

KOREA STRATEGY

2009-2010



Introduction and Overview

Korea¹ is New Zealand's ninth largest trading partner and sixth largest export market. A modern and dynamic economy with nearly 50 million consumers and per-capita income nearing that of New Zealand, it offers significant opportunities for New Zealand businesses. With a Free Trade Agreement (FTA) under negotiation, the strategic importance of Korea for New Zealand Trade and Enterprise (NZTE) operations in the North Asia region has grown considerably.

Korea is the 13th largest economy in the world and a market leader in a range of engineering and high-technology industries but struggles to be seen and heard ahead of its bigger neighbours, China and Japan. Membership of the G20 is coveted and Korea is expected to be chair in 2010. Although major Korean brands are becoming globally established and Korean films and food are increasingly enjoyed internationally, the country remains relatively isolated by its highly homogenous culture and its location between two giants.

Individually, Koreans are exceptionally polite and welcoming, but collectively can be passionate and forbidding. Visitors are treated well but the Korean culture is challenging for foreigners.

Korean business is dominated by large *chaebols* – massive horizontal and vertically integrated companies. The largest of these, Samsung, the SK Group, Hyundai and the LG Group, are globally significant businesses. Since 1990 there has been economic diversification, driven partly by an active capital market. However, while overall chaebol significance has lessened, the commercial importance of Samsung and LG in electronics, Hyundai in automotive and SK in petrochemicals has advanced considerably.

The Korean economy was hit hard by the global financial crisis but is recovering, partly as the result of an aggressive stimulus plan which targets construction and infrastructure, particularly projects with an environmental focus. While GDP is predicted to contract by about 2% in the 2009 year, an export-led recovery is expected in 2010, with Korean growth rates likely to surpass all other North Asian countries except China.

Household spending picked up in the first half of 2009, credit flow into households increased and department store spending recorded the fourth month of growth in June. The Korean banking sector is fundamentally sound although business investment will remain low as credit supply continues to slow following the stimulus package, and businesses remain cautious.

Over the last decade New Zealand's trade with Korea has underperformed Korea's expansion in imports. Between 2000 and 2008, Korean imports grew by 13% per annum but imports from New Zealand grew only 6% per annum in the same period. Compared with other nations, New Zealand's trade with Korea is volatile and susceptible to changes in marginal trading conditions, such as exchange rates.

Successful conclusion of an FTA with Korea is expected to significantly improve profitability for New Zealand businesses, encourage investment and development and give a competitive advantage in the market.

New Zealand's exports to Korea declined slightly in the year to 30 June 2009. Key exports are logs, beef, aluminium, methanol, dairy products and kiwifruit. Although Korea is New Zealand's second largest market for green lipped mussels, the value of exports is falling. The same is true for beef exports which are suffering in the face of Australian promotion and support in key food service channels.

Market access barriers include high tariffs on many food products. Successful conclusion of an FTA with Korea is expected to significantly improve profitability for New Zealand businesses, encourage investment and development and give a competitive advantage in the market.

Long term relationships are extremely important in Korea but New Zealand companies typically take a transactional approach with relatively few market visits, limited support of channel partners and little interaction with end users. Few New Zealand companies have a permanent presence in Korea and those that do seldom employ New Zealanders in their subsidiary.

New Zealand exporters tend to commit low volumes and are often reluctant to invest in development, opting instead to pursue opportunities in Japan and China.

Despite this, New Zealand has a positive image in Korea. It is seen as clean and green and a link is made between New Zealand naturalness and good health. While New Zealand is not well known as a source of competitive technology, it is seen as a possible source of clean technology and innovation. There are opportunities to partner "green" ingredients and components from New Zealand with Korean technological and market know-how.

Many Korean tourists visit New Zealand and Korea is New Zealand's second largest source of international students. Around 17,000 Korean students are currently studying in New Zealand, as well as the children of 40,000 Koreans who have immigrated to New Zealand.

¹ For the purposes of this document Korea refers to South Korea.



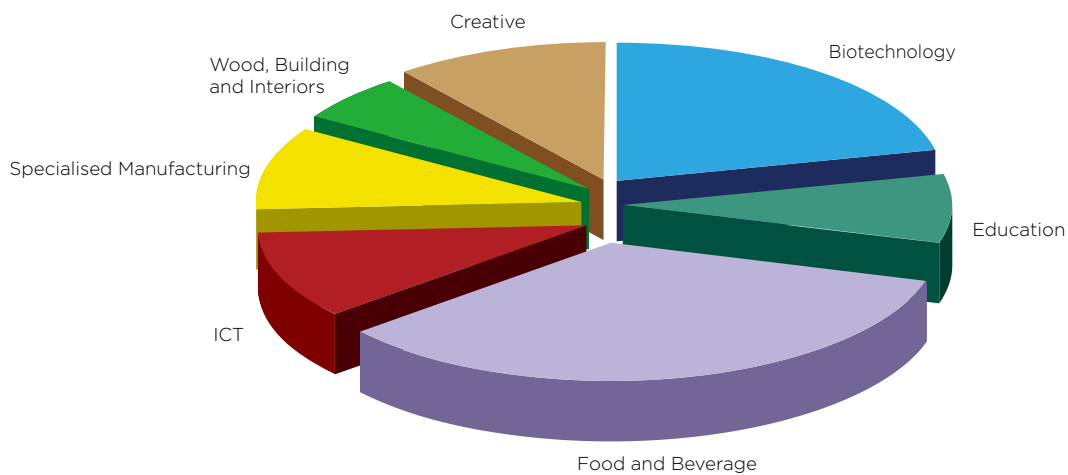
NZTE Presence in Korea

At a glance:

