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Summary

- The **overall impression** from a range of NZ exporters to Korea is that the impact on their business has not been as bad as expected.
- Appetite for **F&B in retail in particular has soared** in recent months and some NZ exporters have been quick to bring in higher sales.
- The **healthcare sector is performing well**.
- New Zealand **manufacturers** appear to be muddling through but face considerable **supply disruptions at home and abroad including component sourcing**.
- The number of Korean **students** studying in NZ has halved as of March (now numbering 3116 students).
- The outbound **tourism** and **aviation** industries in Korea have been crippled and evidence suggests that they will suffer from an extended period of inactivity.
- **Common challenges** facing NZ businesses include:
 - Rising logistics costs (e.g. airfreight now priced 2-5 times higher), including many last minute cancellations, delays, and reduced capacity.
 - Detainment of consignments due to delayed documentation for customs.
 - Difficulty maintaining supply due to disruptions at home, export volumes constrained by excessive demand, and difficulty securing components.
 - Travel stoppages and event cancellations that are forcing businesses to explore alternative marketing and promotion methods.
- There is **opportunity** for NZ businesses to secure more market share for certain products with the right strategy, particularly once Korea begins to transition back to normalcy.

Report/findings

We provide an update on the impact of COVID-19 on New Zealand businesses exporting to and operating in Korea.

2 The COVID-19 outbreak is a major setback for the economy and many businesses in Korea. Korean economic growth, which had already slowed to around 2% prior to the start of the outbreak - an alarmingly low level for Koreans used to rapid growth – has begun to contract with particular impact on the tourism, education and hospitality sectors. Latest IMF forecasts suggest Korea will post negative 1.2% growth for 2020.

3 But it isn't all bad news. Some New Zealand businesses have been quick to seize on rising demand in Korea for food and healthcare products. At the same time, manufacturers that export to Korea look to be weathering the storm well despite grappling with supply challenges back at home and rising logistics costs. The overall impression is that the impact of COVID-19 on New Zealand exporters and service providers in Korea has not been as bad as initially feared.

F&B products performing well (mostly)

4 Appetite for New Zealand food products in Korea appears to have soared in recent months and several prominent New Zealand companies have increased retail sales off the back of growing demand for health food products despite declining sales through food services (e.g. restaurants).

5 For some food and beverage products sales have exceeded expectations after rising 20-30%. Many New Zealand businesses report expectations of additional growth which some plan to capitalise on with the launch of special promotions. In particular, organic and health-enhancing products appear to be experiencing strong sales growth.

6 For F&B companies that have yet to capitalise on increased demand, market conditions are expected to become more favourable in the coming months. Some businesses have suffered delays in the shipment of products to Korea but report that Korean customs officials appear to have been responsive and understanding. Other companies are in the process of updating their online marketing and promotion strategies to facilitate higher sales.

Demand exceeding supply in the healthcare sector

7 Reflecting what has occurred at home and abroad, healthcare businesses in Korea are performing well. We have seen increasing demand from Korean hospitals for healthcare products, particularly for those that aid in the treatment of COVID-19. The downside is that excessive global demand for healthcare products has begun to constrain export volumes to Korea in some cases. New Zealand made ingredients or components that are used in the production of healthcare products in Korea have also experienced strong demand in recent months which is expected to continue.

8 We are aware that in some instances New Zealand healthcare product manufacturers that should in theory have benefitted from soaring demand for medical products in Korea appear to have been prevented from doing so due to significant supply chain disruptions, such as difficulty securing components from offshore, for example, from China or India.

Manufacturers muddling through but rough waters ahead

9 Manufacturers that export to Korea appear to be muddling through but are facing considerable supply disruptions resulting from suspension or downsizing of production due to physical distancing etc. in New Zealand. Businesses that have suspended production at New Zealand factories have incurred production delays that could last for months.

10 In instances where production delays have occurred in New Zealand due to difficulty securing components from offshore, businesses have been exploring alternative sources but report that costs are prohibitive. Many New Zealand businesses hope to partially restart production lines at some factories this month but remain concerned that any further delay may further threaten the stable supply of components to customers.

