agreements. Data for 2020 is presented for completeness.



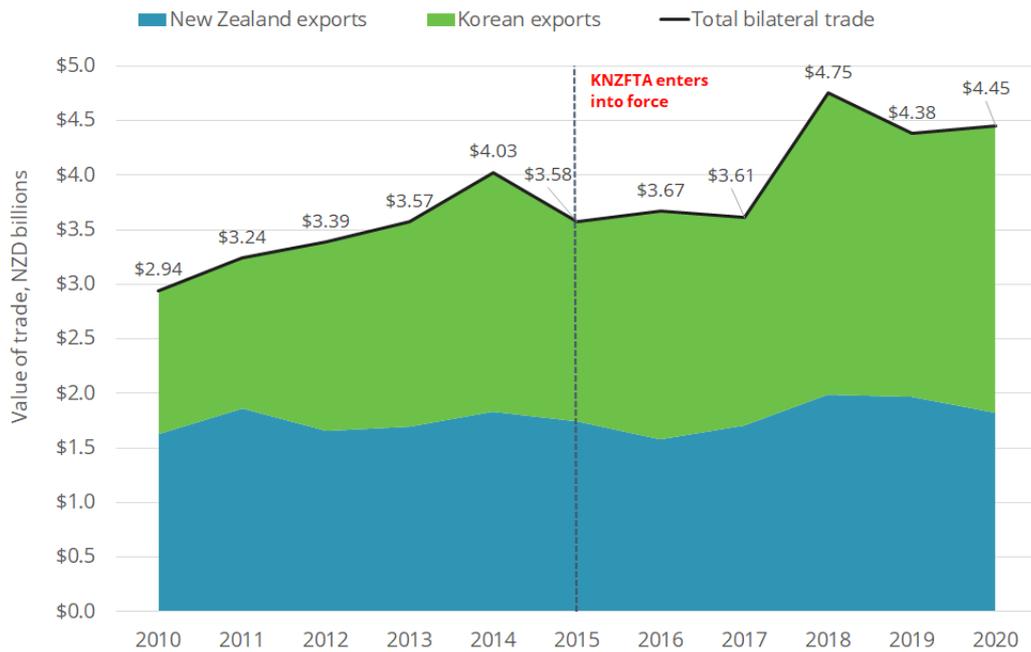
## 2. Goods trade under KNZFTA

### 2.1. Two way trade

Bilateral goods trade has increased from \$3.58 billion in 2015 to \$4.38 billion in 2019 and \$4.45 billion in 2020 ( Figure 1).

Two-way trade grew by an annual average of 5.2% between 2015 and 2019, compared to 4.0% between 2010 and 2015.

Figure 1 Bilateral trade between NZ and Korea



Source: Global Trade Atlas

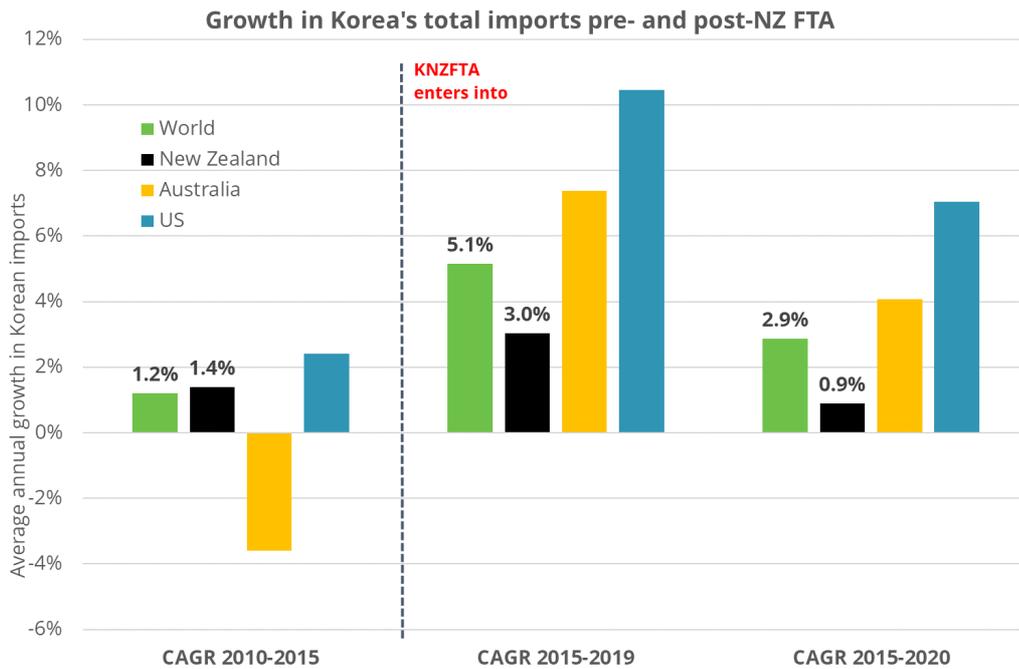


## 2.2. New Zealand’s exports to Korea

### 2.2.1. Overview

New Zealand’s total goods exports to Korea grew by an annual average of 3.0% in the 2015-2019 period (Figure 2).<sup>2</sup> This is more than double the growth rate in the five years prior to KNZFTA entering into force (1.4%).

Figure 2 Growth in Korea’s imports pre- and post-KNZFTA



Source: Global Trade Atlas

While this is on the face of it encouraging, Korea’s goods imports from the World have grown by 5.1% per year on average in the 2015-2019 period, meaning New Zealand has – in aggregate – lost market share.

Korea’s imports from other sources have grown faster than its imports from New Zealand. For example, imports from Australia grew by an average of 7.4% between 2015 and 2019, and by an average of 10.4% from the US.

### 2.2.2. Product-level analysis: star performers

In order to explore the impacts of KNZFTA, we analysed Harmonised System 4 data on Korean imports from New Zealand before and after KNZFTA’s implementation.

We define products that have been ‘star performers’ as those meeting a set of criteria:

1. **Accelerated growth:** New Zealand exports to Korea have grown faster between 2015-2019 than they did between 2010-2015.

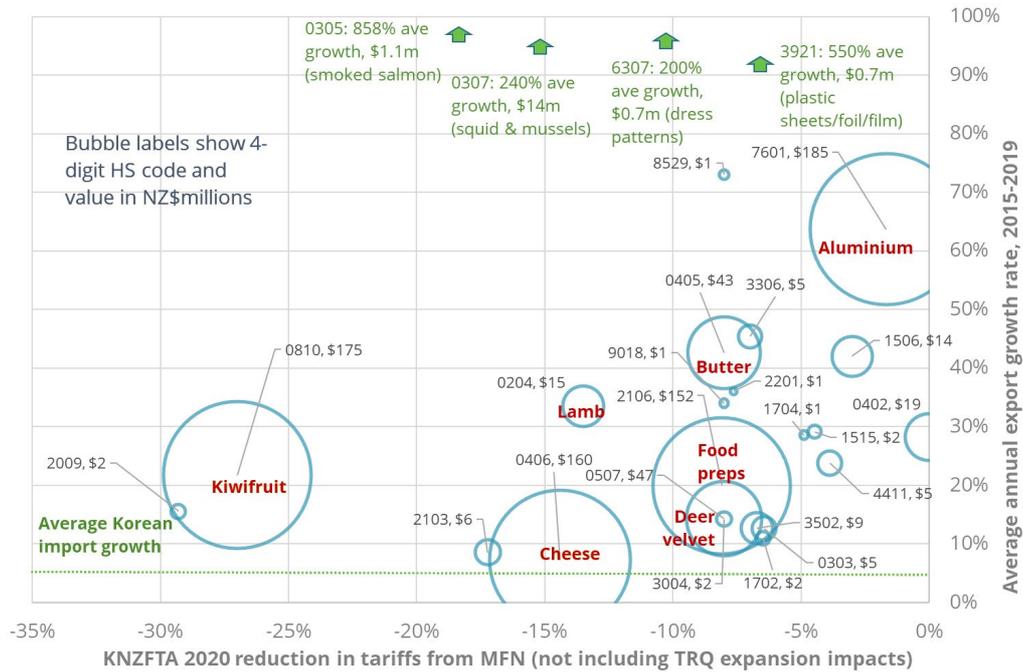
<sup>2</sup> Using Korean import data in New Zealand dollars.



