



Market Opportunity Report: SOUTH KOREA

A custom report compiled by Euromonitor International for

British Columbia Ministry of Agriculture

March 2014



+1 312-922-1115

www.euromonitor.com

This document includes source material that is the exclusive property of Euromonitor International Ltd and its licensors. All such source material is © Euromonitor International Ltd 2014 and provided without any warranties or representations about accuracy or completeness. Any reliance on such material is made at users' own risk. Publication or making available of all or part of the material contained in this document (or any data or other material derived from it) may require Euromonitor's prior written consent. Please refer to the applicable terms and conditions with Euromonitor.

List of Contents and Tables

Contents

INTRODUCTION.....	4
KEY TAKEAWAYS FOR B.C. EXPORTERS	5
<i>South Korea: A solid trade partner focused on healthy food.....</i>	<i>5</i>
OPPORTUNITIES FOR B.C. EXPORTERS.....	6
Top Exports from British Columbia	6
<i>Agrifood</i>	<i>6</i>
<i>Seafood</i>	<i>7</i>
MARKET OPPORTUNITY	9
Overview.....	9
Agrifood.....	10
<i>Fresh Food</i>	<i>10</i>
<i>Frozen Food</i>	<i>12</i>
<i>Packaged Food</i>	<i>13</i>
Seafood	14
<i>Fresh Seafood.....</i>	<i>14</i>
<i>Frozen Seafood.....</i>	<i>16</i>
<i>Canned/Preserved/Processed Seafood</i>	<i>18</i>
Wine	20
BARRIERS TO MARKET ENTRY	21
OVERVIEW OF SOUTH KOREA’S ECONOMY	22
Performance.....	22
Structure and Major Industries	22
Foreign Trade	23
CONSUMERS IN SOUTH KOREA.....	24
Demographics.....	24
Consumer Habits	27
<i>General Purchase Habits</i>	<i>27</i>
<i>Eating and Drinking Habits.....</i>	<i>27</i>
<i>Health & Wellness Habits.....</i>	<i>28</i>
RETAIL LANDSCAPE	29
REFERENCES.....	30

INTRODUCTION

Introduction

The following report is part of a series of Market Opportunity reports created by Euromonitor International that explore export opportunities for agrifood and seafood producers in British Columbia (B.C.). The report was commissioned by the B.C. Ministry of Agriculture and funded by Agriculture and Agri-Food Canada and the B.C. Ministry of Agriculture through *Growing Forward 2*, a federal-provincial-territorial initiative.

Opinions expressed in this document are those of the authors and not necessarily those of Agriculture and Agri-Food Canada and the B.C. Ministry of Agriculture. The Government of Canada, the B.C. Ministry of Agriculture, nor their directors, agents, employees, or contractors will not be liable for any claims, damages, or losses of any kind whatsoever arising out of the use of, or reliance upon, this information.

Purpose

The purpose of this report is to:

- Identify key macro trends influencing food purchase and consumption in South Korea
- Analyse the South Korean food market to identify the largest and fastest-growing food categories
- Provide insight into South Korea's participation in the global food market, including factors influencing its trade environment
- Highlight commodities offering B.C. exporters the greatest opportunity in the South Korean market

Scope

The geographic focus of this report is South Korea. The report is divided into six main sections: Opportunities for B.C. Exporters, Market Opportunity, Barriers to Trade, Overview of South Korea's Economy, Consumers in South Korea, and Retail Landscape. The report begins by looking at the current state of B.C. exports to South Korea in order to understand how this aligns with the dynamics of South Korea's food market and to identify the areas of immediate opportunity. This is followed by the market analysis section, which serves as the support behind the highlighted opportunities. The report provides specific market analysis of two categories: agrifood¹ and seafood. The report does not include analysis of non-alcoholic beverages, but does include a special section on wine. The market analysis includes total market size and growth, largest and fastest-growing subcategories, analysis of imports, and identification of where the largest opportunities reside. This is followed by a discussion on the barriers to market entry, which provide context for the logistics behind a market entry strategy. The final three sections of the report serve to provide context for the principle macro factors influencing South Korea's food market, including economic performance, structure of the economy, participation in foreign trade, demographic shifts, consumer trends, and retailing landscape.

¹ Includes dairy products such as drinking milk

KEY TAKEAWAYS FOR B.C. EXPORTERS

South Korea: A solid trade partner focused on healthy food

- **Rising obesity rates and ageing population prompt healthy eating**

South Korea has one of the lowest obesity rates in the world. However, a quarter of the population is classified as overweight and obesity is on the rise. Growing attention to this problem, in addition to an ageing population, is causing consumption of healthy foods and snacks to grow, with the largest beneficiaries being fruits, vegetables, nuts, granola bars, and meal replacement products. Consumers are looking for multifunctional effects from health and wellness products, leading manufacturers to invest in new product launches in this area.

- **Convenience and Westernization trends are behind frozen food growth**

Foodservice is the primary driver behind increased frozen food consumption, particularly Western-style foodservice. As Koreans work longer hours, they are increasingly valuing the convenience of fast food. The most popular types of frozen foods are frozen pizza, frozen potatoes and frozen poultry, which are primarily found in increasingly popular Western restaurants. In the future, it is expected that retail will account for a larger share of total sales, as consumers desire to eat their favourite frozen foods at home.

- **A large economy with a small agriculture sector**

South Korea's total GDP reached C\$1.3 trillion in 2012, making it the fourth largest economy in Asia Pacific after China, Japan and India. However, its agricultural sector continues to decline, as a result of the country's rapid industrialisation and a lack of farm land. As a result, imported agrifood has become more important to Korea's food supply, which bodes well for B.C. exporters interested in this market.

- **Canada-Korea FTA eliminates tariffs for B.C. exporters**

In early 2014, Canada concluded negotiations for a bilateral trade agreement with Korea, its first FTA with an Asian country. The FTA covers all aspects of Canadian-Korean trade, including goods and services, investment, government procurement, and environment and labour cooperation. Once the agreement is put into force, Korea will remove duties on 98.2 per cent of its tariff lines, making it an even more attractive trade partner for B.C. exporters.

- **Fats and oils, pork products, and skate offer greatest immediate opportunity**

Among the products B.C. currently exports to South Korea, fats and oils, pork products, and skate offer the greatest immediate opportunity, due to current consumer preferences and dynamics in the Korean market.

