



SOUTH KOREA COUNTRY PROFILE
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Synopsis

South Korea is the world's thirteenth largest economy, Alberta's fifth most important agri-food market, purchasing over C\$119 million from our province in 2007, and Alberta's third most important export market for pork (C\$28 million in 2007) and raw hides and skins (C\$29 million in 2007).¹ South Korea's is not self-sufficient with respect to agriculture and food production, and its 49 million consumers will remain dependent on imports to satisfy a great proportion of their caloric needs.² Consumers are price sensitive but will pay more for quality products produced within tight specifications. The South Korean market continues to provide opportunities for Alberta's agri-food industry.

Market Overview

The South Korean economy is the world's thirteenth largest with a GDP of US\$969 billion (2007 est.). On a per capita basis the country's nominal GDP is less than half of that of Canada (\$19,638 for South Korea vs. \$47,073 for Canada in 2008).³

Since the 1960s, South Korea has achieved an incredible record of growth and integration into the high-tech modern world economy. Four decades ago, GDP per capita was comparable with levels in the poorer countries of Africa and Asia. In 2004, South Korea joined the trillion dollar club of world economies. Today its GDP per capita is equal to the lesser economies of the EU. The South Korean GDP has been on the rise, posting growth of 4.2% in 2005, 5.0% in 2006 and an amazing 7.75% in 2007.⁴ However, Korea was hit hard by the global financial turmoil that began in September 2008. Stock prices fell by more than 40% for the year and the value of the won fell by approximately 26%. Korean GDP shrank in the fourth quarter and GDP growth for the year was just 2.5%.

From September 2008 to March 2009, the Won has decreased in value, relative to the Canadian dollar by a full 25%. This is bad news for Canadian exporters.

¹ Alberta Government, *Agri-food trade On-line*.

² Asia Times, *South Korea's Potato Gambit*, September 2004.

³ International Monetary Fund, October, 2008

⁴ UN Statistics Division.

In 1993, Kim Young-sam became South Korea's first civilian president following 32 years of military rule. South Korea today is a fully functioning modern democracy.

Lee Myung-bak has been president since February 2008, defeating Park Geun-hye in the GNP's primary, and defeating United New Democratic Party candidate Chung Dong-young by the largest margin since direct elections were reintroduced in 1987. His stated goals were expressed in the "747 Plan" and included: 7% annual growth in GDP, \$40,000 USD per capita, and making Korea the world's seventh largest economy

South Korean Population: 48,379,392 (2008 est.)

0-14 years: 17.4% (male 4,431,315/female 4,004,810)

15-64 years: 72% (male 17,760,975/female 17,095,436)

65 years and over: 10.5% (male 2,030,931/female 3,055,925) (2008 est.)

At 77 years, South Korea has a relatively high life expectancy. The median age is 36.7 years. Due to low birth rates, the population is aging rapidly and the percentage of people over 65 is expected to increase from 7% in 2006, to 20% in 2026.⁵ Unless drastic measures are taken, South Korea could see a sharp decline in its population in the first half of this century.

Approximately 60% of residents are considered to be middle class, although that number is shrinking. About 24 million residents make up the South Korean labor force. Almost 67% of these workers are in the service sector. Approximately 41% of women are now employed outside the home. South Korea's unemployment rate has been decreasing in recent years and now stands at 3.3%.⁶ The average Korean daily calorie intake is around 1,200, significantly lower than in North America, where it is closer to 2,000 per day. 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.⁷ Obesity is less common than in the West but rates are increasing. Approximately 3% of the population is obese which translates to 1.5 million people. The adoption of Western eating habits is considered the main cause of the rising rate. Increasing rates of diabetes and obesity are supporting the development of the health food industry.

Accounting for 27% of household spending, food purchases are the largest expenditure category in a Korean household. Changes in lifestyle and dietary culture coupled with increased consumer income have led to a rapid growth of the food service sector in Korea. In 2005, Korean households spent an annual average of 45% of their food expenditure, or 12.1 % of their total consumption expenditure, dining out. The share of eating-out, relative to both food expenditure and total consumption expenditure, has consistently increased and this trend is expected to continue in the years to come.⁸ Although Korean consumers are generally price sensitive, they are willing to pay for quality, convenience, and brand name products.

⁵ Asia News, *Low birth rate data released on parents' day*, May 2006.

⁶ CIA, *World Factbook*.