2. **Material scale:** New Zealand exports in 2020 were greater than NZ\$500,000.
3. **Gaining market share:** New Zealand exports to Korea have grown faster between 2015-2019 than Korean imports of that product from all sources.
4. **Attributable to more than just total demand growth:** New Zealand exports to Korea have grown faster between 2015-2019 than total Korean goods imports.
5. **Improved market access:** The product has seen Korean tariff reductions or quota improvements due to KNZFETA.

The star performers are shown in Figure 3 below.

Figure 3 New Zealand exports star performers



Source: Global Trade Atlas

These star performers account for almost 50% of New Zealand’s 2020 exports to Korea.

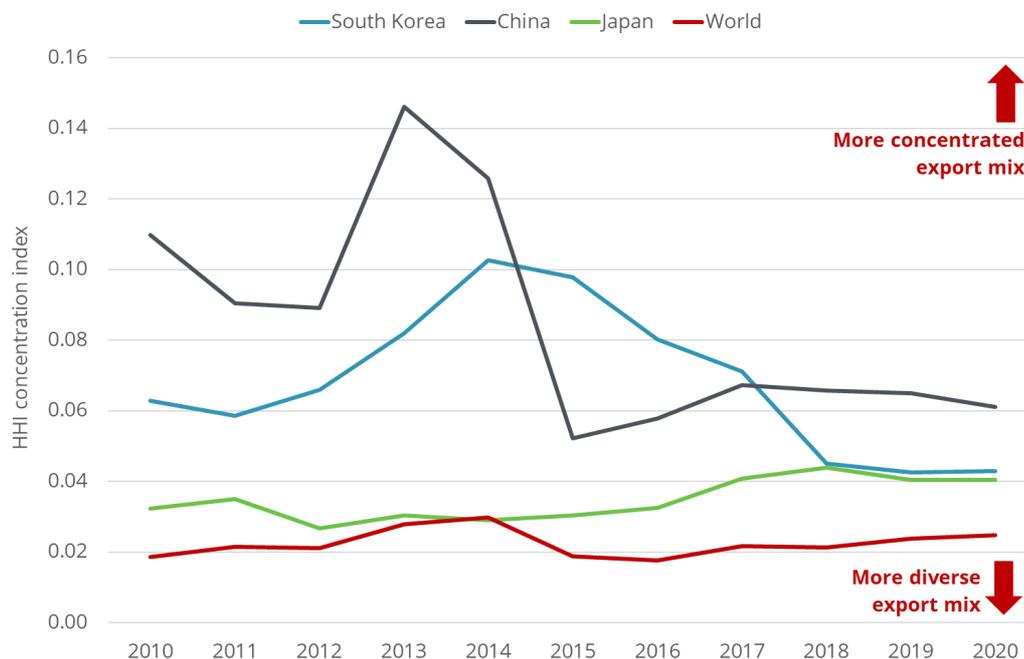
Key winners with scale from KNZFETA include kiwifruit, butter, cheese, deer velvet, lamb and squid/mussels. Aluminium exports are likely to have affected by shifts in global trade patterns the US-China trade war rather than the very small tariff reductions under KNZFETA.

There is also evidence of the KNZFETA encouraging growth in more niche areas, such as dress patterns, smoked salmon, teeth cleaning powder, avocado oil and white chocolate.

Indeed, KNZFETA appears to have driven (or at least been correlated with) a diversification in New Zealand’s export product mix into Korea (Figure 4).



Figure 4 NZ's export concentration into key markets



### 2.2.3. Underperformers

We can also use the framework outlined above to identify key New Zealand export products that have *not* performed as well as might have been hoped when KNZFTA was signed.

The chart below shows New Zealand export products over \$1 million of value which:

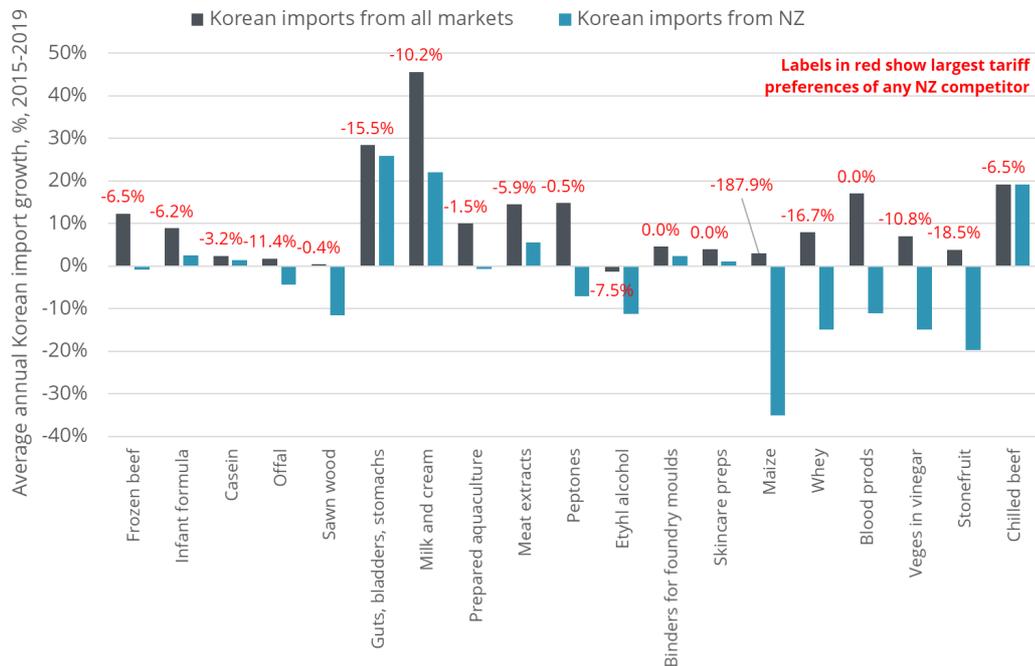
1. Enjoyed tariff reductions or TRQ access improvements under KNZFTA; AND
2. Have lost market share in Korea, i.e. Korean imports from other markets (dark blue columns) have grown faster than its imports from New Zealand (light blue columns) in that product since 2015.

One potential reason – although other commercial factors will also be at play – for the underperformance of these New Zealand products is that Korea has provided New Zealand's competitors (e.g. US, Canada, Australia, EU, Chile) with better market access under their FTAs with them. The red labels in the chart show the largest tariff preference over New Zealand enjoyed by any of these competitors under their FTAs with Korea.<sup>3</sup>

<sup>3</sup> FTA tariff data is from MacMap. See section 4 for more detail.



Figure 5 NZ's underperforming sectors: exports over \$1 million



Source: Global Trade Alert, MacMap

### 2.2.4. KNZFTA utilisation by New Zealand exporters

Data from the Korea Customs Service (2019) provides insights into the extent to which New Zealand exporters are utilising the preferences afforded by KNZFTA.