OPPORTUNITIES FOR B.C. EXPORTERS

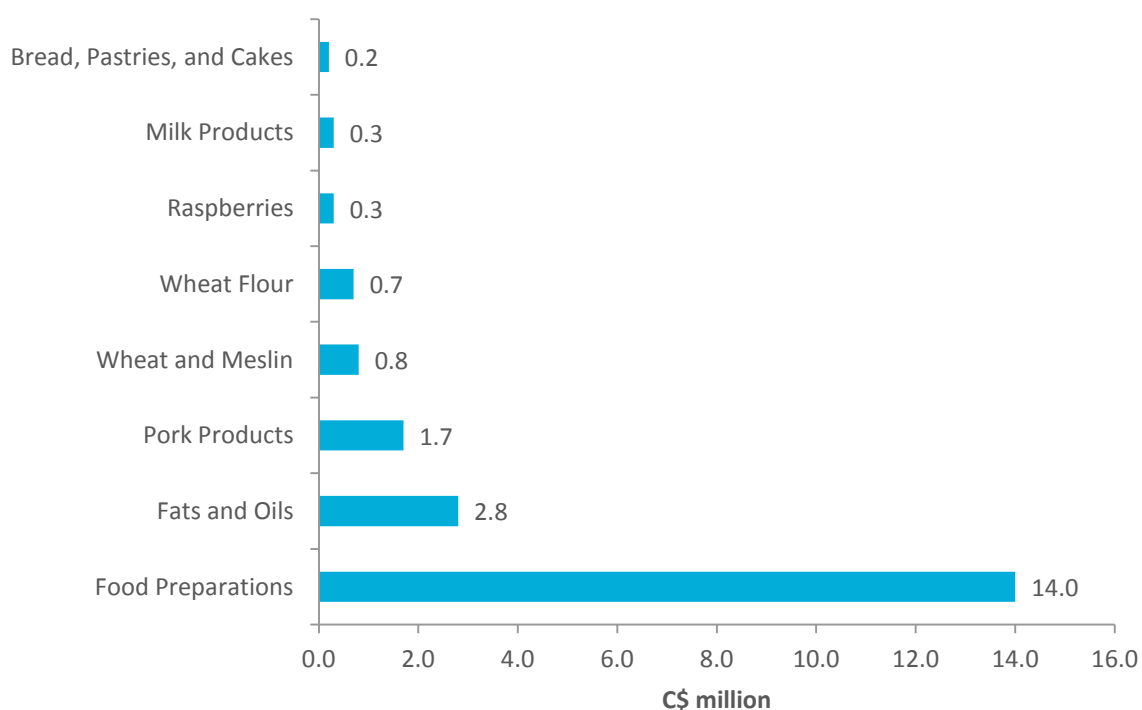
TOP EXPORTS FROM BRITISH COLUMBIA

Agrifood

South Korea trails other Asian countries in B.C. agrifood imports

- B.C. exported C\$23.2 million in agrifood products to South Korea in 2012, representing 1.4 per cent of total agrifood exports and B.C.'s sixth largest export market for agrifood in 2012, behind other Asian markets such as Japan, China, Taiwan, and Hong Kong.
- The top agrifood exports from B.C. to South Korea in 2012 were food preparations (C\$14.0 million), fats and oils (C\$2.8 million) and pork products (C\$1.7 million).

Chart 1 Top B.C. Agrifood Exports to South Korea: 2012



Source: CATSNET Analytics, December 2013 and Global Trade Atlas, February 2014

Canada-Korea FTA helps several B.C. agrifood exports

- Several of the top B.C. exports will benefit from tariff reductions as a result of the recently signed Canada-Korea FTA. Among the products which will receive duty-free access within three to five years of the FTA's entry into force are refined canola oil (current duty of 5.0 per cent), wheat flour (current duty of 4.2 per cent), and most baked goods (current duty of 8.0 per cent). Within pork products, fresh/chilled/frozen pork (where current duties are up to 25 per cent) duties will be eliminated over five to 13 years, while miscellaneous food preparations (current duty of 8.0 per cent) will have duties eliminated over seven years.

- South Korea excluded selected agricultural products (3.1 percent of Canada’s agricultural exports) from tariff elimination, including most dairy products, poultry and poultry products, ginseng and its products, rice and rice products, refined sugar and most tobacco products.²

Fats and oils offer B.C. the greatest immediate opportunity in South Korea

- Among B.C.’s top exports to South Korea, fats and oils offer the greatest immediate growth opportunity. The products already achieved over C\$2.8 million in sales during 2012 and will continue to benefit from the health and wellness trend pushing consumers to healthier vegetable and seed oils. Pork products should also be a focus for B.C. exporters due to their increasing popularity in South Korea and the growing importance of imported products to satisfy domestic consumption.

Table 1 Opportunity Assessment of Select B.C. Agrifood Exports to South Korea

Top B.C. Exports	Explanation
Food Preparations	Growing demand for convenience boosts sales of ready meals and other food preparations
Fats and Oils	Health and wellness trend drives sales of premium products, boosting consumption of vegetable and seed oil
Pork Products	Largest and fastest growing type of meat in South Korea
Wheat and Meslin/ Wheat Flour	Limited cultivable land leads to the growing importation of wheat to support livestock and flour milling industries
Milk Products	Foot-and-mouth disease scare negatively impacts consumption of local products, leading to greater imports of powdered milk and non-dairy products like soy milk

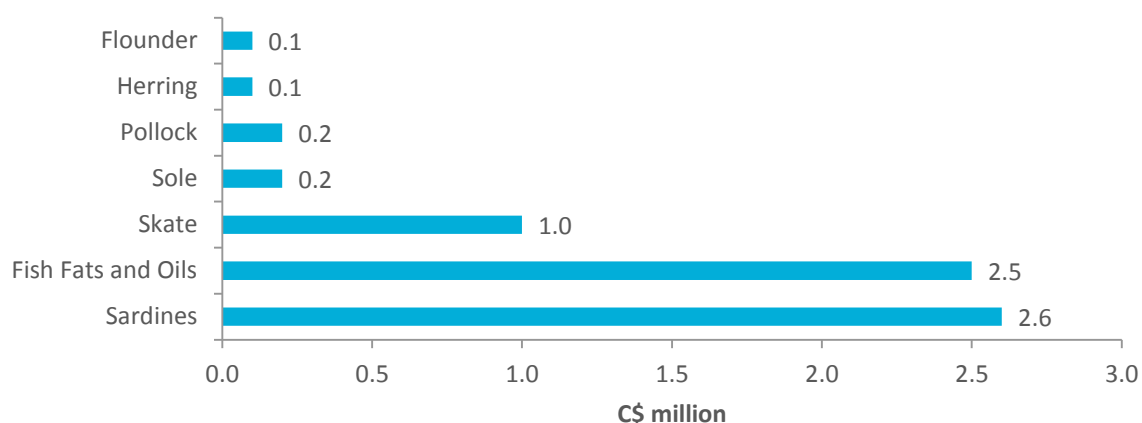
Seafood

B.C. yet to capitalize on Korea’s large appetite for seafood

- Despite Korea’s large consumption of seafood, B.C. exported just C\$7.5 million in seafood products to South Korea in 2012, representing 0.9 per cent of total seafood exports and B.C.’s eighth largest export market for seafood.
- The top seafood exports from B.C. to South Korea were sardines (C\$2.6 million), fish fat and oils (C\$2.5 million) and skate (C\$1.0 million). The majority of seafood exports were in frozen form (C\$4.8 million), followed by other (C\$2.5 million) and fresh (C\$0.1 million).

² <http://international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/korea-coree/overview-apercu.aspx#appendix>

Chart 2 Top B.C. Seafood Exports to South Korea: 2012



Source: CATSNET Analytics, December 2013 and Global Trade Atlas, February 2014

Sardines and fish oils among leading B.C. exports included in Canada-Korea FTA

- Under the Canada-Korea Free Trade Agreement, current duties of up to 47 per cent on fish and seafood products faced by Canadian exporters will be eliminated. This duty-free access will give Canadian products preferential access to the South Korean market, and will create a level playing field with South Korea’s current FTA partners.
- Nearly 70 per cent of fish and seafood tariff lines will benefit from duty-free access within five years of the Canada-Korea Free Trade Agreement’s entry into force, including current leading B.C. seafood exports, such as frozen sardines (current duties of 10.0 per cent) and fish oil (current duties of 3 per cent).³

Skate offers greatest opportunity

- While sardines registered higher export figures between B.C. and South Korea, skate appears to offer the greatest long-term opportunity for B.C. exporters, due to the popularity of this fish species amongst Korean consumers.