⁷ Agri-Food Past, Present & Future Report South Korea, July 2006.

⁸ Korea, Republic of HRI Food Service Sector Annual 2006

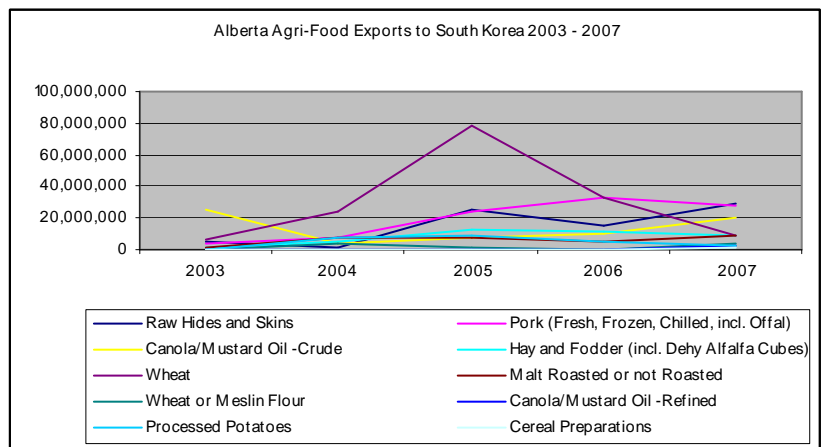
Canada is currently in negotiations with South Korea on a Free Trade Agreement. An FTA with Korea would create substantial new opportunities for Canadian business – from agriculture and electronics to high-tech and financial services. An FTA with Korea would not only generate increased export opportunities in the Korean market, but it would also help open doors for Alberta companies to other fast-growing economies in the dynamic Northeast Asian region. Negotiations are taking place on a wide range of issues, including trade in goods, rules of origin, customs procedures, trade facilitation, non-tariff measures, cross-border trade in services, financial services, temporary entry, investment, government procurement, competition, intellectual property, e-commerce, dispute settlement and institutional provisions. In addition, consistent with past practices, Canada is pursuing environmental and labour cooperation agreements in parallel with the free trade agreement.

Agriculture and Food Trade Overview

Alberta’s agri-food exports to South Korea were valued at \$119 million in 2007 and accounted for over 27% of Canada’s total exports to that country. South Korea is Alberta’s fifth largest export market for agri-food products. In 2007, the province’s top agri-food exports to South Korea were wheat (\$9.3 million), pork (\$28 million), raw hides and skins (\$29 million), hay and fodder (\$9.4 million), crude canola/mustard oil (\$20 million) and other oils, fats and waxes (\$0.8 million).⁹

Alberta’s Top Agri-Food Exports to South Korea in 2007 in CDN \$’000

Alberta’s Top Exports to South Korea in 2007	Value in \$’000
Raw Hides and Skins	29,000
Pork (Fresh, Frozen, Chilled, incl. Offal)	28,018
Canola/Mustard Oil -Crude	20,073
Hay and Fodder (incl. Dehy Alfalfa Cubes)	9,413
Wheat	9,355
Malt Roasted or not Roasted	8,627
Wheat or Meslin Flour	4,242
Canola/Mustard Oil -Refined	2,308
Processed Potatoes	2,117
Cereal Preparations	1,057



A few changes have taken place over the last five years, the most noteworthy being the phenomenal rise of Alberta’s pork exports. South Korea is now the province’s third most important export market for pork and at \$28 million in 2007, the value of our pork exports to South Korea is one fourth that destined for the US market. Processed potatoes have also seen a fairly steady increase in trade, although there has been a slight decline this year.

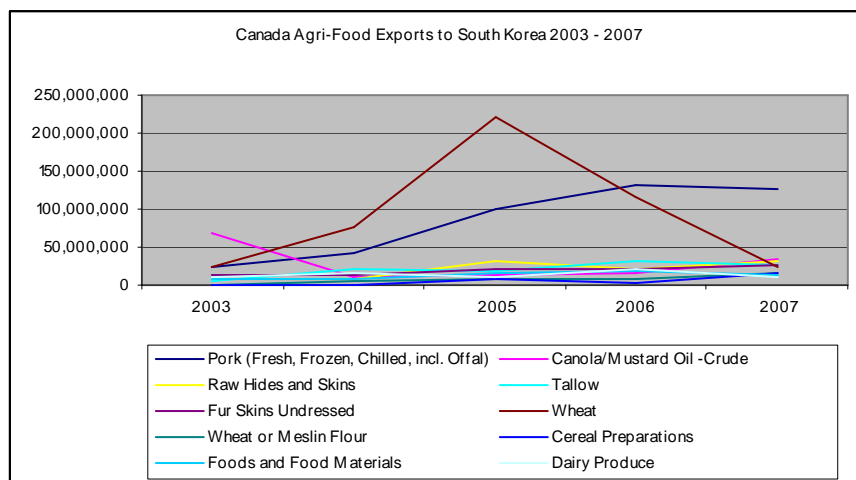
⁹ Agri-Food Trade On-line.