The chart below shows:

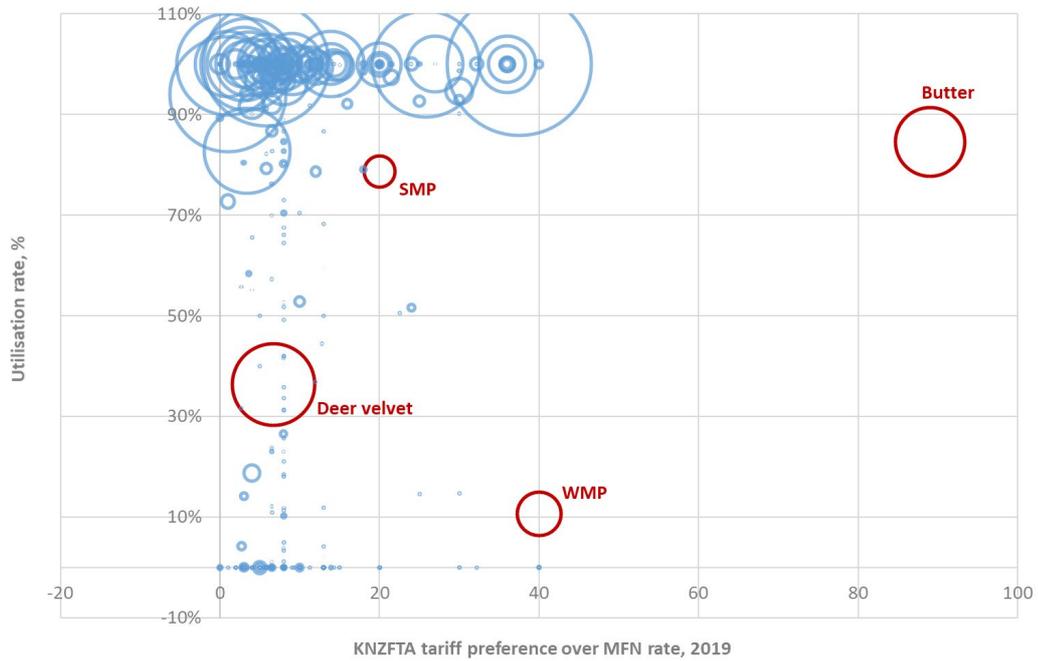
- New Zealand exporters' tariff preference over MFN rates on the horizontal axis (the further right, the larger the tariff preference and hence incentive to use KNZFTA's provisions)
- New Zealand exporters' utilisation of KNZFTA's tariff preferences on the vertical axis (the higher and closer to 100%, the more the FTA's preferences are fully taken advantage of).
- Size of New Zealand exports to Korea by HS10 product as the size of bubbles.

The key takeaways from the chart are:

- (i) The vast majority of New Zealand's largest exports to Korea utilise KNZFTA's preferences effectively.
- (ii) The larger the tariff preference to be gained under KNZFTA, the higher the utilisation rate (in general). In other words, as the scale of duties paid savings from KNZFTA increases, so too does the utilisation rate.
- (iii) There may be value in exploring why utilisation rates are relatively low in some dairy products and deer velvet in particular.



Figure 6 NZ exporters' utilisation of KNZFTA preferences, 2019



Source: Korea Customs Service

Our findings align with previous work by MFAT that noted “most of the higher valued trade to Korea also has high utilisation rates”. Those exporters *not* utilising available preferences tend to be very small and may be judging that the potential duty savings may not justify the additional paperwork required.

That work also estimated the utilisation rate of KNZFTA by New Zealand exporters in aggregate to be 94% in 2019, and this rate has steadily increased since 2016.



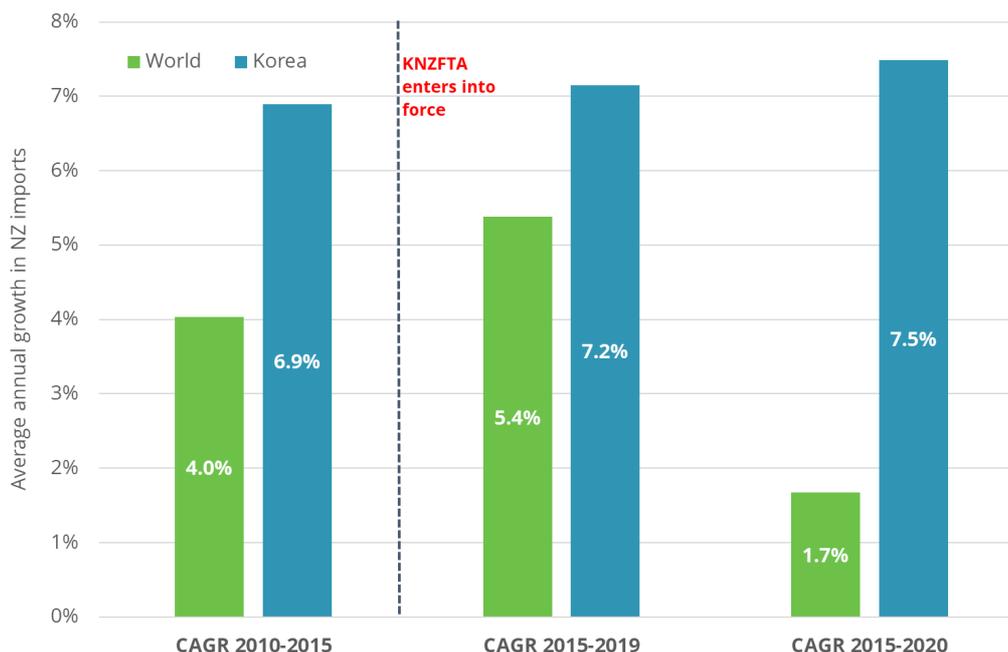
## 2.3. Korea's exports to New Zealand

### 2.3.1. Overview

Korea's total goods exports to New Zealand grew by an annual average of 7.2% in the 2015-2019 period (Figure 7),<sup>4</sup> marginally faster than in the pre-KNZFTA period. This strong growth was maintained in 2020, in stark contrast to New Zealand's overall imports.

Korea has gained market share in New Zealand both before and after KNZFTA entered into force, as its exports to New Zealand have grown faster than New Zealand's imports from all sources.

Figure 7 Growth in NZ's imports pre- and post-KNZFTA



Source: Global Trade Atlas

### 2.3.2. Product-level analysis

Using the same star performer framework as in 2.2.2, we can also identify which Korean export products to New Zealand appear to have benefited from the tariff reductions New Zealand provided through KNZFTA.<sup>5</sup> Table 3 in Appendix A provides the details.

Petrol appears to be the largest star performer based on this analysis, although data from Customs New Zealand indicates the vast majority of this entered New Zealand on an MFN basis, so this warrants further examination.<sup>6</sup>

Outside of petrol, the star performers were all relatively small in comparison, and included:

<sup>4</sup> Using New Zealand import data.

<sup>5</sup> We use a higher threshold of NZ\$2 million for materiality to keep the list manageable. A further 136 HS4 codes have performed well, whose combined export value is \$50.5 million. Details available on request.

<sup>6</sup> There may also be some concordance issues as the KNZFTA tariff schedule for New Zealand was based on HS2007.



- **Iron and steel products:** tubes, pipes, articles and fittings
- **Automotive:** forklift trucks; tractors; water filters, oil filters, air filters; engine parts
- **Foodstuffs:** dried noodle cakes; pickled vegetables; condiments and dressings, soya sauce; sweet biscuits, rice papers
- **Hi-tech and electrical:** diagnostic or laboratory reagents; dishwashers; insulated electric conductors; transformers; solid-state non-volatile storage devices
- **Personal products:** Eye make-up and skin-care preparations; adult footwear with rubber/plastic soles; warp knit fabrics; non-woven fabrics.