11 Korea's demand for manufactured products especially from the public sector is stable. The public customers keep purchasing with the budget already allocated.

Education providers hit hard

12 Education links between New Zealand and Korea have been severely damaged with statistics showing the number of students from Korea studying in New Zealand has more than halved with 3,116 students as of March. This is significant hit given that in June 2019 Korea had around 6,300 students enrolled with New Zealand providers valued to be worth around NZD268 million.

13 Education New Zealand report that there has been an uptick in calls for refunds and tuition fee discounts for remaining Korean students in New Zealand frustrated with the e-learning classes that have been provided by New Zealand schools and tertiary institutions in lieu of face-to-face classes. To make matters worse, English language schools in New Zealand are struggling to recruit students from abroad and many private institutions have already undergone staff redundancies and given pay cuts to offshore based marketing staff. Education New Zealand expects that many education providers will need to suspend operations for the time being or face bankruptcy.

Tourism and aviation completely crippled

14 The outbound tourism sector in Korea (i.e. Koreans going abroad) has largely been shut down and evidence suggests that it will suffer from an extended period of inactivity. Tourism New Zealand report that the majority of staff working in the Korean tourism sector have been sent on leave with only essential staff remaining on duty. Most travel agents in Korea are reviewing short-term and long-term staffing needs for the next six months.

15 Whether tourism operators in Korea will survive long enough to see a recovery will depend on the degree to which the Korean government's economic stimulus package will be able to improve consumer sentiment and facilitate a return to business as usual.

Common challenges facing New Zealand businesses

16 A concern shared by all New Zealand exporters to Korea is **rising logistics costs** as companies report paying 2-5 times usual prices for air freight. Air freight appears to be unstable with many last minute cancellations and delays. Although sea freight appears to be faring better, there have also been reported delays. For some products, the instability of sea freight is seen as an ongoing risk to supply. The erosion of international air links has also resulted in reduced freight capacity as companies wrestle with limited options. Some businesses have reported an inadequate number of available staff in New Zealand to manage logistics.

17 We are aware of two cases where consignments have been detained at the border by Korean customs officials due to the delayed arrival of physical documentation required for customs clearance. A reciprocal arrangement between MPI and Korea's Ministry of Food and Drug Safety (MFDS) has now been successfully reached whereby PDF copies of certificates will be accepted in lieu of delayed original certificates due to COVID-19 disruptions. More broadly, New Zealand exporters report that logistics appear to be improving on a day-to-day basis.

18 Many New Zealand exporters, particularly manufacturers, report difficulties maintaining supply due to either production disruptions at home arising from the lockdown, excessive demand (e.g. from the US and Europe) constraining export volume to Korea, or third-country supply chain disruptions such as the introduction of export bans by China or factory closures in India. Some

New Zealand exporters have reportedly struggled to source necessary components for their products from factories in New Zealand that have been deemed non-essential services.

19 One issue impacting all New Zealand businesses is the widespread disruption to international travel and cancellations of events and tradeshows. All trade shows have been postponed or cancelled in Korea and the disruption to international travel is encouraging many New Zealand businesses to more vigorously explore offline marketing and promotion tools.

What lies ahead?

20 The road to economic recovery for businesses most impacted by COVID-19 will largely depend on how effective Korean and international fiscal and monetary efforts are at softening the blow and facilitating a return to economic growth. Until then, we think that the discernible trends outlined in this report are likely to continue.

21 New Zealand exporters that will continue to perform well under the current scenario (if supply can be maintained) will include food and beverage producers, helped by strong Korean delivery service and e-commerce channels. New Zealand products that are sold through large café brands in Korea will continue to fare better than small to medium sized retailers. The trend points to growing demand for immune system-related products off the back of strong demand for health food products and is unlikely to diminish anytime soon.

22 At the right time we think that some New Zealand businesses may be able to secure additional market share for certain products with the right strategy, particularly as the Korean market begins to transition back to normalcy. For example, the current challenges and the lack of domestic US supply for certain products in the next quarter may present an opportunity for some New Zealand businesses to secure a bigger share of the US market. We also note that New Zealand's clean green image would benefit well from targeted and collaborative efforts from companies on branding and promotional.

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