



NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

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South Korea: Another year of positive performance

MARKET INTELLIGENCE REPORT

Summary

- New Zealand businesses have achieved another year of success in the Korean market.
- Korea is New Zealand's sixth largest trading partner, with a total trade value of NZD 8.92 billion for year end June 2023.
- Dairy is now our largest export to Korea, surpassing timber and aluminium.
- Tourism and education continue to recover post-COVID peak as a result of targeted marketing and New Zealand's positive reputation as a safe and high quality destination.
- Next year's prospects for New Zealand businesses in the Korean market are not as promising because of the current Korean economic downturn. The key for New Zealand businesses will be to focus on the long term, as well as adding value rather than only focusing on quantity.

- Despite lower than expected growth, there have been signs that the Korean economy is poised to rebound mid-2024.
- Employment rates are increasing, inflation easing, and the previous quarter saw the smallest export decrease in the last year, signalling a potential future upswing.
- The US has taken over China as Korea's number one export market for the first time in over two decades.
- Economic security remains a key focus of the government, specifically supply chains, mineral diplomacy, and early warning systems for key materials.

Report

Another positive year for New Zealand...

For year end June 2023, Korea ranked as New Zealand's sixth largest trading partner, with a total trade value of NZD 8.92 billion (exporting NZD 2.87 billion and importing NZD 6.05 billion). Dairy has maintained its ranking as our number one export (NZD 476.9 million), followed by aluminium (NZD 373.8 million) and wood (NZD 325.3 million). Our highest ranked import by a distance is mineral fuels and oil (NZD 3.94 billion), followed by vehicles (NZD 680 million) and mechanical machinery (NZD 250 million).

The increase in Korean fuel and oil imports, which can largely be attributed to the closure of Marsden Point, has contributed to the widening trade deficit of NZD 3.18 billion. The Marsden Point closure has also led to an increase in non-crude fuel from other countries – refined oil imports from Japan, Singapore, Malaysia as well as South Korea – and a converse decrease in crude oil imports from the Middle East (our UAE trade [report of May 2023](#) also refers).

Despite the growing trade deficit, several New Zealand businesses have experienced record-breaking years in 2023, notably in the health supplement sector. The Korean market is seen as having potential and the number of New Zealand companies exporting to Korea has increased. The New Zealand Trade and Enterprise (NZTE) team in Seoul, closed a record number of deals with New Zealand exporters to Korea in FY23, with NZD 373 million in new sales or market revenue.

Outbound tourism is having a slow recovery post-COVID, with the number of Korean tourists to New Zealand increasing, but at a slower pace than expected. In the first half of 2023, tourist numbers to New Zealand were at 56% of pre-pandemic levels. In terms of travel choices post-COVID, short-haul destinations such as Japan and South East Asia remain the most popular with Korean tourists, making it challenging for New Zealand to increase its inbound numbers further. Air New Zealand (three flights a week) and Korean Air (five flights a week) both operate direct flights between Auckland and Incheon, and Tourism New Zealand has launched a joint marketing campaign with Korean Air in September to boost direct bookings. Its equivalent marketing campaign with Air New Zealand will launch in November.

Korea remains New Zealand's 4th largest international student market, making up 5% of our international student body. Education New Zealand has been busy post-COVID, with a number of initiatives launched to increase Korean student numbers to New Zealand and build partnerships between New Zealand education institutions and Korean education agents. On 31 August, Education New Zealand hosted a networking seminar and education fair in Seoul. Representatives from 30 New Zealand secondary, tertiary,

and vocational institutions travelled to Korea for these two events, which were well attended by Korean education agents and parents of potential international students.

...but uncertain times ahead...

Compared to this year, 2024 is projected to be rockier. The bilateral trade growth enjoyed over COVID years is unsustainable in light of Korea's economic conditions and a turbulent global economic environment. Recent signs point to the Korean economic downturn slowing down (see paras 7 and 8 below), but another unforeseen shock (such as a contagious new strain of COVID taking hold of the country) could even knock the economy completely off course again. The key for New Zealand businesses to manage the downturn in 2024 will be to focus on the long term, as well as adding "value" rather than adding quantity.

...despite signs of life from the Korean Economy

The first half of 2023 has seen employment rates in Korea continue to increase, but production decrease. Inflation in Korea has been easing, with the first dip below three percent in over two years. Korean exports fell for the 12th straight month in September, largely reflecting a global slump in Korean key sectors such as semiconductors and technology exports. However, the previous quarter saw the smallest decrease in the last year, signalling a potential upswing in the future, and global semiconductor demand is showing signs of recovery, with September recording the highest monthly semiconductor export value for the year.

The improving export performance is likely to have a positive effect on the Korean economy, in which goods exports account for 40% of nominal output. Korea's manufacturing sector plays an important role in job creation and wage setting, so more exports will stimulate economic growth and positive business and consumer sentiment.

Another development of note is that for the first time since 2004, the US has overtaken China as Korea's largest export market in terms of both volume and value. This has largely been driven by increased US demand for Korean cars and batteries, and more Korean companies investing in the US semiconductor and clean tech sectors. An additional benefit has been improved business confidence, as domestic anxieties relating to Korea's high dependency on China (currently around 20% of market share) ease.

According to the Ministry of Economic and Finance, the government's economic policy focus for the second half of 2023 will focus on:

- The enhancement of economic vitality (including regional economy initiatives, private sector export and investment support, and flexible macro-economic policy);
- The stabilisation of people's livelihood (including reducing cost of living, stabilising

- housing rental market, and strengthening job creation for the marginalised);
 - The improvement of fundamental economic structures (including fostering growth in high-tech industries such as science and technology, structural reform in labour, education and pension, and boosting productivity in services, public sector and finance); and
 - The expansion of the social bedrock against future challenges (including strengthening responses to low birth rates and aging population, expanding ODA, and enhancing energy efficiency to realise carbon neutrality).
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Comment

The Korean market remains a relatively attractive and stable market for New Zealand business (as well as many of our competitors) to invest in. While Korea is not immune to global economic pressures, its response to those pressures seems relatively positive. The growth experienced by many New Zealand companies in Korea during COVID is not likely sustainable in the short-term, but long-term outlooks remain hopeful.

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