



Agri-Food Past, Present & Future Report

South Korea

July 2006



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South Korea

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Overview

South Korea, officially known as the Republic of Korea, has the tenth largest economy in the world and is a major economic power in Asia. Home to a relatively affluent population of over 48 million, South Korea offers a large market for agri-food products. South Korea is also centrally located in Eastern Asia, providing a gateway to Canadian companies wishing to access the large Japanese, Chinese and Russian markets.

South Korea plays an important role in international trade and recently implemented free trade agreements with Chile, Singapore and the European Free Trade Association (EFTA). Further agreements with Japan, the Association of South-east Asian Nations (ASEAN) and Canada are currently being negotiated.

Canada - South Korea Relations

South Korea and Canada share strong political and economic relations. The South Korean and Canadian governments have cooperated on a number of projects, including initiatives related to climate change, investment and international development. In 1994, a Special Partnership Working Group was created between South Korea and Canada with the aim of expanding and strengthening bilateral economic ties. Recently, negotiations towards a free trade agreement between Canada and South Korea have begun and are aimed at further enhancing trade relations between the countries.

Canada and South Korea have a well-established trade and investment relationship. In 2005, South Korea was Canada's seventh largest export market and eighth largest source of imports. Canada holds a large trade deficit with South Korea. In 2005, the value of imports from South Korea was \$5.4 billion, a decrease from 2004 when imports reached a high of \$5.8 billion. Canadian exports to South Korea reached \$2.8 billion in 2005, this was the highest value since 1997. The Asian financial crisis caused exports to South Korea to plunge in 1998, and although economic recovery has been significant, Canadian exports to South Korea have not yet returned to their previous levels.

Canadian direct investment in South Korea was valued at \$779 million in 2005. This was a significant decrease from the \$1.4 billion invested in 2004, but an increase from 2003 when investment totalled \$698 million. South Korean direct investment in Canada peaked in 2005 at \$364 million; this was a 225% increase from 1996.

Canada- South Korea Bilateral Trade (2005)	
South Korea Total Trade	US\$545.6 billion
Exports	US\$284.4 billion
Imports	US\$261.2 billion
Trade balance	US\$23.2 billion
Canada-South Korea Trade	\$8.2 billion
Exports	\$2.8 billion
Imports	\$5.4 billion
Trade balance	(\$2.6 billion)
Canada-South Korea Ag Trade	\$545.8 million
Exports	\$505.5 million
Imports	\$40.3 million
Trade balance	\$465.2 million

- In 2005, Canada's top exports to South Korea included coal valued at \$555.1 million, chemical wood pulp (soda or sulphate) valued at \$274.5 million and wheat valued at \$218.3 million.
- In 2005, Canada's top imports from South Korea included motor vehicles for passenger transport valued at \$1.6 billion, TV/radio broadcasting equipment valued at \$677.1 million and electronic integrated circuits valued at \$305.3 million.

Agricultural Trade

South Korea imports 60-70% of its food requirements and runs a significant food trade deficit. In 2005, South Korea imported US\$10.9 billion in agri-food products and US\$2.3 billion in fish and seafood products. The top agri-food and seafood exporters to South Korea were United States (24%), China (18%), Australia (13%), Brazil (5%) and Canada (4%).

South Korea also exported nearly US\$2.4 billion in agri-food products and US\$1 billion in fish and seafood products in 2005. Japan (42%), United States (11%) and China (10%) were the top markets for South Korean agri-food and seafood products.

In 2005, South Korea was the fifth largest market for Canadian agri-food exports. Canada has a large agricultural trade surplus with South Korea, exporting significantly larger amounts of food to South Korea than it imports from the country.

- Canada's total agri-food exports to South Korea exceeded \$505.5 million in 2005. These exports included \$235.7 million or 47% in bulk goods, \$149.3 million or 29% in consumer goods and \$120.5 million or 24% in intermediate goods.
- Canadian fish and seafood exports to South Korea were valued at \$32.8 million in 2005 and consisted of live lobsters valued at \$12.6 million, frozen shrimps and prawns valued at \$6.2 million and frozen eels valued at \$2.5 million.
- In 2005, Canada was the third largest exporter of wheat to South Korea. Canada's share of the South Korean wheat market increased significantly from 5% of total wheat exports in 2004 to 29% in 2005.
- In 2005, Canada was the second largest exporter of pork meat to South Korea.
- In 2005, Canada's total agri-food imports from South Korea were valued at \$40.3 million; these imports included \$9.1 million in pasta nes, \$3.9 million in

uncooked pasta, \$3.6 million in biscuits and crackers and \$3.4 million in mandarins.

