



NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

NZ business thrives in South Korea despite slowdown



MARKET REPORT

February 2023

Summary

- Korea is experiencing an economic slowdown, reporting negative growth in Q4 2022 and its first trade deficit in over ten years. GDP growth this year is expected to remain positive but low, and the cost of living is noticeably increasing. Experts predict the economy will accelerate again in the second half of this year. Despite the gloomy outlook, New Zealand businesses are finding opportunities for growth and innovation. Bilateral trade is at an all-time high. Tourism and education are recovering. Dairy has become our number one export.

Report

Bilateral trade

2022 saw record-breaking trade figures with Korea. For year-end September 2022, total goods and services trade hit NZ\$7.18 billion - a 50 percent increase on the previous year. Bilateral trade was hit hard by COVID, but 2022 saw a big bounce back. The last quarter of 2022 saw dairy, at NZ\$371.46 million, take over as New Zealand's number one export to Korea. Dairy surpassed wood and aluminium, which had held the top two spots for decades.

NZTE's Seoul team has had strong interest from New Zealand exporters seeking to diversify from China and add Korea to their export markets. This has been evident in meat export numbers, up from NZ\$201m in 2021 to NZ\$228m in 2022. NZTE Seoul now has its largest ever portfolio of New Zealand exporters and by the end of 2022 had also seen record revenues for many of its customers.

Some highlights include:

- Fonterra claimed the top spot through a combination of better value from its core products of **butter and mozzarella** (helped by improved tariffs under KNZFTA) and a big push into value-added products, targeting customer needs around health and wellness.
- The value of fruit exports (almost entirely made up of **kiwifruit**) increased over 8 percent in 2022. Zespri continued its strong sales in Korea (12.5 million trays in 2022), driven by increased demand for fresh fruit considered to boost immunity during the COVID pandemic. Zespri have built a strong brand in Korea and established productive, long-standing retail partnerships in Korea – a strong platform for future growth.
- Last year, Korea moved up to be our third-largest **international education** market, overtaking Japan. Education New Zealand has worked effectively during COVID to ensure engagement in Korea remained high, so that New Zealand would be in a good position when borders opened, and we are now seeing their efforts paying off.

Korea and New Zealand continue to work on our agreed work plan to review the Korea-New Zealand Free Trade Agreement (KNZFTA). Officials will meet in 2023 to present our respective assessments of KNZFTA implementation. We also remain active in keeping Korea engaged on CPTPP – though with little sign of change from Korea yet.

Economic update

Like most other countries, Korea is weathering the effects of the global economic downturn. GDP contracted by 0.4 percent in the last quarter of 2022. Experts predict a return to growth, though staying below 2 percent, for the first half of the year. Growth will likely speed up in the second half of the year, but recovery to pre-downturn economic levels could take years. These predictions are much better than what was predicted mid-2022, with Asia being seen as the 'frontrunner' in global economic recovery forecasts for 2023.

The Government predicts underwhelming GDP growth of 1.6 percent in 2023. Korea recorded its first trade deficit in 10 years for January 2023, and it is predicted to record similar monthly trade deficits for the remainder of the first quarter. Inflation reached a peak of 6.3 percent in July 2022, but decreased to 5.5 percent in January 2023, and is forecast to fall further to 5 percent for February – still well above the government's target of 2 percent.

Slow GDP growth and high inflation have increased the gap between the rich and the poor, and reduced the spending power of the poor. Koreans' debt remains one of the highest in the OECD. Households in the lowest income quartile currently spend 49.8 percent of their income servicing debt and 91.3 percent of earnings on essential living costs. With the increased cost of living, the pressure is on the government to find ways to ease the burden of those struggling to make ends meet.

Energy prices have increased particularly sharply. As of January 2023, electricity prices have increased by 29.5 percent and gas by 36.6 percent since the same time last year. Large retailers such as Lotte have told customers to brace for further increases in their staple food items.

Market trends

Curiously, Koreans are spending more on luxury goods than before, at US\$325 per capita (China US\$280, US US\$55), a 24 percent increase between 2021 and 2022. It is fast becoming a societal norm in Korea to flaunt luxury goods as a symbol of wealth, and it is common for those not normally interested to purchase luxury products to keep up appearances, regardless of cost.

This is one of the reasons we are seeing the rise of 'cherrysumers' in Korea. This is the phenomenon of consumers who cherry pick their consumption. While disposable income is reducing for most, taste remains luxurious. Consumers are turning to events and samples as ways to taste luxury, but within their financial means. We have seen events like cosmetic 'sample boxes', and a monthly 'glass of wine taste' subscription box, increasing in popularity.

Conclusion

The overall results for New Zealand are good and our companies continue to do well in the Korean market. Notwithstanding the strong numbers, Korea remains a highly competitive market made more difficult by its current economic downturn. To continue their recent success, New Zealand exporters need to continue investing in marketing and brand strengthening, consolidating their in-country partnerships (preferably through in-person visits) and finding ways to add value to their products.

Total (**goods and services**) trade between NZ and ROK, YE September 2022

	TOTAL TRADE	TOTAL EXPORTS	TOTAL IMPORTS
2022	\$7.18 billion	\$2.78 billion	\$4.40 billion
2021	\$4.77 billion	\$2.04 billion	\$2.73 billion
2020	\$5.07 billion	\$2.22 billion	\$2.85 billion

Top NZ exports to ROK, YE November 2022

CATEGORY	2022	2021	2020
Dairy	\$371.46 million	\$230.17 million	\$263.60 million
Wood	\$367.83 million	\$322.88 million	\$287.65 million
Aluminium	\$336.38 million	\$300.12 million	\$221.69 million
Meat and edible offal	\$306.70 million	\$184.82 million	\$175.75 million
Fruit and nuts	\$228.93 million	\$201.57 million	\$168.20 million

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