

Summary

With both New Zealand and Korea emerging from the COVID experience at roughly the same pace, we are witnessing a big return to business across the bilateral relationship this year. Trade is again at record levels, and in the last two months we see signs of take-off in tourism and education services as well. Indicators are good that the positive momentum will continue.

Report

Economic update

The ROK, like New Zealand, has done a comparatively good job in keeping its economy ticking over through the disruption of COVID. While the country is now facing the same challenges of inflation, asset price falls (both shares and real estate), labour market tightness and supply chain shortages that bedevil much of the world, economic growth this year is estimated to be 2.1 and 2.6 percent (IMF) for 2023 – reasonable numbers for a developed economy. While the economy is slowing and markets are anxious about 2023, there are signs of a return to more traditional behaviours by consumers, travellers, students and investors.

Bilateral Trade tracking well

Bilateral goods trade held up well during COVID, but has accelerated with the easing of restrictions this year. Two-way goods trade in the year to June 2022 rose 46 percent to \$6.52 billion, way surpassing the pre-COVID high of \$5.1bn in 2020. A good deal of that growth reflects higher prices of refined oil products imported from Korea (up \$730 million), but the numbers (see detailed trade stats below) also show solid growth in New Zealand exports across the board.

Some highlights include:

- exports of **wood** continue to grow (7 percent) in 2022 to \$342 million, reflecting solid demand from Korea's construction and re-export markets; but
- has been overtaken as our lead export by **aluminium**, hitting \$367m;
- **dairy** has showed significant growth (\$296m, up 30 percent) this year, and may be poised to become our number one earner to Korea. These numbers reflect not just strong prices for commodities like cheese and butter (milk powder is still excluded by trade barriers), but also the growth of high value-add nutritional protein products for the health and welfare sector;
- **beef and lamb** have enjoyed strong demand this year. While numbers (both prices and volumes) this year to date are strong, the competing demand from the Chinese market continues to limit growth into Korea. Despite an excellent reputation for product and quality, New Zealand's share of the Korean market remains very small, with beef around 2 percent and lamb 10 percent.
- Zespri continues to be highly successful, growing **kiwifruit** sales in the first half of 2022 by 28 percent over the same period in 2021;
- other high quality food products continue to do well, such as **honey** (\$6m, up 9 percent); and **avocados** (\$10m, up 700 percent after a bad harvest and logistics challenges in 2020); and
- **pet food** (\$10m, up 45 percent). Increasingly single households (now 33 percent of total) in Korea keep pets and often treat them as family, as happy to spend money on premium pet food and pet care products as (it seems) on children.

Wine (\$20m exports, up 23% to June 2022) has become in some ways New Zealand's marquee export product in Korea: Marlborough Sauvignon Blanc (led by flagship brand Cloudy Bay) is now widely recognised, and available in department stores and convenience stores throughout Korea. Other varieties, particularly Pinot Noir, are becoming more available but Sauvignon Blanc remains overwhelmingly popular, especially among younger female consumers. After a massive increase in demand during COVID (as consumers stayed home and explored adventurous wine choices on line), the rate of increase has slowed

from triple digits in 2021 to double digits this year. We are also seeing something of an unravelling of COVID effects: consumers are drinking at home less and spending money outside the home more. Korean consumers are shifting their alcohol choices from beer and soju to wine.

In-person engagement resuming

In these and other sectors, the last few months have seen a stream of New Zealand businesses visiting the market, rebuilding customers' relationships and exploring new business. Fonterra has been the driving force behind the growth in dairy exports mentioned above. It has launched a new brand of high value-add nutritional protein products that are in strong demand in Korea, and CEO Miles Hurrell visited Korea in July.

Since Korea relaxed its border restrictions in May, we have had a number of established New Zealand companies (such as Comvita, Auckland-based Shott Beverages and deer velvet exporters) visit to re-engage with their Korean partners. New Zealand food marketers are seeing Korea as a leading edge market for consumer trends in areas such as health and well-being, and older demographics.

Other visitors include those from the tech sector such as Christchurch's **Syft** technologies, which employs 12 people in Seoul and sells precision air measurement devices to world-leading companies such as Samsung; **Nanolayr**, who use nano-mesh products in fields from cosmetics to acoustics and filtration; and Auckland-based **Ohmio** who have partnered with Lotte and Sejong City to gain the first-ever Korean license for level 4 autonomous vehicles.

Sustainable energy

Energy and decarbonisation are new themes in this market, with opportunities for New Zealand in innovative technologies and renewable energy expertise. The potential for green hydrogen production in New Zealand, and possibly export, is highly attractive to Korean stakeholders, and Korean manufacturers are rapidly re-gearing their business models to low-carbon solutions. In July, NZ Post launched New Zealand's first hydrogen truck, a Hyundai XCIENT.

Services sector rebounding

Prior to COVID, Korea was our fourth largest source of international students and seventh largest source of tourists. While it will be some time before we see these numbers again, we appear to be at the beginning of a rebound.

Unlike North America and Europe, Korean travellers have been cautious about taking to the skies again. **International travel** picked up steadily but not dramatically from early this year. But in the last two months we have seen a take-off in demand for New Zealand and other destinations. Air New Zealand and Korean Airlines are steadily increasing direct flights (initially once a week, now three, with four and five flights a week scheduled respectively during the New Zealand summer).

Travel agents are back in business, and Tourism New Zealand (TNZ) has leveraged of its Joint Venture Programmes with both Air New Zealand and Korean Air to oversee a significant increase in flight bookings. TNZ has also lured Korean celebrities and travel influencers back to New Zealand to market it as a tourist destination – such as the popular Korean travel program 'Everywhere K', whose show about New Zealand last month gained had a viewership of 2.1m people. Forward flight bookings are strong with flights at an average of 80 percent capacity. With demand growing faster than capacity, fares are up (a lot).