Table 2 Opportunity Assessment of Select B.C. Seafood Exports to South Korea

Top B.C. Exports	Explanation
Sardines	Frozen and canned varieties offer the greatest opportunity due to presence of imported products
Skate	Among Korean’s favourite varieties of fish. Large and growing consumption of fish bodes well for increased B.C. exports

³ Ibid

MARKET OPPORTUNITY

Key Points

- Fresh and healthy packaged food benefits from an ageing and increasingly overweight population concerned about health.
- Western foodservice is the main driver in frozen food sales.
- Fear of contaminated seafood from the Fukushima nuclear disaster in Japan temporarily dampens fresh seafood consumption, but boosts consumption of canned tuna.
- Outbreak of foot-and-mouth disease increases reliance on imports.

OVERVIEW

An ageing population and rising obesity leads to growth across fresh and healthy packaged food categories

- As seniors become a larger segment of the population, the South Korean government is increasingly concerned about keeping them fit and in good health. Government campaigns promoting healthy living and eating have led to increased consumption of healthy food items, especially fresh food and healthy packaged food subcategories, such as granola/muesli bars and soy milk products. The same healthy categories are also benefiting from growing attention to South Korea's rising obesity rate.

Popularity of Western-style restaurants is driving factor behind frozen food sales

- Western restaurants are growing in popularity across South Korea, transforming consumer palates. Commonly found in these restaurants, potatoes, pizza, ribs and chicken are driving frozen food sales. Convenience and low prices are encouraging busy Koreans to eat out more often, while the novelty of Western foods hold their interest.

Canned products to see the largest growth in seafood

- Despite the fact that Koreans are some of the biggest consumers of seafood in the world, consumption remains relatively flat in fresh and frozen products due to fears of contamination after the Fukushima nuclear disaster in neighbouring Japan. Canned seafood sales, however, are rising as a result of the healthy image of canned tuna, a common ingredient in Korean cooking.

Outbreak of foot-and-mouth disease increases reliance on imports

- Since November 2010, dairy and meat products in South Korea have suffered as a result of concerns over the emergence of foot-and-mouth disease amongst cows, pigs, and ox on South Korean farms. In response to the incident, dairy and meat products produced within three kilometres from farms affected by the disease were disposed of, causing a shortage. As a result, the Korean government expanded importation of powdered milk from foreign countries to supply the demand for milk. At the same time, manufacturers of drinking milk products had to increase their unit prices in order to recoup losses they suffered. In the case of meat, companies increased their reliance on imports, allowing imported beef to grow to 40 thousand tonnes in 2012, coming mostly from Australia and the USA.

AGRIFOOD

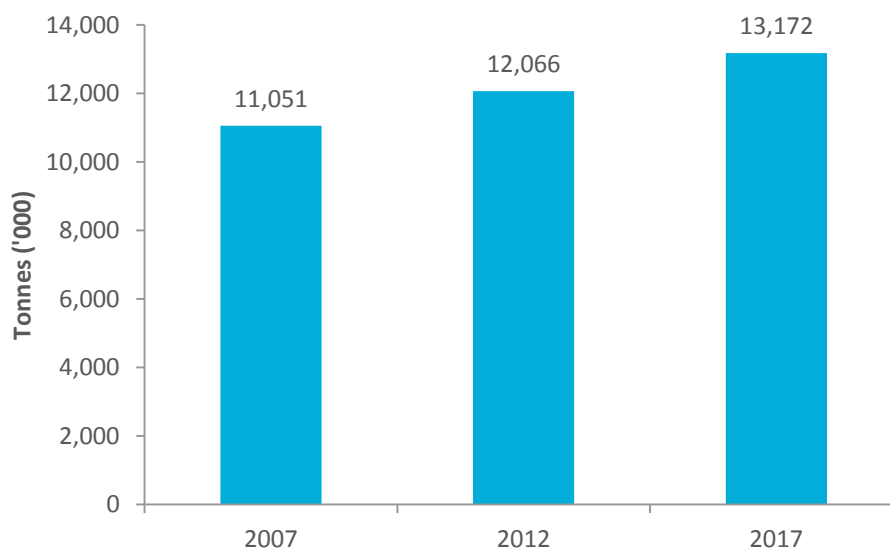
Fresh Food

Key Points

- Fresh food consumption is expected to increase 9.2 per cent from 2012 to 2017 to reach 13.2 million tonnes. Growing interest in healthy eating and healthy lifestyles as well as rising obesity rates are behind this growth.
- South Koreans eat 122 kg of vegetables per year, a relatively high amount by international standards. They are nearly self-sufficient in terms of domestic production, but as consumption continues to grow, they will likely need to rely more on imports.
- Nuts and fruit are projected to experience the fastest growth over the 2012-2017 period. Nuts are perceived as healthy and convenient snacks, while fresh-squeezed juice will drive fruit consumption.
- Soybeans are far and away the largest fresh food import for South Korea, reaching 1.1 million tonnes in 2012. The legumes are mostly used for livestock feed and flour milling purposes.
- Pork and beef products offer the greatest opportunities to B.C. exporters in the Korean fresh food market.

Rising obesity rates and growing health consciousness boost consumption of fresh foods

Chart 3 Total Volume Consumption of Fresh Food: 2007-2017



Source: Euromonitor International

Vegetables and fruit lead fresh food consumption in South Korea, while nuts exhibit fastest growth as a result of growing popularity for this quick and healthy snack

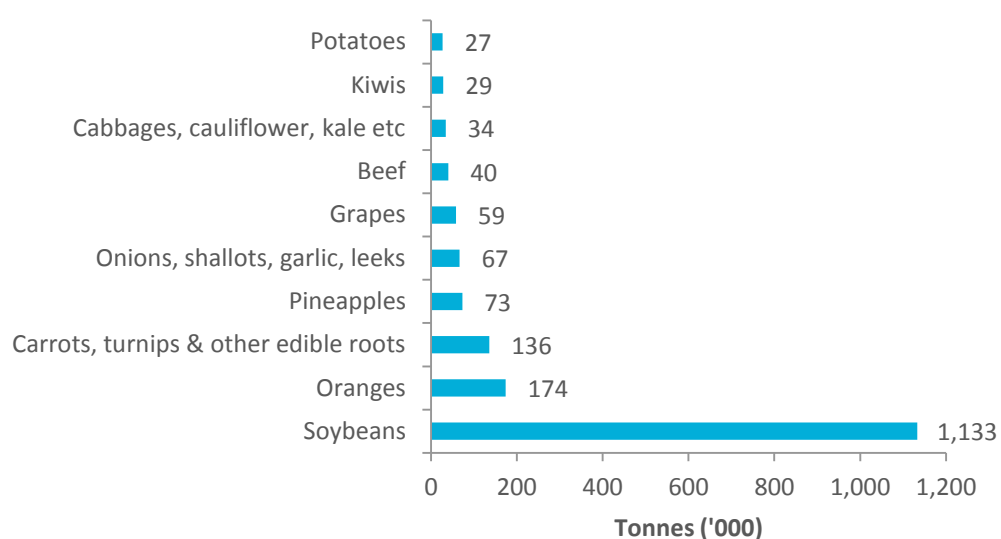
Table 3 Top Fresh Food Categories in South Korea: 2012