### 2.3.3. KNZFTA utilisation by Korean exporters

Data for 2019 Korean exports to New Zealand (NZ\$2.24 billion) shows that 77.2% enters under MFN, 10.1% enters under KNZFTA concessions and 12.6% enter under 'Other concession or preference' (Figure 8 overleaf).

Of the NZ\$227.0 million of Korean exports that enter under KNZFTA concessions, 70% enjoys a tariff preference of 5.0% over MFN, 1.8% a 6.5% preference margin and 0.3% a 10% margin.

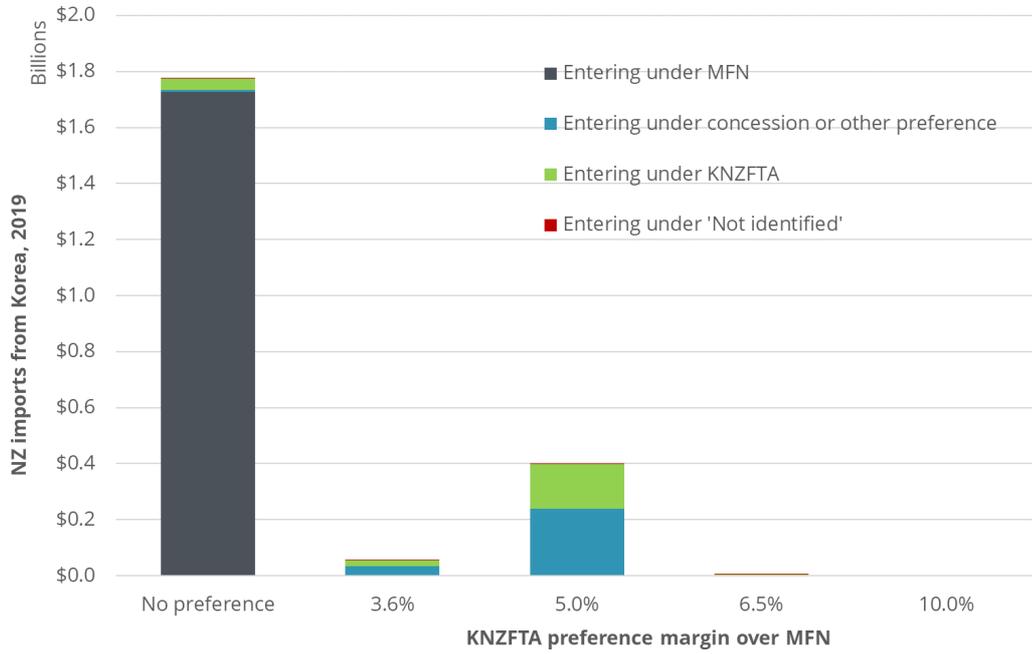
In Figure 9 overleaf we also look at *shares* (rather than levels) coming in under KNZFTA by preference margin. It appears – understandably – that Korean exporters make most use of KNZFTA for products which have the largest preference margins over MFN (6.5% or 10%). However, as Figure 5 shows, this is only a very small fraction of Korean exports (the two right-most columns in the chart).

Below this degree of tariff preference, only around 40% of KNZFTA-eligible exports come in under KNZFTA's provisions, with 'Other concession or preference' accounting for the vast majority of the remaining 60%.

It is not clear what specifically is driving this pattern. It appears that Korean exporters and their New Zealand buyers are seeking concessions outside KNZFTA, or perhaps deciding that the small preference margins to be had are not worth the administrative cost of complying with Rules of Origin, etc.

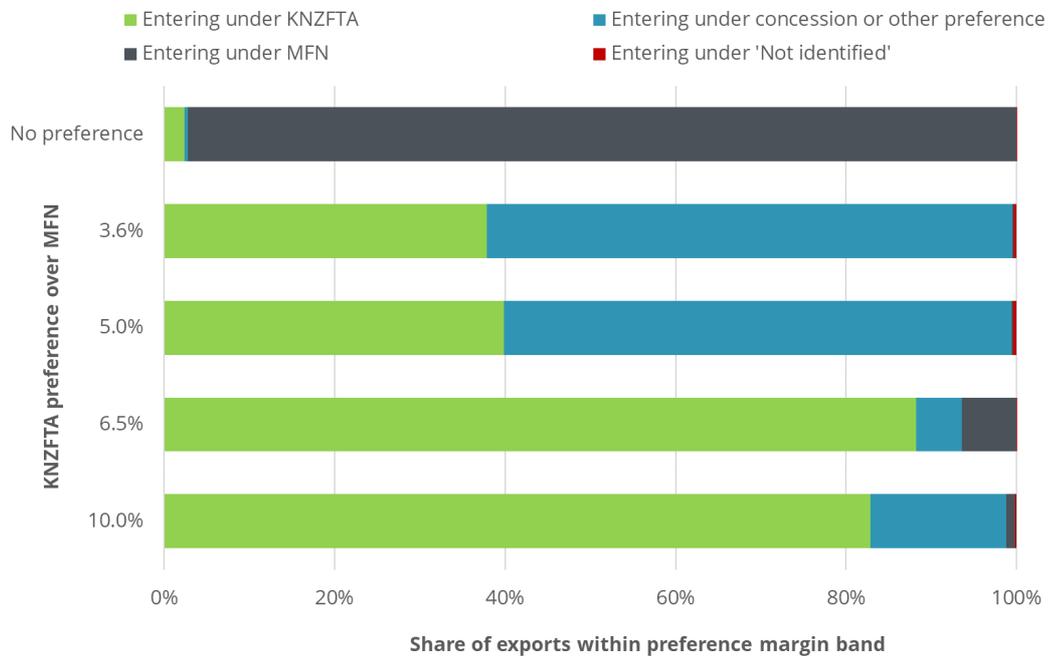


Figure 8 Korean exports to New Zealand by preference margin and concession type



Source: Customs New Zealand

Figure 9 Korean exports to New Zealand by preference margin and concession type - shares



Source: Customs New Zealand



## 3. Services and investment under KNZFTA

### 3.1. Services trade

Korean market access improvements over WTO commitments – largely to match those provided by Korea to our competitors in other FTAs – were secured in key sectors such as:

- adult education services;
- legal services;
- tourist guide services;
- tour operator services;
- beverage serving services;
- packaging services;
- services incidental to mining;
- market research and public opinion polling services; and
- research and development services.

Improvements were also made in conditions around the temporary entry of New Zealand businesspeople to Korea.

Tourism (travel and transportation) services continue to dominate New Zealand's services export profile, accounting for 97-98% of the total (pre-pandemic).

New Zealand's exports of business-related services<sup>7</sup> have fluctuated between NZ\$5.2 million and NZ\$10.3 million since late 2014. There has been no noticeable trend increase, so it is difficult to see any material impact of KNZFTA's services market access provisions.

The value of KNZFTA for New Zealand services exporters comes largely through the MFN arrangements, which means New Zealand exporters' access will always match those of other countries with whom Korea has an FTA.

Korean services exports to New Zealand are slightly more diversified, with 'Other business services' accounting for an average of around 18% of its total services exports to New Zealand prior to the pandemic. Within this, only small amounts have been recorded for more detailed services categories (such as accounting, legal, ICT, management consulting, etc.) but these entries have been sporadic.