More flights means more direct air **freight capacity**. This will help the strain on shipping logistics which continues to see delays and high costs. One fresh produce exporter which charters vessels reported a 70% increase in sea freight costs, with a major issue being that the vessels often return to New Zealand empty. Access to containers requires forward planning because of a lack of supply.

The main sector for sales of **education services** is secondary school students. Korean parents have been understandably cautious about sending their children abroad while COVID still loomed, but seem now to be recovering confidence. Education New Zealand report strong pent-up demand from Korea, and New Zealand providers are responding. However, competition remains strong from traditional rivals in the education sector such as Canada and Australia, who had a head start due to their borders opening earlier.

A 23-strong delegation of primary/secondary school and university representatives from the Bay of Plenty visited Korea in September – the first major education delegation to visit Korea since 2020. Minister of Education Hipkins will visit to Korea this weekend 20-23 October to attend the International Education Fair in Seoul which has attracted a large number of other New Zealand providers and Korean consumers.

The horses are running again

The racecourses are back in business as well. Betting on horses in Korea is largely confined to the racecourse (though there is legislation in the pipeline to extend off-track betting more widely). With the courses closed, racing in Korea nearly died during COVID. It is now recovering, and puts New Zealand in a good position to follow up on the bilateral MOU signed with the Korean Racing Authority by the Deputy Prime Minister in 2019. After a three-year gap, the main Korean owners' group has told us it plans to travel to Karaka for the Ready to Run sales in November with a view to purchasing as many as 15 horses. Finding a cost-effective way of transporting the horses back to Korea by air is one of the key challenges.

Conclusion

Overall the news is good and New Zealand continues to do well in this market. Nonetheless Korea remains a highly competitive market. Many other nations are also looking at Korea as an alternative East Asian market and a number of our competitor nations in sectors such as food and beverage, health and beauty, and pet food have similar value propositions. This underlines the importance of New Zealand exporters constantly seeking to improve their marketing, strengthening their customer relationships and differentiating their products in order to justify maintaining premium prices.

Total (goods and services) trade year end June 2022

	TOTAL TRADE	TOTAL EXPORTS	TOTAL IMPORTS
2022	\$6.52 billion (+46%)	\$2.64 billion (+31%)	\$3.88 billion (+58%)
2021	\$4.47 billion (-12%)	\$2.02 billion (-9%)	\$2.45 billion (-15%)
2020	\$5.1 billion (+3%)	\$2.21 billion (-7.5%)	\$2.89 billion (+13%)

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

	TOTAL TRADE	TOTAL EXPORTS	TOTAL IMPORTS
1. China	\$38.5 billion	\$20.9 billion	\$17.6 billion
2. Australia	\$24.85 billion	\$11.53 billion	\$13.32 billion
3. US	\$20.7 billion	\$11.47 billion	\$9.22 billion
4. Japan	\$9.15 billion	\$4.25 billion	\$4.9 billion
5. Singapore	\$8.06 billion	\$1.88 billion	\$6.18 billion
6. South Korea	\$6.52 billion	\$2.64 billion	\$3.88 billion
7. Germany	\$4.68 billion	\$949.56 million	\$3.73 billion
8. UK	\$4.61 billion	\$2.11 billion	\$2.5 billion
9. Thailand	\$4.42 billion	\$1.38 billion	\$3.03 billion

Top (goods and services) exports to South Korea

CATEGORY	2022	2021	2020
1. Aluminium	\$366.84 million (+53%)	\$239.99 million (+17%)	\$205.37 million (-7%)
2. Wood	\$341.99 million (+7%)	\$318.65 million (+13%)	\$280.85 million (-23%)
3. Dairy	\$295.54 million (+30%)	\$227.63 million (-16%)	\$270.72 million (+23%)
4. Meat and edible offal	\$274.23 million (+60%)	\$170.94 million (+9%)	\$157.18 million (-2%)
5. Fruits and nuts	\$220.63 million (+19%)	\$192.18 million (+42%)	\$135.23 million (-15%)
6. Misc. Food Stuffs	\$162.19 million (+55%)	\$104.88 million (-7%)	\$112.88 million (-13%)
7. Travel	\$154.87 million (-30%)	\$222.77 million (-51%)	\$458.36 million (-13%)

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

CATEGORY	2022	2021	2020
1. Mineral fuels and oils	\$1.73 billion (+73%)	\$1 billion (-13%)	\$1.15 billion (+15%)
2. Vehicles and parts	\$603.28 million (+27%)	\$475.9 million (+39%)	\$342.41 million (-23%)
3. Iron and steel	\$218.56 million (+164%)	\$82.74 million (-20%)	\$103.02 million (-22%)
4. Heavy machinery	\$210.91 million (+24%)	\$169.42 million (+5%)	\$161.12 million (-17%)
5. HS98: Items not identified and valued below \$20,001	\$147.64 million (+72%)	\$86.07 million (+22%)	\$70.71 million (+543%)
6. Chemical products	\$119.74 million (+766%)	\$13.82 million (+10%)	\$12.6 million (+804%)
7. Plastics	\$116.16 million (+14%)	\$102.06 million (+4%)	\$97.9 million (-9%)

Other notable trends (i.e. NEW ZEALAND exports to Korea)

- **Honey:** \$6 million (+9%)
- **Kiwifruit:** \$208 million (+10%)
- **Pet food:** \$10 million (+45%)
- **Avocados:** \$10 million (+710%)
- **Wine:** \$20 million (+23%)

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