Largest Categories	Fastest Growing Categories
1. Vegetables	1. Nuts
2. Fruits	2. Fruit
3. Meat	3. Meat
4. Sugar and Sweetener	4. Eggs
5. Starchy Roots	5. Vegetables

Source: Euromonitor International

Livestock and flour milling needs drive demand for soybeans

Chart 4 Top 10 Subcategories by Import Volumes of Fresh Food: 2012



Source: Euromonitor International

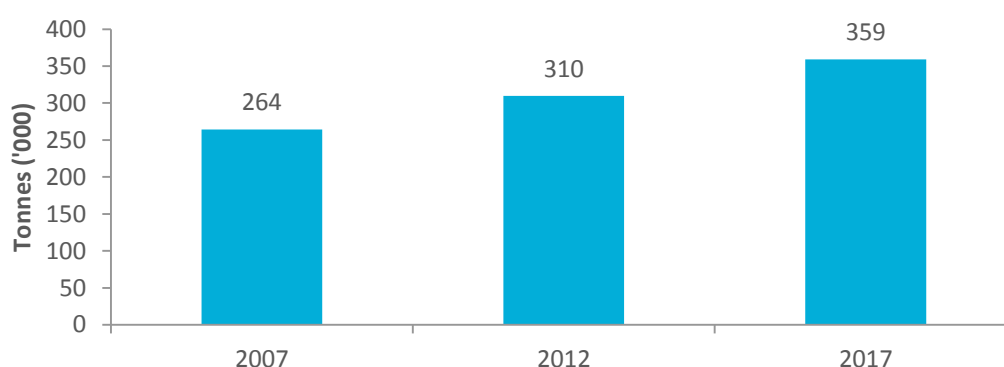
Frozen Food

Key Points

- Frozen processed food continues to grow in South Korea, reaching 310 thousand tonnes in 2012 from 264 thousand tonnes in 2007.
- Growing interest in Western-style restaurants drives frozen foods sales, especially frozen potatoes, frozen pizza, frozen red meat and frozen poultry.
- Convenience is an important driver of frozen food sales as Koreans generally work longer than any OECD country and, therefore, are increasingly seeking out more convenient meal solutions.
- Frozen pork dominates frozen food imports by far with the USA, Germany and Chile as South Korea's largest suppliers.
- Frozen processed potatoes offer B.C. exporters the greatest opportunities in the Korean frozen food market.

Consumers with busy lifestyles value convenience, increasing demand for frozen food

Chart 5 Total Volume Sales of Frozen Food⁴: 2007-2017



Source: Euromonitor International

Frozen potatoes are among the largest and fastest growing categories in South Korea

Table 4 Top Frozen Food Categories in South Korea: 2012

Largest Categories	Fastest Growing Categories
1. Frozen Processed Potatoes	1. Frozen Pizza
2. Frozen Processed Red Meat	2. Frozen Processed Poultry
3. Frozen Processed Poultry	3. Frozen Meat Substitutes
4. Other Frozen Processed Food	4. Frozen Ready Meals
5. Frozen Pizza	5. Frozen Processed Potatoes

Source: Euromonitor International

⁴Total Sales is the aggregate of products sold through both the retail and foodservice channels. Does not include products that are used for other purposes.

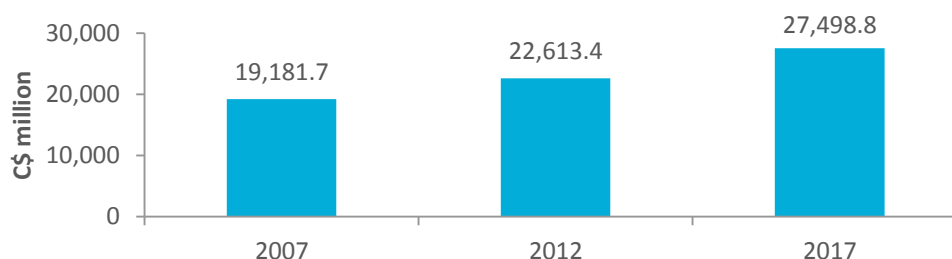
Packaged Food

Key Points

- Demand for value-added innovation and health and wellness are propelling growth in the mature packaged food category, with sales expected to grow to C\$27.5 billion by 2017 from C\$22.6 billion in 2012. Manufacturers are launching natural versions of traditional products, such as replacing artificial with real flavours. Healthy and convenient snacks, such as muesli bars and meal replacements, are gaining in popularity.
- In sales terms, the most important packaged food categories within South Korea are dried processed foods (led by rice), drinking milk products and noodles.
- Unprocessed cheese is expected to see the fastest growth with sales increasing by 86.0 per cent between 2012 and 2017, followed by snack bars (80.9 per cent) and meal replacement products (60.4 per cent).
- Domestic players Seoul Dairy Cooperative, Nong Shim Co Ltd and Namyang Dairy Products dominate packaged foods sales.
- Meal replacement products and snack bars offer the greatest opportunities to B.C. exporters.

Product maturity causes manufacturers to focus on value-added innovation, with health and wellness products driving growth in packaged food

Chart 6 Retail Sales of Packaged Food (C\$ Million): 2007-2017



Source: Euromonitor International

Dried processed foods boast largest sales, but health-related categories such as snack bars and meal replacement are growing the fastest

Table 5 Top Packaged Food Categories in South Korea: 2012

Largest Categories	Fastest Growing Categories
1. Dried Processed Foods	1. Unprocessed Cheese
2. Drinking Milk Products	2. Snack Bars
3. Noodles	3. Meal Replacement
4. Yoghurt	4. Cheese
5. Ice Cream	5. Soup

Source: Euromonitor International

SEAFOOD

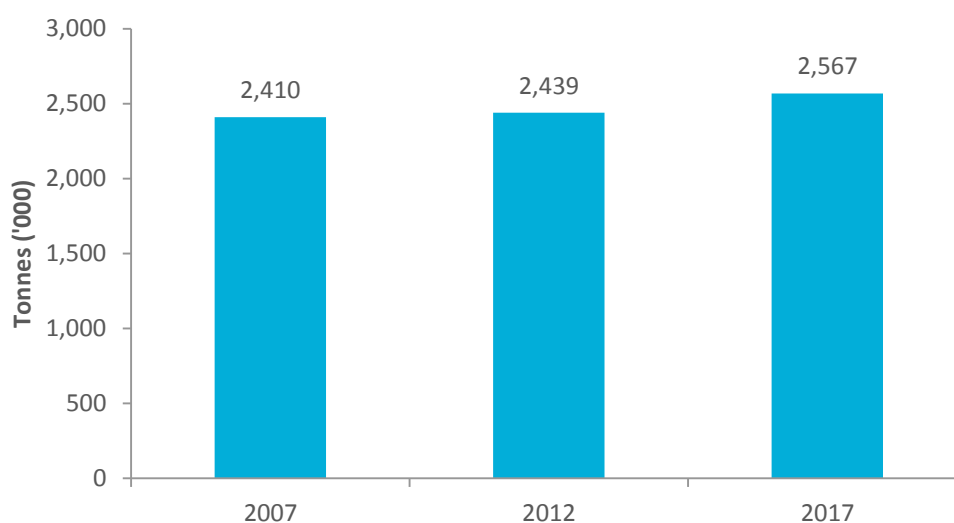
Fresh Seafood

Key Points

- Koreans are some of the biggest consumers of fresh seafood in the world, with 2.4 million tonnes in fresh seafood consumption in 2012.
- Fear of contamination from the Fukushima nuclear disaster in neighbouring Japan, however, has dampened growth. Healthy eating habits and the popularity of seafood restaurants should help the category rebound slightly in the near future.
- Mostly self-sufficient in fish production, South Korea is primarily an importer of molluscs and crustaceans, with octopus in the lead position.
- China is the dominant supplier of crustaceans and molluscs to South Korea, while Japan is the lead fish supplier.