Negotiations are ongoing between South Korea and Canada to reintroduce Canadian beef back into the market after it was banned in 2003 due to BSE, following Canada's recently upgraded BSE risk status by the World Organization for Animal Health (OIE).

Canada's agri-food exports to South Korea totaled \$397 million in 2007 making it the country's fifth largest export market. Alberta accounted for over one fourth of Canadian agri-food exports to South Korea. Canada's exports share some similarities with Alberta's. Pork exports are the country's largest (\$127 million) followed by wheat (\$24.2 million), tallow (\$27.6 million), raw hides and skins (\$33 million), undressed fur skins (\$27 million), dairy produce (\$11.5 million) and crude canola/mustard oil (\$34 million).

Canada's Top agri-food exports to South Korea In 2002 and 2007 in millions of CDN\$

Canada's Top Exports to South Korea in 2007	Value in \$'000
Pork (Fresh, Frozen, Chilled, incl. Offal)	126,790
Canola/Mustard Oil -Crude	33,883
Raw Hides and Skins	32,838
Tallow	27,602
Fur Skins Undressed	26,839
Wheat	24,298
Wheat or Meslin Flour	15,168
Cereal Preparations	14,497
Foods and Food Materials	14,355
Dairy Produce	11,487



As a net importer of agricultural commodities, Korea relies on imports to ensure its supply of important food crops. Canada's competitors are mainly the United States and Australia.

Canada's (and therefore Alberta's) biggest opportunity lies with beef. Korea was one of our top markets for beef prior to the first case of BSE in 2003. Since that time, the Korean market has remained closed to Canadian beef, despite opening to US beef, and despite every other developed nation with the exception of China reopening to Canadian beef. Negotiations are underway, and the outlook is positive. When the Korean market opens to Canadian beef, we can expect large sales, which will be a benefit to Alberta.

Competitors gain an advantage through better harvesting weather (which can vary from year to year), freight efficiencies due to location or volume, and by the ability to offer products during their competitor's off-season (Australia vs. Canada and the US).¹⁰

¹⁰ Meat & Livestock Australia.

In 2006, Korea's top sources for consumer oriented agri-food products included the United States, China, Australia, Brazil, and Canada. Canada and Alberta' competitors often benefit from well-funded marketing funds. For example, MLA (Australian beef) and USMEF (for US pork and beef) have multi-million dollar promotional budgets for Korea.¹¹

Market Sector Structure and Trends

Consumers often purchase food on a daily basis and many will search more than one outlet for higher quality products. Traditional markets account for 67% of food sales, while 16% is sold in hypermarkets and 8% in supermarkets. General merchandise stores are growing in popularity, providing product selections for one stop shopping. Korean consumers are seeking more food products of international taste, higher value, safer quality, and improved convenience, which is translated into growing opportunities for imported consumer ready foods through retail channels.

However, 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.¹²

Exporter Business Tips

Department stores do not directly import products; rather merchandisers work with importers or vendors in determining the marketability of a product and if the product has market potential, then merchandisers give the green light to rent space in the store. They are essentially renting out store space, and any Alberta company interested in featuring its product in these retail stores should first find a local representative in Korea and work closely with the local importer to launch the product.

Additionally, merchandisers at department stores are seeking high quality and big name brands. Also, if products are not relatively well known in Korea, merchandisers will ask for supporting documents for any claims about the product and exporters should be sure to prepare such documents for the Korean importer.

For most food items, a full container load is needed to maximize cost efficiency and minimize shipping costs. In addition to Incheon, there are the Busan and Gwangyang ports. For highly perishable and higher value added products, the exporter may wish to airfreight. For this mode of transportation, all goods will transit through Seoul and may need proper storage until they are re-consolidated.