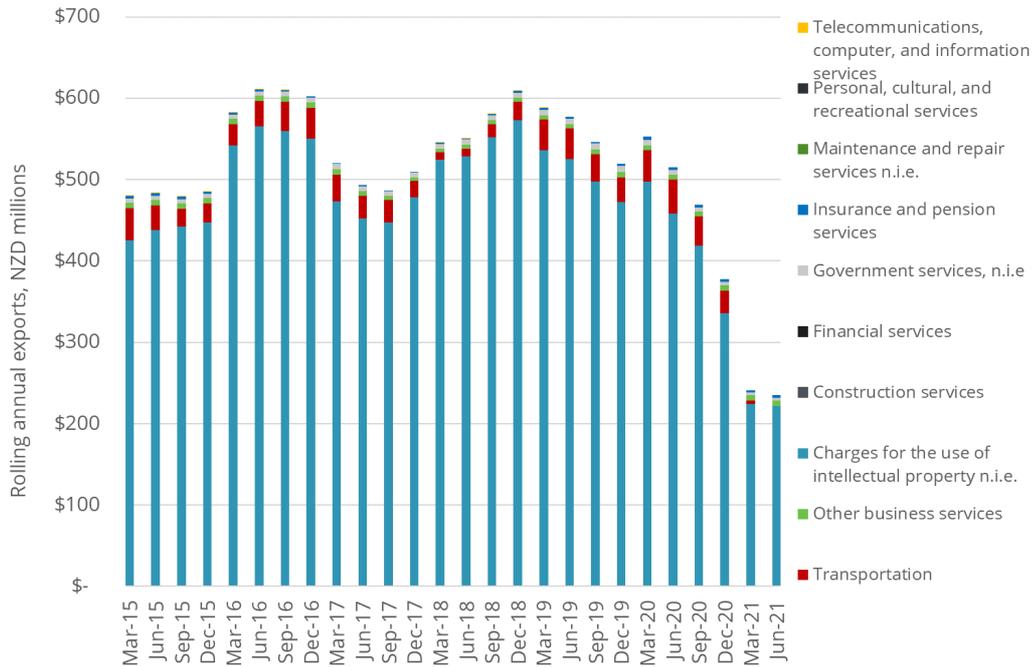
Tourism accounted for around 80%. The remainder was largely 'Insurance pension services'.

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<sup>7</sup> Defined as 'Other business services' and 'Insurance and pensions services'. No other material exports of other forms of commercial services have been recorded since March 2019.

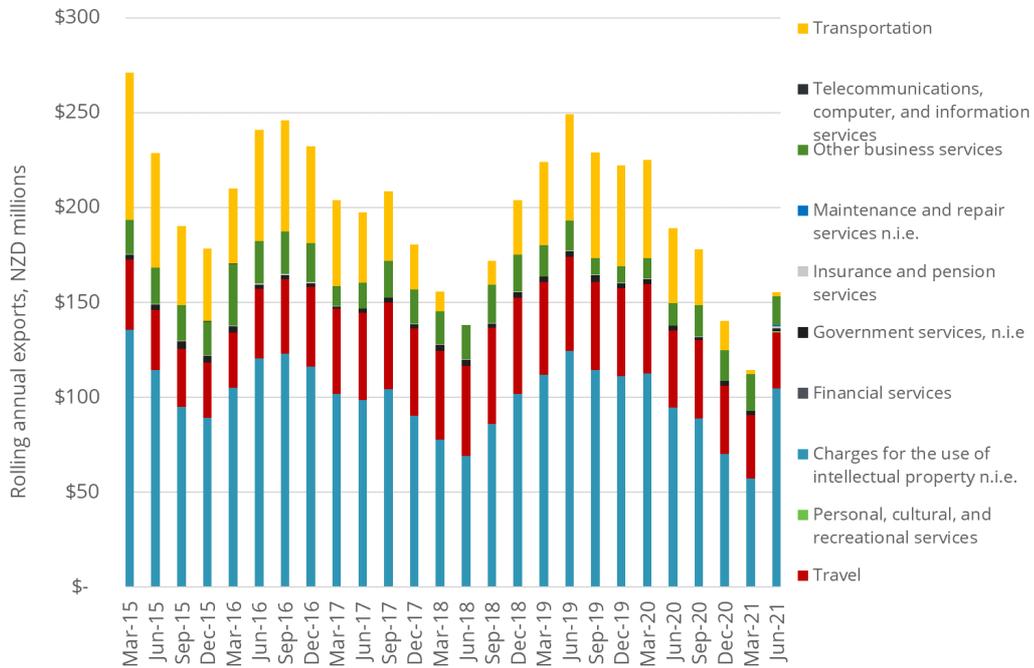


Figure 10 New Zealand services exports to Korea



Source: Statistics New Zealand Trade Dashboard

Figure 11 Korean services exports to New Zealand



Source: Statistics New Zealand Trade Dashboard



### 3.2. Investment flows

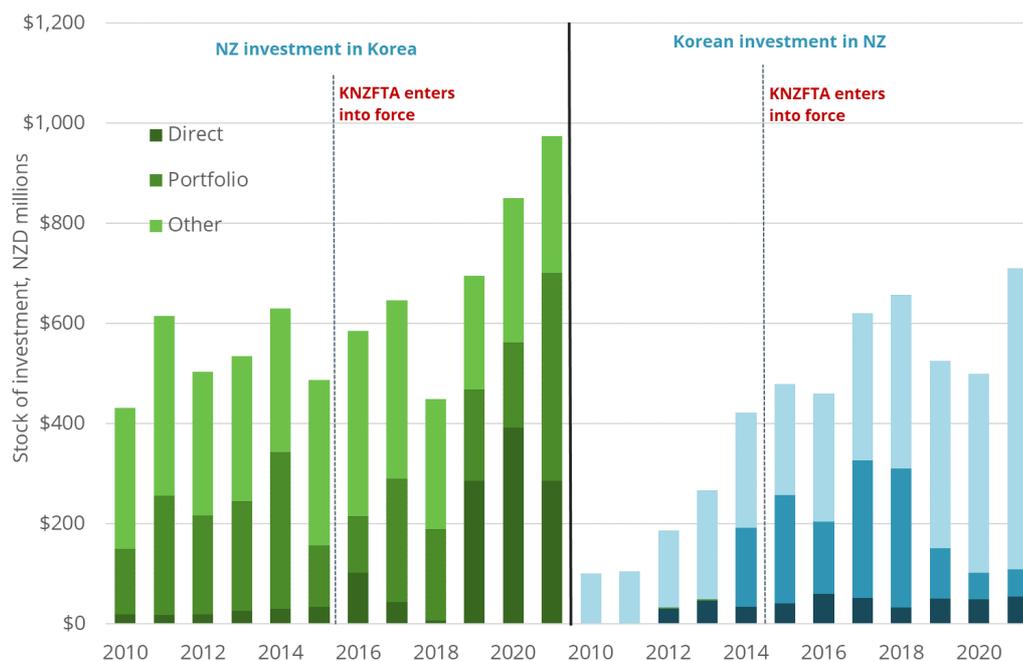
The investment provisions of KNZFTA focused primarily on locking in national treatment and securing MFN treatment such that improvements in investment access made by either party in future trade agreements are automatically extended to New Zealand or Korea (subject to certain exceptions). KNZFTA also provided for improvements around expropriation of assets, transferring capital and nationality requirements on boards of directors and senior managers.

Unlike with tariff reductions, it is challenging to attribute growth in investment to the provisions of KNZFTA. While KNZFTA clearly improved the investment climate in both directions, investment will be determined by a wide range of non-FTA factors such as growth, interest rates, risk appetite, the performance of other types of investment in other markets, etc.

However, it is reasonable to think that bilateral investment would *not* be taking place if either country's investors did not have confidence in the other's investment regime and environment. They will expect their investments would be protected from expropriation, that they could get their money out when it suits, etc.

Bilateral investment stocks over time are shown in Figure 12.