While many consumers avoided seafood amid contamination fears in 2012, sales are expected to pick up as concerns subside and health benefits of seafood are embraced

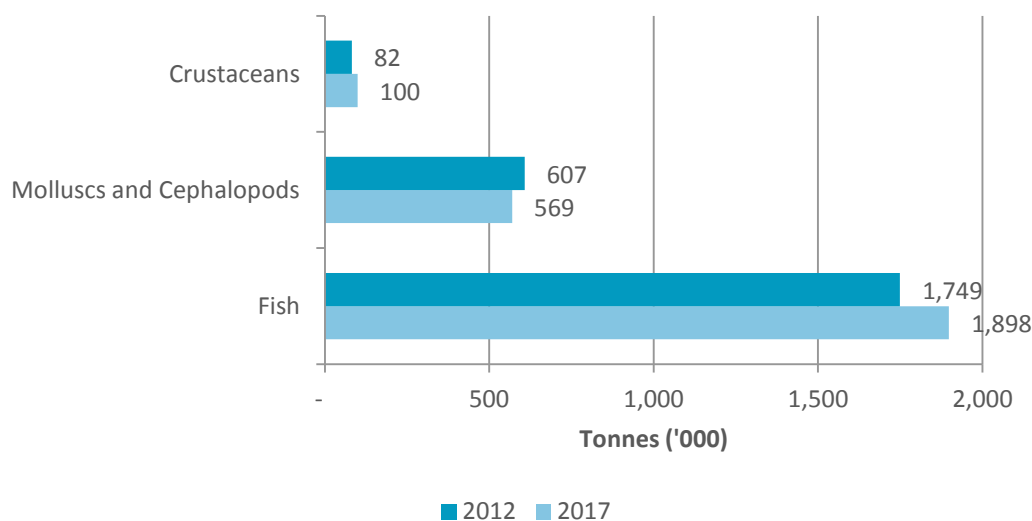
Chart 7 Total Volume Consumption of Fresh Seafood: 2007-2017



Source: Euromonitor International

Fish represents the bulk of seafood consumption in South Korea

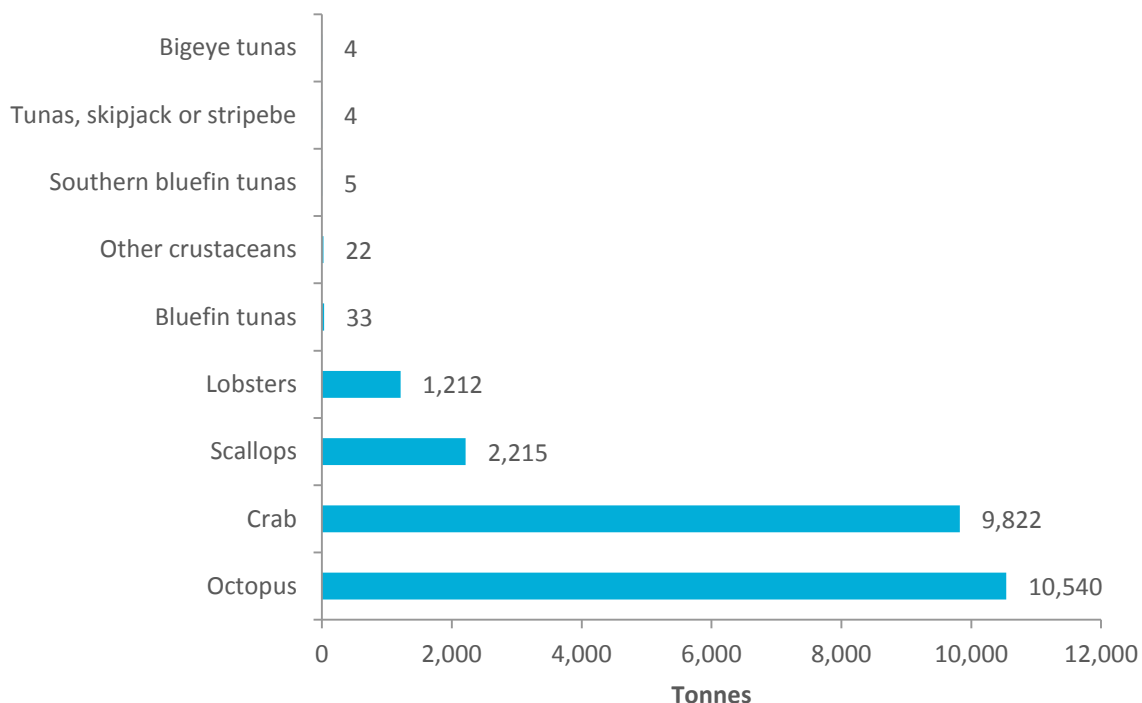
Chart 8 Volume Consumption by Fresh Seafood Category: 2012-2017



Source: Euromonitor International

Molluscs and crustaceans dominate fresh seafood imports

Chart 9 Top Categories of Fresh Seafood by Import Volumes: 2012



Source: United Nations Comtrade

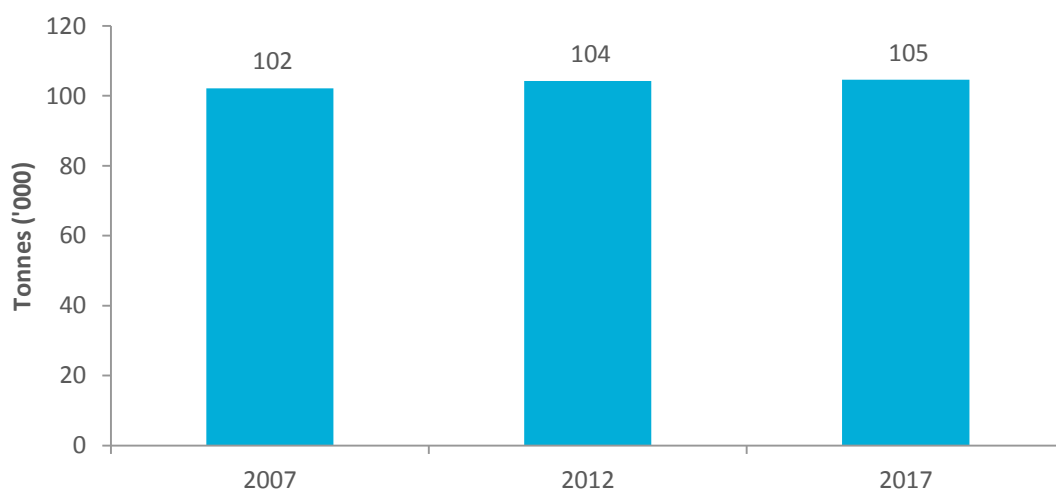
Frozen Seafood

Key Points

- Consumption of frozen seafood is expected to remain flat in South Korea, since consumers generally prefer fresh seafood due to widespread availability and taste.
- The frozen seafood market is fragmented with the three largest brands accounting for only 33.7 per cent of total retail value sales.
- Octopus leads frozen seafood imports, followed by cuttlefish/squid and flat fish.
- China, Vietnam and Russia are the leading suppliers of frozen seafood to South Korea, accounting for over 50 per cent of imports.