- Total operating budget NZ\$1.8m per annum (approx)
- 8 full-time equivalent staff
 - 1 seconded New Zealander
 - 6 FTE locally employed
 - 1 FTE located onshore
- 1 office based within the Embassy

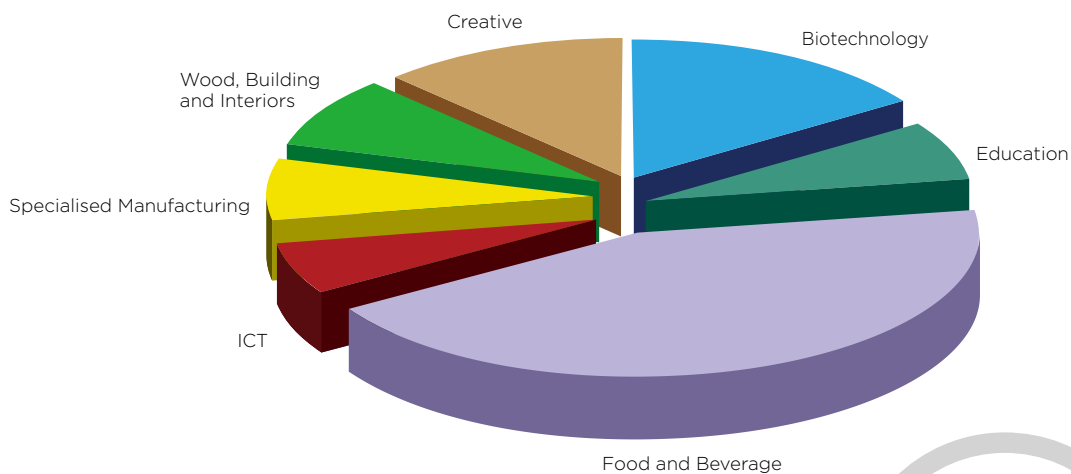
Total Companies and Organisations Interested in Korea (by sector)

A total of 290 companies are exporting to Korea or have formally expressed an interest in doing business there. Not all are NZTE clients. They are in the following sectors:



NZTE Client Presence in Korea (by sector)

The number of NZTE clients exporting to Korea or interested in doing so is 127. The sector structure is similar, although there are proportionally fewer companies in food and beverage and more in ICT and biotechnology.



NZTE Korea Strategy: July 2009 – December 2010

NZTE's strategy for Korea is to focus on specific sectors where New Zealand has value and companies with the capability and commitment to succeed in the market. Development of an in-depth understanding of market dynamics and opportunities and transferring that knowledge to New Zealand businesses is at the heart of our approach.

Market Intelligence – Research and Analysis

NZTE staff in Korea routinely undertake market research and analysis in areas of primary interest to New Zealand exporters. Reports on sector development and activity are regularly posted on the NZTE website.

We also commission market research from third party providers to provide a more detailed examination of specific market issues and opportunities.

During the first half of 2009 the following in-depth studies were completed:

- **Investigation of the Marketability and Strategy Mapping for New Zealand Lamb:** Part-funded by Meat and Wool New Zealand, this study investigated the market opportunity for New Zealand lamb in Korea, consumer preferences and channel structures. The study recommended possible market development strategies.
- **Global Broadband Benchmarking - Lessons from Korea:** The study uses a Korean broadband development model to determine critical success factors and analyses factors for transference to the New Zealand environment. It also profiles the Korean industry for partnering opportunities as New Zealand attempts to attract investment, technology and knowledge in broadband infrastructure.

Research planned for the remainder of the 2009-2010 year includes:

- Mapping supply chains into the Korean family restaurant market.
- Scoping the Korean functional foods market and opportunities for New Zealand companies.
- Investigating Korean partnership and investment potential in the New Zealand animal-based therapeutics industry.
- A report on the "Green Growth" market in Korea for New Zealand clean-technology firms.
- Scoping of the human healthcare market in Korea with an emphasis on health-IT and medical devices.