Figure 12 Stock of investment by both countries, March years



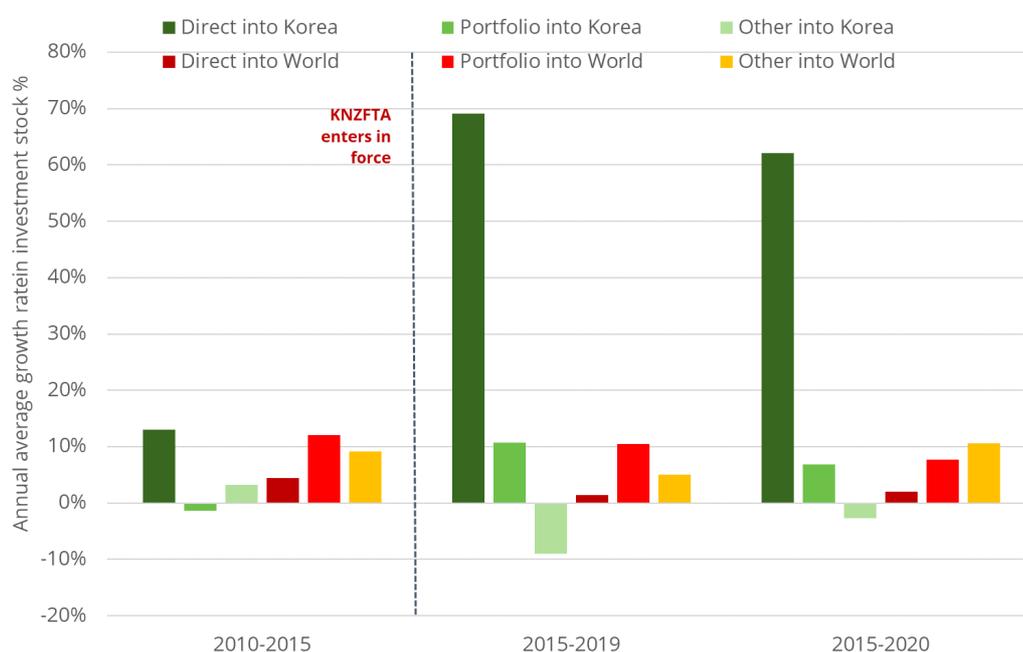
Source: Statistics New Zealand International Investment Position data

Analysing this bilateral data by growth in the type of investment (Figure 10 for outbound investment from New Zealand, Figure 14 for inbound investment from Korea) and comparing against total investment stocks in all countries, we see a mixed picture:



- The stock of New Zealand direct investment<sup>8</sup> in Korea has grown very strongly (60-70% per year) since KNZFTA entered into force, and far stronger than in the five years preceding KNZFTA.
- Growth in New Zealand's direct investment stock in Korea has also been much faster than New Zealand's overall outwards direct investment, meaning that Korea is capturing a larger share of New Zealand's available direct investment fundings
- The stock of New Zealand portfolio investment<sup>9</sup> has also performed better after KNZFTA than before it, although growth has generally been slightly slower than New Zealand's portfolio investment to all countries.

Figure 13 Outbound: Growth in stock of New Zealand investment in Korea and the World



Source: Statistics New Zealand International Investment Position data

- The stock of Korean 'Other' investment<sup>10</sup> in New Zealand has grown particularly strongly since KNZFTA entered into force and has accounted for an increasing share of all countries' other investment in New Zealand.
- The stock of Korean portfolio investment in New Zealand has, in contrast, declined considerably although this series is small and volatile.

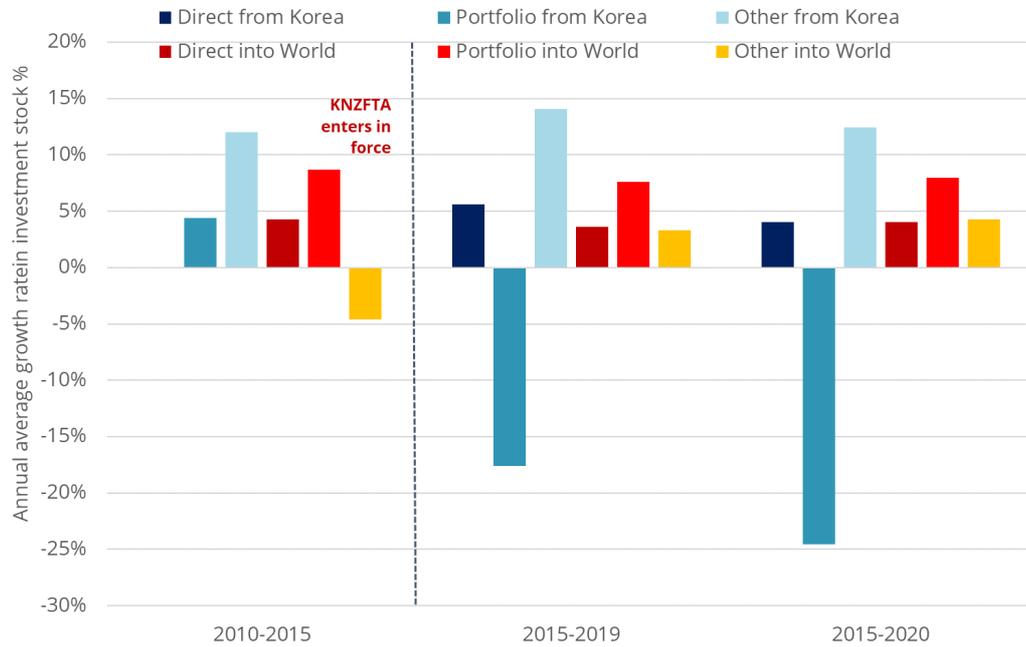
<sup>8</sup> Where a single investor owns 10 percent or more of voting shares in a foreign company.

<sup>9</sup> When an investor owns less than 10% of the voting shares of a foreign company, or when an investor holds debt securities issued by a foreign company in which the investor's ownership interest is less than 10%.

<sup>10</sup> Borrowing and lending using loans, trade finance and deposits, where the transactors are unrelated or have less than 10% ownership interest in each other.



Figure 14 Inbound: Growth in stock of investment in New Zealand from Korea and the World



Source: Statistics New Zealand International Investment Position data

Data limitations preclude any analysis of investment patterns at the sector level.



## 4. Review of other FTAs

Given that Korea has signed a range of bilateral and regional FTAs in recent years, it is useful to understand where Korea's market access for other countries is better than that provided for New Zealand in KNZFTA.

Using Market Access Map<sup>11</sup>, we downloaded data showing the lowest preferential tariff faced in 2020 by Australia, Canada, Chile, the EU and US across their FTAs with Korea.<sup>12</sup> This was completed at the HS10 tariff line level.

Where TRQs apply to products (e.g. various dairy products, mussels, etc.), an ad valorem equivalent (AVE) is provided by MacMap.<sup>13</sup> These line items need to be treated with caution, as the actual AVE will depend on the extent to which exports are in-quota or out-of-quota. A similar note of caution is warranted for seasonal products such as pumpkins, squash and gourds, which enter Korea duty free when in-season and face higher tariffs out-of-season.

The results for New Zealand's largest 30 export items to Korea are shown in the table below. The full dataset for all HS10 products will be provided separately in Excel.

The data presented here is a snapshot in time (2020), rather than looking forward to examine how preferential tariffs and TRQs may change over time in individual tariff schedules. Clearly New Zealand's market access improves over time in many of the more sensitive tariff lines in Table 1. But on the basis that FTA upgrades will presumably be relevant for these countries as well as New Zealand, it is reasonable to expect that our competitors will seek to maintain existing margins of preference over New Zealand in their upgrades.