Frozen seafood has limited appeal in South Korea due to ease of purchasing fresh seafood

Chart 10 Total Volume Sales of Frozen Seafood⁵: 2007-2017

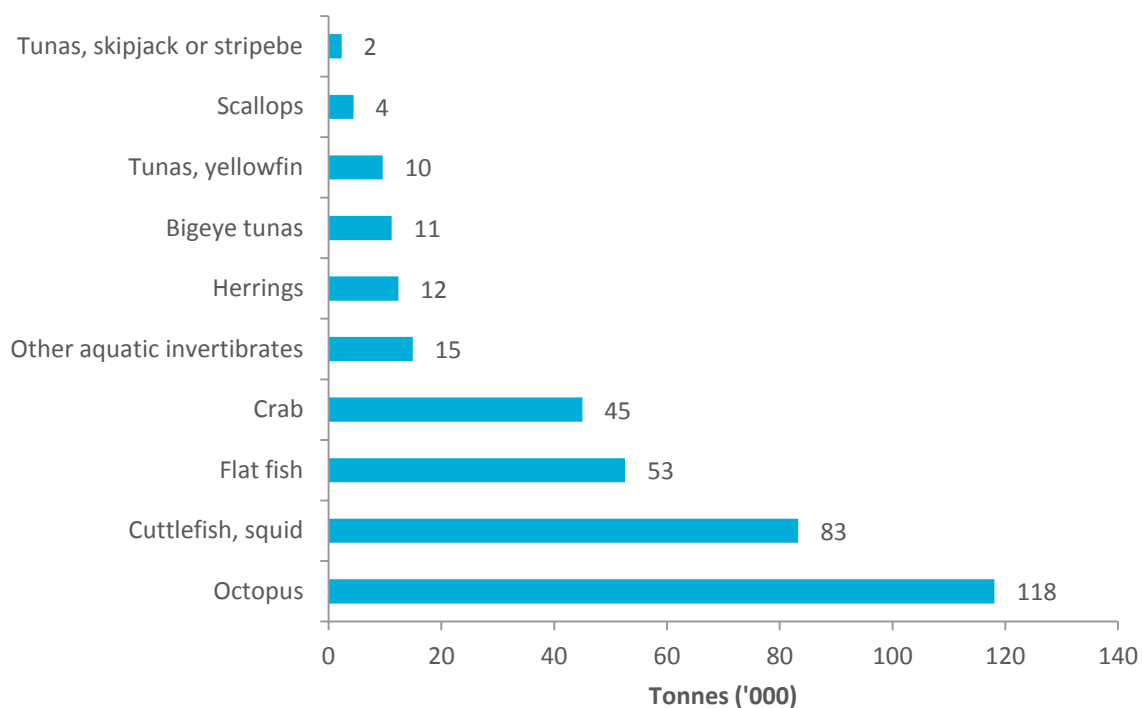


Source: Euromonitor International

⁵Total Sales is the aggregate of products sold through both the retail and foodservice channels. Does not include fish that is used for other purposes.

Similar to fresh seafood, octopus leads frozen seafood imports

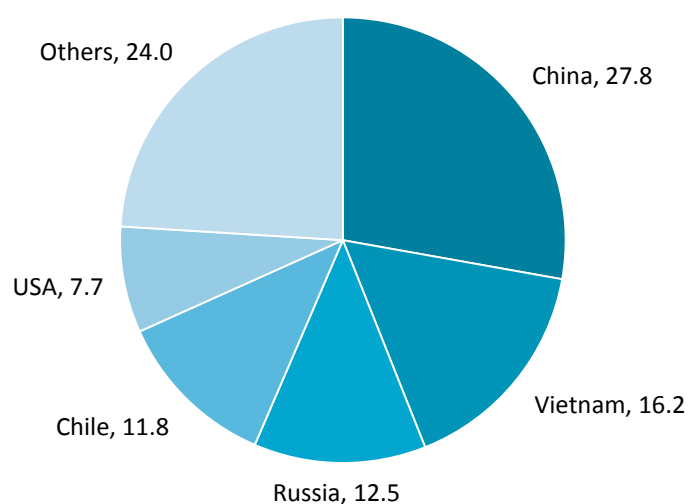
Chart 11 Top Categories of Frozen Seafood by Import Volumes: 2012



Source: United Nations Comtrade

Top frozen suppliers are China, Vietnam and Russia

Chart 12 Top Suppliers of Frozen Seafood by Import Volumes (per cent share): 2012



Source: United Nations Comtrade

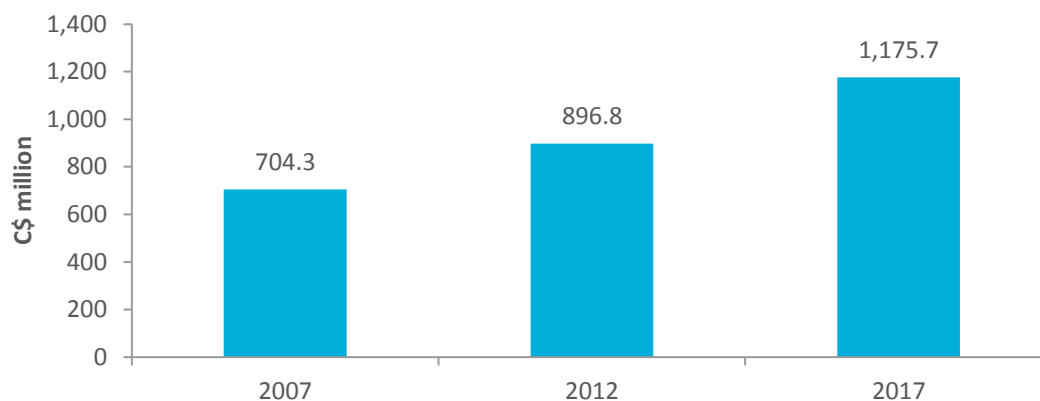
Canned/Preserved/Processed Seafood

Key Points

- Retail sales of canned/preserved/processed seafood grew to C\$896.8 million in 2012, up from C\$704.3 billion in 2007. Widely used in Korean cooking, the introduction of a new form of canned tuna helped drive growth over that period.
- Viewed as a healthy snack food, canned tuna is expected to increase future sales by 31 per cent from 2012 to 2017.
- Domestic canned/preserved food manufacturer Dongwon F&B Co Ltd dominates the canned/preserved/processed seafood market with 59.0 per cent of category sales.
- Tuna, skipjack, and bonito lead preserved seafood imports into South Korea.