Canada's Top 5 Agricultural Exports to South Korea (2005)	
Wheat, non-durm	\$218.3 million
Pork, frozen	\$67.1 million
Raw mink furskins, whole	\$21.6 million
Beef, sheep and goat fats	\$18.5 million
Beef hides, whole	\$18.3 million

Complete Statistical Summary Available:
http://ats.agr.gc.ca/stats/koreasouth_e.pdf

Economy

South Korea has achieved significant economic growth during the last 40 years and has become an affluent technologically advanced country. The economy is robust and is characterized by relatively equal wealth distribution, moderate inflation, low unemployment and an export surplus. The manufacturing sector is central to the economy accounting for about 25% of GDP. Top manufactured goods include electronic products, passenger cars, machinery and equipment, chemicals and metal goods. South Korea has limited natural resources and is heavily dependent on imports for raw materials and fuel.

South Korea is well integrated into the international community and international trade is vital to its economy. South Korea is committed to economic liberalization and deregulation and has recently implemented free trade agreements with Chile, Singapore and the European Free Trade Association (EFTA). Additional free trade agreements are being negotiated with Japan, the Association of South-east Asian Nations (ASEAN) and Canada.

Gross Domestic Product (2005)	
GDP	US\$793.1 billion
GDP growth	(2005) 4.0% (2006e) 5.1%
GDP/ capita	US\$16,422
GDP/ capita (PPP)	US\$20,590

Current

- Agriculture accounts for about 4% of GDP, industry 40% of GDP and services 56% of GDP.
- Major industries include electronics, telecommunications, automobile production, chemicals, shipbuilding and steel.
- Top exports include machinery, electronics, motor vehicles, ships, plastics and iron and steel.

- Top imports include oil, machinery, iron and steel, organic chemicals and plastics.
- GDP growth was 4.6% in 2004 and 4.0% in 2005.
- Inflation was 2.8% in 2005.

Forecast

- GDP growth is forecasted at 5.1% in 2006 and 4.1% in 2007.
- Inflation is forecasted at 3.0% in 2006 and 2.9% in 2007.
- Chinese economic growth is expected to result in increases in South Korean exports.
- The South Korean currency the "won" is expected to continue to appreciate against the US dollar.

Consumer Market

Home to over 48 million consumers, South Korea is a highly urbanized and densely populated country. The capital, Seoul, is the business and government centre and has become a large global metropolis. Nearly half the South Korean population lives in Seoul, Incheon and the Gyeonggi Province.

The South Korean consumer market is highly developed and Western styled foods are growing in popularity. Overall, consumers demand high-quality, convenient and healthy products. Traditionally, the South Korean diet has been based on rice, fish, fruits and vegetables. However, in recent years there has been a shift to include more wheat and protein into the diet. Consumers are also becoming increasingly health and safety conscious.

Canadian products are viewed favourably among South Korean consumers. This positive image provides a competitive advantage to Canadian exporters. Marketing and branding that associates food products with Canada's favourable image may be successful in South Korea.

Changes in lifestyle and diet, as well as increasing affluence, have resulted in growing demand for convenient and processed foods. Home meal preparation is becoming less common and ready-made local dishes such as kimchi or bulgogi are becoming increasingly popular. There is also growing demand for products such as frozen vegetables, sauce preparations and confectionery items. Restaurant consumption is also growing, as South Koreans increasingly eat business dinners outside of the home.

- South Korean consumers prefer fresh, natural products, including health foods and diet foods.
- Consumers prefer national brands and well-established products.
- South Koreans have one of the highest per capita consumption of alcohol in the world. Consumption of hard liquor is declining and wine consumption is increasing. Wine is generally seen as a healthier choice.
- The organic sector is growing rapidly.
- Internet shopping is increasing in popularity.
- The aging population is impacting consumer trends. Products such as baby food, popular among a younger population, are experiencing declines.

Opportunities

Significant opportunities exist for healthy and convenient products. Canadian companies should adapt their products and marketing techniques to South Korean preferences and regulations. Agri-food products with good potential in the South Korean market include chocolate, hay and fodder, ice wine, pastries, pet food and whey. There are also opportunities for poultry meat and pork. Pork consumption and imports have increased in recent years due to concerns about the Avian Flu and Bovine Spongiform Encephalopathy (BSE).

Competitors

Top competitors for the South Korean agri-food market are the United States, China, Australia, Brazil and the EU (particularly the United Kingdom and France). Wheat exports to South Korea face strong competition from the United States, Australia, China and the Ukraine. Competitors for the South Korean fish and seafood market include China, Russia, Japan, Vietnam, the United States and Thailand.