These caveats aside, our analysis indicates upgrades might usefully focus on:

- Beef products such as ribs, frozen boneless beef, chilled beef
- Sheep meat products
- Deer velvet
- Dairy products such as mozzarella, butter, infant formula, frozen cream, casein, ice cream
- Offal and animal stomachs, guts and bladders
- Prepared or preserved crustaceans, molluscs, etc.
- 'Other' vegetables in vinegar.

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<sup>11</sup> <https://www.macmap.org/en/download>

<sup>12</sup> That is, MacMap looks across any bilateral and regional FTAs between Korea and each partner country and reports the lowest tariff faced by each partner.

<sup>13</sup> MacMap reports: The average of the inside and outside tariff rates if the import volume is less than or equal to 80% of the quota volume; the outside tariff quota if the import volume is above 80% of the contingent. See <https://www.macmap.org/en/about/methodology>

Table 1 Competitor FTA analysis: New Zealand's largest 30 export lines into Korea

HS10 code	Description	Korean imports from New Zealand, 2020, NZD	MFN	New Zealand	Lowest tariff faced entering Korea					Tariff preference over KNZFTA					
					Australia	Canada	Chile	EU	US	Australia	Canada	Chile	EU	US	
4403212000	Radiata Pine	\$252,741,966	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
0810500000	Kiwifruit	\$175,273,595	45.0%	0.0%	45.0%	18.0%	0.0%	19.6%	18.0%						
7601100000	Aluminium, Not Alloyed	\$136,243,702	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
0406901000	Cheddar Cheese	\$89,871,713	36.0%	5.1%	16.6%	36.0%	0.0%	15.7%	14.4%				-5.1%		
2106909023	Of A Butter Content, By Weight, Exceeding 70 %	\$74,914,843	8.0%	1.1%	2.4%	0.0%	0.0%	0.0%	0.0%			-1.1%	-1.1%	-1.1%	-1.1%
2106909099	Other	\$63,274,919	8.0%	0.0%	0.0%	1.1%	0.0%	0.0%	0.0%						
4703212000	Bleached	\$56,060,206	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
0202201000	Short Ribs	\$54,271,128	40.0%	24.0%	21.3%	24.0%	40.0%	17.5%	16.0%	-2.7%				-6.5%	-8.0%
0202300000	Boneless	\$51,910,381	40.0%	24.0%	21.3%	24.0%	40.0%	17.5%	16.0%	-2.7%				-6.5%	-8.0%
4403222000	Radiata Pine	\$50,816,364	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
0507901110	In Whole	\$46,670,374	20.0%	20.0%	20.0%	20.0%	20.0%	8.7%	8.0%					-11.3%	-12.0%
0406101010	Mozzarella Cheese	\$46,565,558	36.0%	18.0%	22.0%	36.0%	36.0%	15.7%	14.4%					-2.3%	-3.6%
1901101010	Prepared Dry Milk	\$32,708,950	36.0%	19.3%	16.6%	36.0%	0.0%	6.5%	3.6%	-2.7%			-19.3%	-12.8%	-15.7%
0405100000	Butter	\$32,476,160	89.0%	35.6%	47.4%	89.0%	89.0%	16.1%	8.9%					-19.5%	-26.7%
2701121000	Coking Coal, Heavy	\$28,246,110	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
0206299000	Other	\$28,046,450	18.0%	10.8%	9.6%	8.1%	0.0%	7.8%	7.2%	-1.2%	-2.7%	-10.8%	-3.0%	-3.6%	
7601202000	Billet	\$26,201,074	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
4407112000	Radiata Pine	\$24,764,158	5.0%	0.7%	0.0%	2.0%	0.0%	0.0%	0.0%	-0.7%			-0.7%	-0.7%	-0.7%
8548105000	Of Subheading 7802.00	\$23,077,389	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
0709930000	Pumpkins, Squash And Gourds (Cucurbita Spp.)	\$19,435,347	27.0%	27.0%	14.4%	10.8%	0.0%	0.0%	0.0%	-12.6%	-16.2%	-27.0%	-27.0%	-27.0%	-27.0%
0504003000	Stomachs	\$16,798,747	27.0%	16.2%	14.4%	12.2%	0.0%	11.8%	10.8%	-1.8%	-4.0%	-16.2%	-4.4%	-5.4%	
0402211000	Whole Milk Powder	\$16,656,191	176.0%	176.0%	176.0%	176.0%	176.0%	176.0%	176.0%						
3501101000	For Manufacturing Coffee Creamer	\$16,569,620	8.0%	1.1%	3.3%	0.0%	0.0%	0.0%	0.0%			-1.1%	-1.1%	-1.1%	-1.1%
7601201000	Casting Alloy	\$14,425,709	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
1506009000	Other	\$14,165,001	3.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
9019208000	Other	\$13,662,612	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
1605539000	Other	\$12,498,330	20.0%	20.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%	-20.0%
9027301000	Spectrometers	\$12,151,409	8.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
0307432010	Ommastrephes Spp, Loligo Spp, Nototodarus Spp, Se	\$11,555,314	10.0%	10.0%	10.0%	10.0%	0.0%	10.0%	4.7%				-10.0%		-5.3%
1603001000	Meat Extracts	\$11,420,217	30.0%	18.0%	30.0%	30.0%	30.0%	5.4%	7.5%					-12.6%	-10.5%
2106909022	Of A Butter Content, By Weight, Exceeding 30 % But I	\$11,189,332	8.0%	1.1%	3.3%	0.0%	0.0%	0.0%	0.0%			-1.1%	-1.1%	-1.1%	-1.1%
0204420000	Other Cuts With Bone In	\$11,111,941	22.5%	9.0%	6.7%	0.0%	0.0%	4.0%	2.2%	-2.3%	-9.0%	-9.0%	-5.0%	-6.8%	
7204490000	Other	\$10,847,565	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%						
0401501000	Frozen Cream	\$10,727,534	36.0%	19.3%	16.6%	36.0%	36.0%	6.5%	3.6%	-2.7%				-12.8%	-15.7%
0405200000	Dairy Spreads	\$10,439,441	8.0%	0.0%	0.0%	3.2%	8.0%	0.0%	0.0%						

Source: MacMap, Global Trade Atlas



## 5. Potential areas for improving KNZFTA

This analysis has demonstrated that in aggregate, KNZFTA appears to have delivered solid improvements in bilateral trade and investment since it entered into force in late 2015.

However, we also find that:

1. Several of New Zealand's competitors appear to have better market access for key agricultural products in particular than those provided by KNZFTA.
2. Korean exporters and/or their New Zealand commercial partners do not appear to be taking as full an advantage of KNZFTA's tariff reductions as it possible, particularly for products where the tariff preference over MFN is less than 6.5%.
3. There has been no noticeable increase or diversification in Korean and New Zealand's exports of commercial services, including digital, since KNZFTA was signed.
4. FDI from Korea into New Zealand has remained at low levels since KNZFTA entered into force – the stock has stayed around NZ\$50 million.

These findings provide some guidance as to priority areas for any upgrade to KNZFTA.