Product innovations in canned tuna boost canned/preserved seafood sales

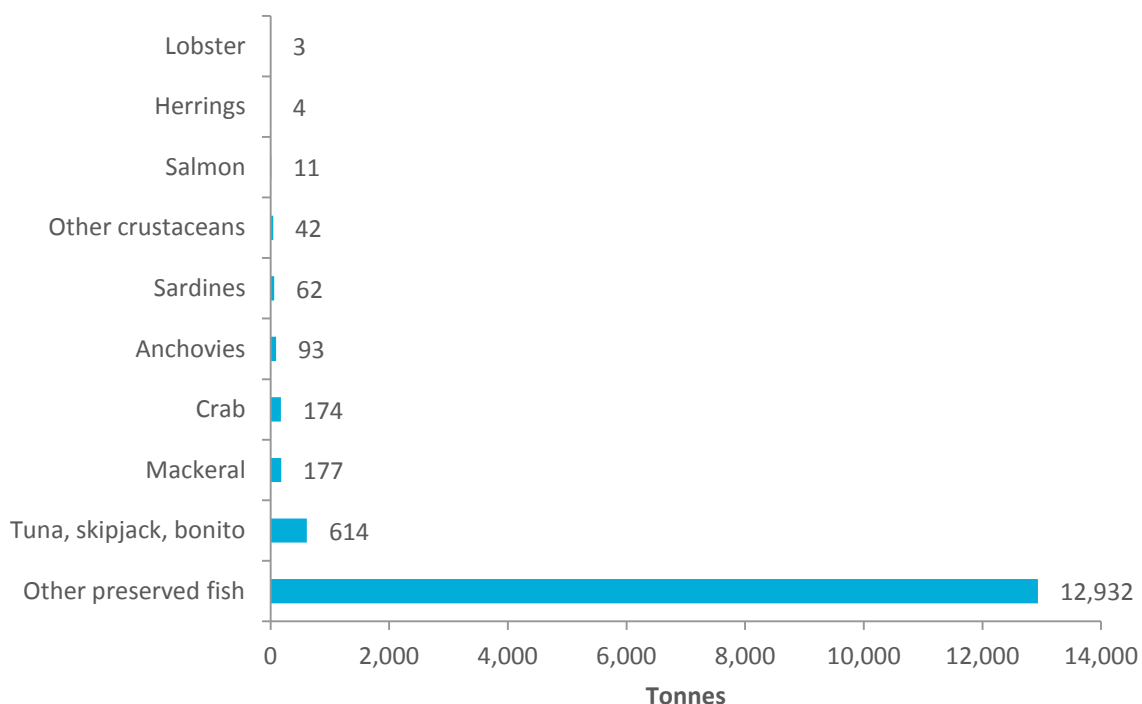
Chart 13 Retail Sales of Canned/Preserved/Processed Seafood (C\$ Million): 2007-2017



Source: Euromonitor International

Other preserved fish is the dominant category of imported preserved seafood in South Korea

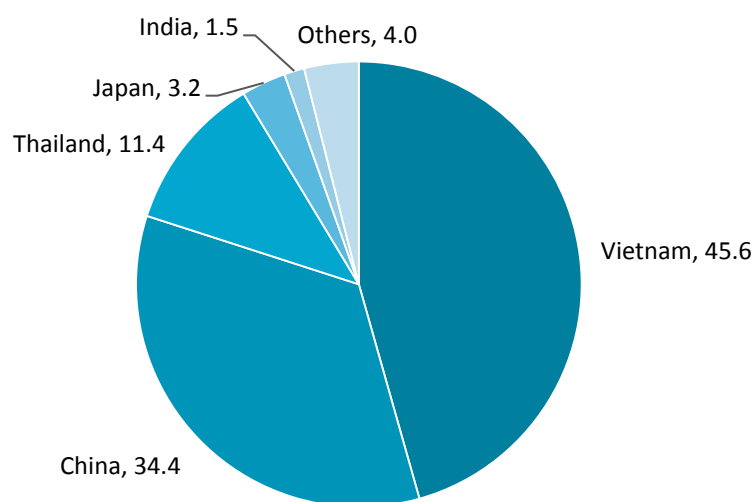
Chart 14 Top Categories of Preserved Seafood by Import Volumes: 2012



Source: United Nations Comtrade

Almost all imports come from regional suppliers

Chart 15 Top Suppliers of Preserved Seafood by Import Volumes (per cent share): 2012



Source: United Nations Comtrade

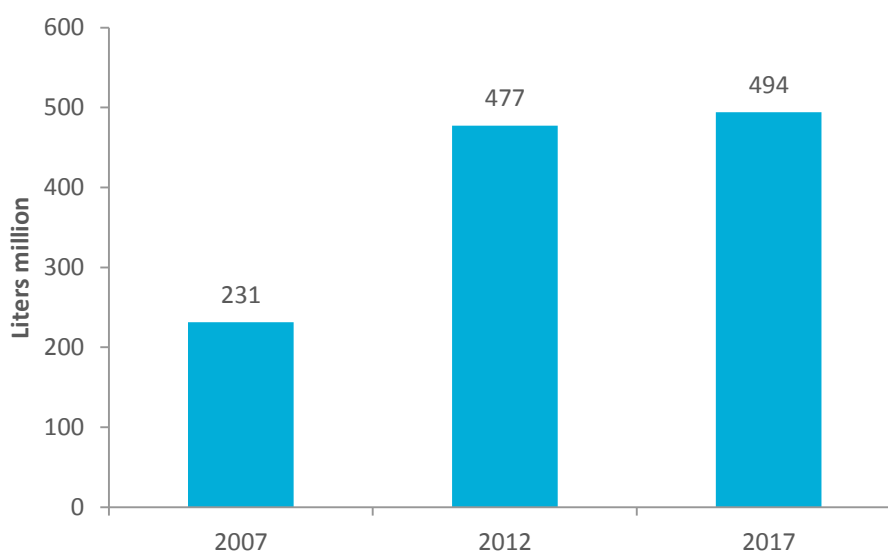
WINE

Key Points

- Sales of wine declines by two per cent to reach 477 million litres in 2012, from 487 million litres in 2011.
- Takju, a native Korean alcoholic drink made from rice, experienced tremendous growth over the 2007-2012 period, but has stalled since due to growing product maturity.
- In 2012, sparkling wine registered the highest sales volume growth of eight per cent. A 2011 free trade agreement with the EU makes these wines more affordable to Koreans.
- Chile is leading provider of imported wines, followed by Spain, Italy, France, the USA and Australia.

Fad begins to fade for local favourite takju, while new sparkling wines are growing in popularity, helping to drive the total category