Sector concentration

Market development work in Korea will focus on five key sectors:

- **Food and Beverage**
NZTE is mapping channels into the food service market, particularly family restaurants. Support will be provided for limited retail promotions in high-end department stores, with wine a flagship product. Developing sustainable partnering opportunities for key clients with major food retailers or food manufacturing companies will be a focus area, particularly following the recent findings of research undertaken into the aquaculture market. NZTE will also lead the New Zealand participation at Seoul Food 2010.
- **ICT**
The Korea Australia New Zealand Broadband Summit in Auckland in November 2009 will be a key focus. There is considerable Korean interest in partnerships and investment in New Zealand's broadband infrastructure plans. Other sector activity will concentrate on digital content for interactive media and animation and some support for film production initiatives as a result of the recently signed Korea-New Zealand Co-production Agreement.
- **Specialised Manufacturing**
Clean-tech opportunities are a high priority, principally in water and waste management systems and environmental management services. Niche opportunities in renewable energy generation and energy management systems will be assessed.
- **Biotechnology**
Activity will focus on understanding value chains in the Korean functional food and bio-supplement markets and scoping opportunities in human healthcare around health IT and medical devices. An investment-led project will identify opportunities in animal-based therapeutics.
- **Education**
NZTE will continue to deliver Education New Zealand contracted services and investigate corporate, industry and government opportunities particularly in the areas of educational systems and English language training.



Client consulting

NZTE will identify and work with companies that have a clear commitment to the Korean market, and the capability to implement a sustainable market strategy.

Client engagement plans that include initial market research, opportunity identification, partner selection, deal support (where appropriate) and ongoing market and relationship monitoring will be developed. Where appropriate, third party providers may be commissioned to assist.

NZTE will develop and maintain relationships with key Korean partners using strategic engagement plans to guide the relationship.

Promotion of Korea in New Zealand

The proposed Korea-New Zealand FTA provides an opportunity to lift the profile of Korea and New Zealanders' understanding of the market.

NZTE is working alongside the Ministry of Foreign Affairs and Trade (MFAT) on an industry consultation programme for the FTA. As negotiations proceed and an FTA takes shape, a full programme of opportunities for New Zealand businesses to leverage off the formal signing will be developed.

NZTE will inform New Zealand business about the opportunities in Korea using case studies and working with partners such as the Korea New Zealand Business Council, Asia New Zealand Foundation and the New Zealand International Business Forum.

Investment promotion

Korean investment in New Zealand reached a cumulative US\$179 million at the end of 2008, with US\$12.1 million invested that year. Major investments in recent years have been in forestry and oil field development with smaller scale investments in horticultural production and films.

New Zealand companies typically lack knowledge about Korean investment and investors. In Korea, New Zealand is not well known as an investment destination and tends to be perceived as a source of primary products such as wood and dairy ingredients rather than advanced technology or sophisticated goods.

NZTE's priority is to raise awareness and knowledge levels on both sides, promoting mutual understanding while seeking tangible opportunities for partnership. In Korea, our principal focus is on building relationships with large chaebols for infrastructure-related investment, such as broadband, and for major resource utilisation such as iron sands.

We will also target Korean companies with interests in natural resources, in some cases leveraging off a developed trade relationship.

NZTE will seek investment in New Zealand's knowledge-based industries such as ICT, biotechnology and clean-technology. ICT activity will include targeted investment support around the Korea Australia New Zealand (KANZ) Broadband Summit, Korean trade missions and the New Zealand



Government's broadband initiative. Korea is a source of film industry investment and this will continue to receive support through work with Film New Zealand.

New Zealand has particular competitive advantage in the animal-based therapeutics sub-sector, making it attractive to investors. The functional food ingredients sub-sector is also attractive to potential Korean investors because of its compatibility with New Zealand's clean and green image.

Korean government industry policy plays a significant role in foreign direct investment decisions, seeking to grow capability in targeted industries through investment and capability transfer. Their "Green Growth" strategy encourages Korean investment in biotechnology and clean-technology industries as a means of building future economic growth engines. Maintaining government-to-government relationships is therefore an important part of NZTE's role in Korea.

Marketing and brand development

NZTE's marketing programme in Korea will focus on media relations, event leveraging and issues management.

Work to develop and maintain relationships with key journalists and briefing them on New Zealand activities in market will continue. Targeted media relations programmes leveraging key events such as BIFCOM (Busan International Film Commission Exhibition), the New Zealand Wine Fair, and Seoul Food and Hotel will also help to raise New Zealand's trade and investment profile.

NZTE will also be targeting social media, key bloggers and other opinion leaders and influencers.



Key contacts:

Group General Manager, North Asia:

Rod MacKenzie (rod.mackenzie@nzte.govt.nz)

Director, North East Asia:

Shaun Conroy (shaun.conroy@nzte.govt.nz)

Trade Commissioner, Seoul:

Graeme Solloway (graeme.solloway@nzte.govt.nz)

Regional Marketing & Communications Manager, North Asia:

Ziena Jalil (ziena.jalil@nzte.govt.nz)

Investment Manager, Korea:

Sunah Kim (sunah.kim@nzte.govt.nz)

Websites:

www.nzte.govt.nz - market intelligence, sector reports, and general information on exporting.