Exporters need to understand Korean chaebols and the way that they distribute within their corporate networks. For example, Shinsegae and E-Mart have corporate ties and may share similar distribution networks.

¹¹ USMEF.

¹² Agri-Food Past, Present & Future Report South Korea, July 2006.

Country of origin labelling is required for commercial shipments entering Korea. The Korean Customs Service (KCS) publishes a list of the country of origin labelling requirements by Harmonized System Code number. Further labelling and marking requirements for specific products, such as pharmaceutical and food products, are covered by specific regulations from the Korean Government agencies responsible for these items. Korean language labels, except for country of origin markings that must be shown at the time of customs clearance, can be attached locally on products in the bonded area either before or after clearance.

The Korea Food & Drug Administration (KFDA) is responsible for setting and enforcing Korean labels for food products other than livestock products. The Ministry of Agriculture and Forestry (MAF) regulates livestock products. MAF also has its own set of standards for markings for the country of origin labelling of agricultural products. Detailed information on country of origin labelling is provided in the guideline for country of origin labelling. Local importers usually print Korean language labels when imported quantities are not large, and can consult with the KCS as to where they can be attached to the product.

An English summary of the regulations involved in exporting food to South Korea can be found on this website.

<http://www.fas.usda.gov/gainfiles/200610/146249108.pdf>

Market Opportunities

Korea offers many opportunities to Canadian companies, despite being relatively protected. Korea is not self sufficient in food production, and nearly 70% of food is imported. This percentage is expected to increase despite government efforts to protect the domestic farm sector from international competition using high tariffs. Domestic agriculture is characterized by small farm holdings averaging less than a hectare and the farm constituency is a powerful political lobby. Domestic agricultural commodity prices are double to quadruple world prices. Free trade agreement (FTA) negotiations between Canada and Korea are currently underway, boding well for future bilateral trade prospects.

While Canada has a modest 4% share of the US\$11 billion Korean import market, demand is high for new and innovative Canadian products demanded by Korea's affluent middle and upper classes. Korea is Canada's 5th largest agri-food export market.

Imports of foreign foods continue to grow as increasingly sophisticated Korean consumers search for new food and beverage products in their supermarkets. Opportunities exist in many high-value consumer segments including ice wine, processed, packaged and ready-to-eat food products, processed meats and meat cuts, food ingredients, beer, and snack foods. There are also important opportunities in the bulk and intermediate category, including wheat, malt, feed ingredients, hides and skins, and furs. The Korean preoccupation with 'well-being' and healthy food continues to be a factor in this market, creating new opportunities for Canadian products with demonstrated health benefits such as canola oil and flax seed. Demand is also strong for vitamins and supplements.

Canadian pork products, in particular, enjoy strong and growing demand in the Korean market, with exports of pork almost doubling between 2004 and 2005, and increasing by an additional third in 2006 - reaching a total of \$130 million.¹³

Significant opportunities also exist for healthy and convenient products. Canadian companies should adapt their products and marketing techniques to South Korean preferences and regulations.

Alberta Advantages and Challenges

Alberta and Canada have some great advantages in their pursuit of market share in South Korea, one of which is Canada's pristine image with both consumers and the Korean food processing industry. This advantage is not limited to image and Canadian standards for safety and quality are generally perceived as high. Another advantage is Alberta's strategic location in western Canada, which gives it a logistical advantage in servicing the South Korean market.

Korea is a challenging market from a market access standpoint. In addition to high tariffs, agri-food exports to Korea are subject to some of the most rigorous, and rigorously enforced, sanitary and phytosanitary (SPS) regulations in the world. There are also numerous and complex labelling regulations that can complicate product entry.

Exporters from the United States, Australia, China, and Thailand are major competitors for Canadian companies. In the bulk and intermediate agri-food products category, Korean buyers can be very price sensitive, and some of Canada's competitors enjoy a consistent price advantage for some products.

The recently concluded FTA between Korea and the United States (KORUS), if ratified, promises to significantly reduce market access barriers for American agri-food products in the Korean market. These products are expected to steal market share from both domestically-produced products and from other imported products. The KORUS FTA is also expected to result in a reduction of some commodity prices. Should the Canada-Korea FTA be concluded and ratified, Canadian exporters can expect significant new interest in Canadian agri-food products from Korean importers.¹⁴

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¹³ Foreign Affairs and International Trade Canada, Agriculture, Food and Beverages Profile - Republic of Korea, September 2007.

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