## Appendix A

Table 2 KNZFTA star performers: New Zealand

HS4 code	Key products within HS4 code <sup>14</sup>	Korean imports from New Zealand, 2020, NZ\$m	New Zealand market share, 2020	Average growth, 2010-2015	Average growth, 2015-2019	Average growth, 2015-2020	Average KNZFTA tariff reduction in HS4 category
7601	Unwrought aluminium	\$185.3	4.8%	-16%	64%	43%	-2%
0810	Kiwifruit	\$175.3	64.1%	-2%	22%	23%	-27%
0406	Cheese (largely cheddar and mozzarella)	\$160.1	16.5%	-3%	7%	12%	-14%
2106	Food preparations used for human foodstuffs	\$152.1	5.0%	9%	20%	13%	-8%
0507	Deer velvet	\$46.9	63.7%	13%	14%	11%	-8%
0405	Butter	\$42.9	31.2%	-6%	43%	29%	-8%
0402	Whole Milk Powder	\$19.0	17.6%	16%	28%	20%	0%
0204	Lamb	\$14.6	6.7%	10%	34%	26%	-14%
1506	Animal fats and oils (other)	\$14.2	86.5%	40%	42%	31%	-3%
0307	Frozen squid, mussels	\$14.1	1.0%	-16%	240%	159%	-17%
3502	Milk albumins/whey proteins	\$9.0	11.1%	-17%	13%	40%	-7%
2103	Sauces and preparations; mixed condiments	\$5.9	1.5%	6%	9%	1%	-17%
4411	Wood fibreboard	\$5.3	6.2%	-18%	24%	38%	-4%
0303	Frozen roes' livers	\$5.3	0.3%	5%	13%	-2%	-6%
3306	Dentifrices (teeth cleaning powder)	\$5.0	2.8%	13%	45%	42%	-7%

<sup>14</sup> Key products in each HS4 code were determined by analysing HS10 New Zealand export data.



REVIEW OF KNZFTA

HS4 code	Key products within HS4 code <sup>14</sup>	Korean imports from New Zealand, 2020, NZ\$m	New Zealand market share, 2020	Average growth, 2010-2015	Average growth, 2015-2019	Average growth, 2015-2020	Average KNZFTA tariff reduction in HS4 category
3004	Vitamins/medicaments for veterinary use	\$2.2	0.0%	-2%	14%	15%	-8%
2009	Fruit juices (largely apple juice)	\$2.1	0.6%	-8%	16%	-2%	-29%
1702	Lactose, sugar syrups	\$1.9	0.8%	-3%	11%	9%	-6%
1515	Avocado oil	\$1.7	1.0%	-3%	29%	25%	-4%
0305	Smoked salmon	\$1.1	0.7%	10%	858%	415%	-18%
8529	Parts for TV, radio and radar apparatus	\$1.1	0.0%	-31%	73%	72%	-8%
9018	Medical, surgical or dental instruments	\$0.9	0.0%	-4%	34%	31%	-8%
1704	White chocolate	\$0.9	0.3%	16%	29%	30%	-5%
3921	Plastic plates, sheets, film, foil and strips <0.25mm thick and <20cm wide	\$0.7	0.0%	-78%	552%	355%	-7%
6307	Dress patterns	\$0.7	0.1%	34%	200%	127%	-10%
2201	Water other than mineral and aerated	\$0.6	0.6%	34%	36%	37%	-8%

Source: Global Trade Atlas; KNZFTA tariff schedules



Table 3 KNZFTA star performers: Korea

HS4 code	Key products within HS4 code <sup>15</sup>	NZ imports from Korea, 2020, NZ\$m	Korean market share, 2020	Average growth, 2010-2015	Average growth, 2015-2019	Average growth, 2015-2020	Average KNZFTA tariff reduction in HS4 category
2710	Petrol	\$1,040.8	48.9%	6%	17%	13%	-5.0%
7210	Flat-rolled iron or nonalloy steel products, >600mm wide, Clad, Plated Or Coated	\$54.9	50.0%	1%	24%	10%	-5.0%
7326	Articles of iron or steel, other	\$12.7	7.4%	1%	26%	15%	-5.0%
8427	Fork-lift trucks	\$12.7	9.1%	17%	20%	6%	-5.0%
7225	Flat-rolled alloy steel (not stainless) >600mm wide	\$12.6	83.8%	-24%	118%	90%	-5.0%
3920	Plastic plates, sheets, film, foil and strip	\$12.6	4.8%	4%	10%	4%	-5.0%
1902	Dried noodle cakes with flavour sachet	\$11.2	10.7%	2%	12%	14%	-5.0%
3304	Eye make-up and skin-care preparations	\$10.4	3.6%	17%	28%	24%	-5.0%
3822	Diagnostic or laboratory reagents	\$9.0	5.7%	43%	121%	101%	-5.0%
8523	Semiconductor media; solid-state non-volatile storage devices	\$8.3	6.1%	5%	29%	33%	-5.0%
7216	Angles, Shapes And Sections Of Iron Or Nonalloy Steel	\$6.9	10.9%	-31%	142%	65%	-5.0%
6005	Warp knit fabrics	\$6.8	50.6%	14%	20%	22%	-5.0%
8504	Electrical transformers	\$6.5	2.6%	21%	49%	31%	-5.0%
3901	Ethylene polymers in primary forms	\$6.4	2.7%	5%	7%	6%	-5.0%
1905	Sweet biscuits, bakers' wares incl rice papers	\$5.0	1.8%	6%	9%	8%	-5.0%

<sup>15</sup> Key products in each HS4 code were determined by analysing HS10 New Zealand import data.



REVIEW OF KNZFTA

HS4 code	Key products within HS4 code <sup>15</sup>	NZ imports from Korea, 2020, NZ\$m	Korean market share, 2020	Average growth, 2010-2015	Average growth, 2015-2019	Average growth, 2015-2020	Average KNZFTA tariff reduction in HS4 category
8544	Insulated electric conductors	\$5.0	1.8%	-13%	8%	3%	-5.8%
8421	Water filters, oil filters, air filters	\$4.9	2.1%	6%	7%	9%	-5.0%
3923	Plastic sacks/bags, bottles and lids for packing goods	\$4.6	1.3%	11%	27%	21%	-5.0%
7304	Oil and gas pipeline pipes	\$4.5	9.7%	-23%	60%	85%	-5.0%
5603	Nonwoven man-made fabrics	\$4.4	8.7%	28%	53%	45%	-5.0%
8701	Tractors	\$4.4	1.7%	11%	23%	13%	-5.0%
8422	Dishwashers, wrapping machinery, machinery for filling and sealing containers	\$4.3	2.6%	7%	8%	1%	-5.0%
7307	Iron or steel tube fittings, not stainless steel (Other)	\$3.3	5.9%	-7%	9%	18%	-5.0%
6404	Adults' footwear with rubber or plastic upper soles	\$3.2	3.0%	-17%	259%	175%	-12.5%
3921	Plastic plates, sheets, film, foil and strip (other)	\$3.0	3.3%	-9%	14%	1%	-5.0%
2008	Preserved fruit, nuts and parts of plants, (other)	\$2.7	2.2%	26%	29%	21%	-5.0%
7306	Iron or steel tube fittings, welded (square or rectangular)	\$2.6	3.1%	-38%	43%	27%	-5.0%
2005	Pickled vegetable preparations (not in vinegar)	\$2.6	4.7%	8%	11%	14%	-5.0%
7217	Iron or non-alloy steel wire	\$2.5	8.7%	1%	13%	7%	-5.0%
2103	Mixed condiments and mixed seasonings; soya sauce	\$2.5	1.7%	11%	12%	9%	-5.0%
2106	Food Preparations, not in aerosols (Other)	\$2.4	0.4%	13%	26%	6%	-5.0%



REVIEW OF KNZFTA

HS4 code	Key products within HS4 code <sup>15</sup>	NZ imports from Korea, 2020, NZ\$m	Korean market share, 2020	Average growth, 2010-2015	Average growth, 2015-2019	Average growth, 2015-2020	Average KNZFTA tariff reduction in HS4 category
8483	Gears and gearing; clutches and shaft couplings, pulleys and flywheels; bearing housings	\$2.2	1.5%	0%	10%	12%	-5.0%
3214	Painters' fillings (not putty, wood filler, not plaster or gypsum-based)	\$2.1	48.9%	6%	17%	13%	-5.0%

Source: Global Trade Atlas; KNZFTA tariff schedules