Access Issues

The South Korean market is well-developed and highly competitive. Canadian firms wishing to operate in South Korea should establish a strong presence in the country; appointing an agent or establishing a branch office in South Korea is recommended. Furthermore, Canadian companies should carefully research the market and adapt their products to Korean preferences. Regular communication with South Korean business partners and customers, as well as a firm and long-term commitment to conducting business in South Korea are generally requirements for success in this market.

South Korea promotes investment and trade and has removed most physical trade barriers and non-tariff barriers as part of its commitments to the World Trade Organization (WTO). Nonetheless, some negative perceptions remain about foreign trade and foreign direct investment in South Korea. Historically, the South Korean government has restricted foreigners' participation in the economy; however, following the Asian financial crisis in 1997, many restrictions were relaxed. Barriers to trade and investment include frequently changing food standards and regulations, as well as the inconsistent application of laws and regulations.

Organizations involved in the import clearance process include the Korea Customs Service (KCS), the Korean Food and Drug Administration (KFDA), the National Quarantine Office, the National Veterinary Research and Quarantine Office (NVRQS) and the National Plant Quarantine Service (NPQS). Agricultural products may experience port delays as they often require clearance from a number of these organizations.

The South Korean communication and transportation infrastructure is well-developed. Distribution is generally efficient, simplified by a population that is concentrated around Seoul. South Korea is a maritime hub, with Busan being the largest seaport in South Korea and the third largest seaport in the world. There are also three main airports in South Korea. Communication infrastructure is excellent and includes extensive cellular phone and internet services.

The Canadian Embassy in Seoul and the Canadian Trade Commissioner Service can assist companies wishing to invest or trade with South Korea. For more information consult the Trade Commissioner Service website at:

http://www.dfait-maeci.gc.ca/world/embassies/korea/trade_investment-en.asp

Overview

- A free trade agreement is currently being negotiated between South Korea and Canada. If this agreement is implemented, access to the South Korean market should improve and barriers to trade will be eliminated.
- Tariffs vary from product to product. Tariff rates tend to be higher for products available domestically. Processed products and bulk products needed by local industries have lower tariffs.
- Labels on imports must be in Korean and most food products must meet the Food Safety Division's (KFDA) labeling requirements. Agricultural products such as grain, fishery items and fruits that are loose are exempt from these requirements.
- Sanitary and phytosanitary certificates are required for live animals, plants and meat products. The Canadian Food Inspection Agency issues these certificates prior to export to a foreign country.
- Food shows provide an excellent chance to explore market opportunities and make contacts with importers, agents, wholesalers, distributors and other members of the food and beverage industry.

The following link provides resources for Canadian companies looking to start a trade-related business in Korea:

<http://www.dfait-maeci.gc.ca/world/embassies/korea/think-korea-en.asp>

For more information about food and agriculture import regulations consult:

<http://www.fas.usda.gov/gainfiles/200508/146130525.pdf>

Business Travel Tips

- Business attire is more formal than in Canada and men generally wear a business suit and tie in business settings.
- A tourist or business visa is not required for stays less than 180 days.
- Major credit cards are widely accepted by hotels and other tourist facilities. Traveler's cheques are accepted at chartered banks ("Eunhaeng" in Korean). Some major banks have ATMs that accept international debit cards.

For more detailed travel information consult the Department of Foreign and International Affairs Travel Report for South Korea:

<http://www.voyage.gc.ca/dest/report-en.asp?country=153000>

Agriculture Sector & Policies

The South Korean agricultural sector accounts for about 4% of GDP while employing about 6% of the labour force. This sector is dominated by small owner-operated farms. The country has limited cultivable land and local food production continues to decrease due to urbanization and a shortage of agricultural labor. Imports are

required to satisfy food requirements, with South Korea importing large quantities of soybeans, wheat, feed grains to support its livestock and flour milling industries.

Top agricultural products include rice, root crops, barley, vegetables, fruit, cattle, pigs, chickens, milk and eggs. South Korea is also a producer of fish and seafood; however, production is declining as South Korean fishery resources become depleted.

The agricultural sector is highly protected, with high tariffs, import quotas and minimum market access agreements protecting domestic producers from import competition. Government policies are strongly influenced by consumer groups, who have a powerful role in South Korea. Due to several food scandals, strict regulations on imported foods are enforced.

Contact Information

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<http://www.dfat.gov.au/geo/fs/rkor.pdf>

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