Chart 16 Total Wine Consumption: 2007-2017



Source: *Euromonitor International*

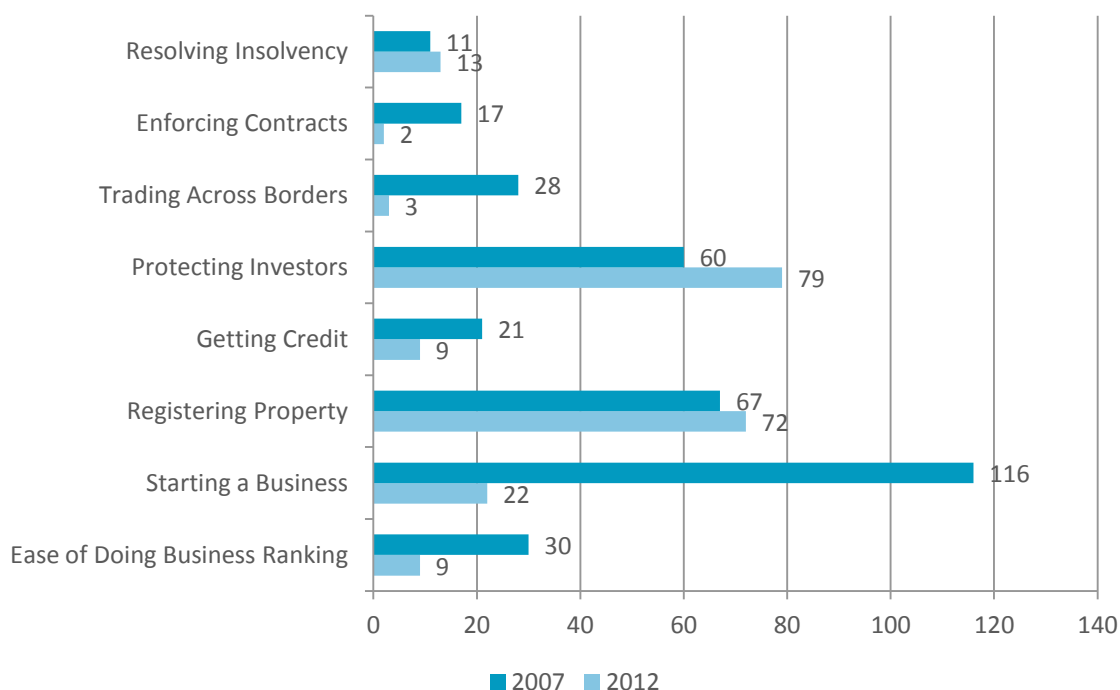
BARRIERS TO MARKET ENTRY

Key Points

- South Korea is one of the easiest countries to do business in the world, as reflected by World Bank’s Ease of Doing Business report where the country ranked ninth out of 185 countries.
- South Korea’s well-developed infrastructure and efficient administrative system make it easy for businesses to trade.
- Open policies to trade and investment support business activity, while the country’s advanced information and communications technology sector represents a significant competitive advantage.
- All importers of fresh food into South Korea must pay a 45 per cent tariff.

A highly competitive business environment supported by well-developed infrastructure and open policies

Chart 17 Ease of Doing Business Ranking: 2007 vs. 2012⁶



Source: *Doing Business, World Bank*

Note: *This chart does not include all of the metrics that factor into the total ease of doing business, but rather highlights ones that are more applicable to foreign exporters.*

⁶ Note: (1) Regulations in Doing Business 2012 are measured from June 2010 until May 2011. The data for all sets of indicators in Doing Business 2012 are from June 2010 until June 2011 (except for paying taxes data which refers to January–December 2010). (2) Rankings are based on data sets across 183 countries. (3) Doing Business presents quantitative indicators on business regulations and the protection of property rights that can be compared across 183 economies. A high ranking means the regulatory environment is conducive to the operation of business.

OVERVIEW OF SOUTH KOREA'S ECONOMY

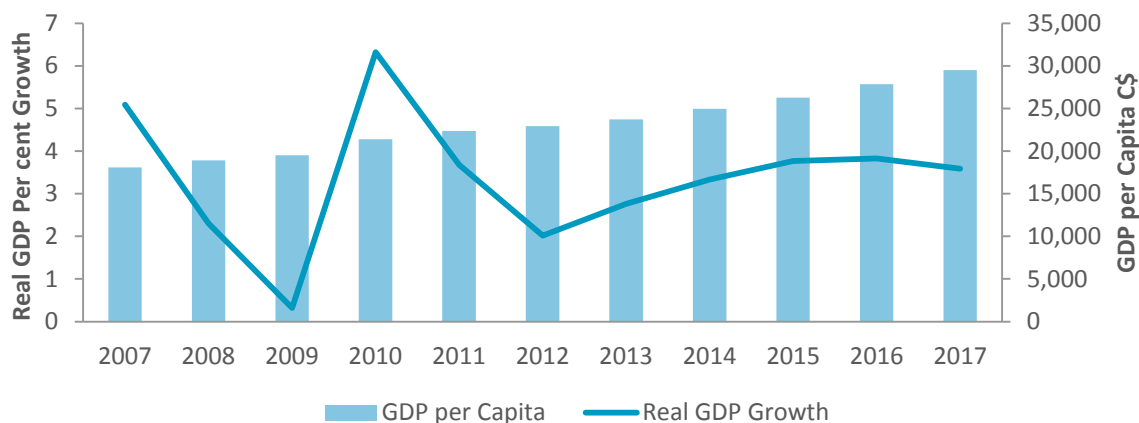
Key Points

- Real GDP increased by 2.8 per cent in 2013. A jump in consumer spending and a strong performance in manufacturing and construction are driving the economy.
- Population ageing, weakening domestic demand and rising income inequality present obstacles to future economic growth.
- The export dependency of South Korea's economy has grown over time. In 2013, exports represented 46.5 per cent of GDP, up from 45.2 per cent in 2008.
- Impacted by the slowdowns in the USA, Europe and China, growth in South Korea's total annual exports slumped to 0.1 per cent year-on-year in C\$ terms in 2012, down from an annual growth of 19.6 per cent in 2011.
- Canada recently concluded bilateral trade negotiations with South Korea, which should allow Canadian exports to more effectively compete in the Korean market.

PERFORMANCE

South Korea is the fourth largest economy in Asia, but overdependence on manufacturing is hurting economic growth

Chart 18 Real GDP Growth and Per Capita GDP: 2007-2017

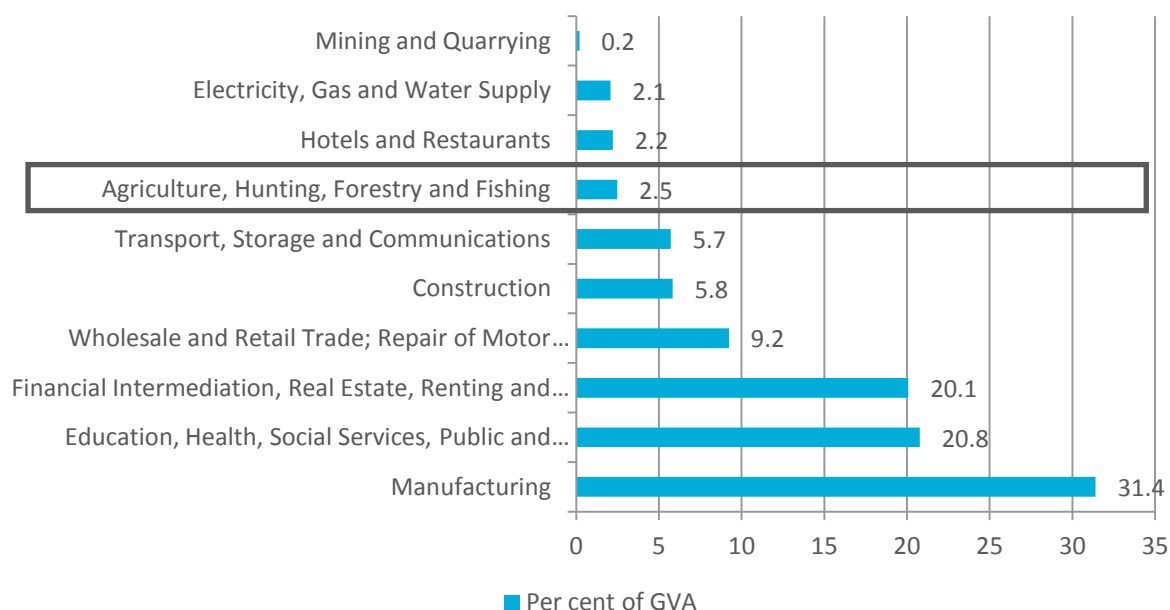


Source: Euromonitor International

STRUCTURE AND MAJOR INDUSTRIES

South Korea's strong manufacturing industry faces regional competition, while wholesale and retail trade see strong growth

Chart 19 Gross Value Added by Sector in South Korea: 2012



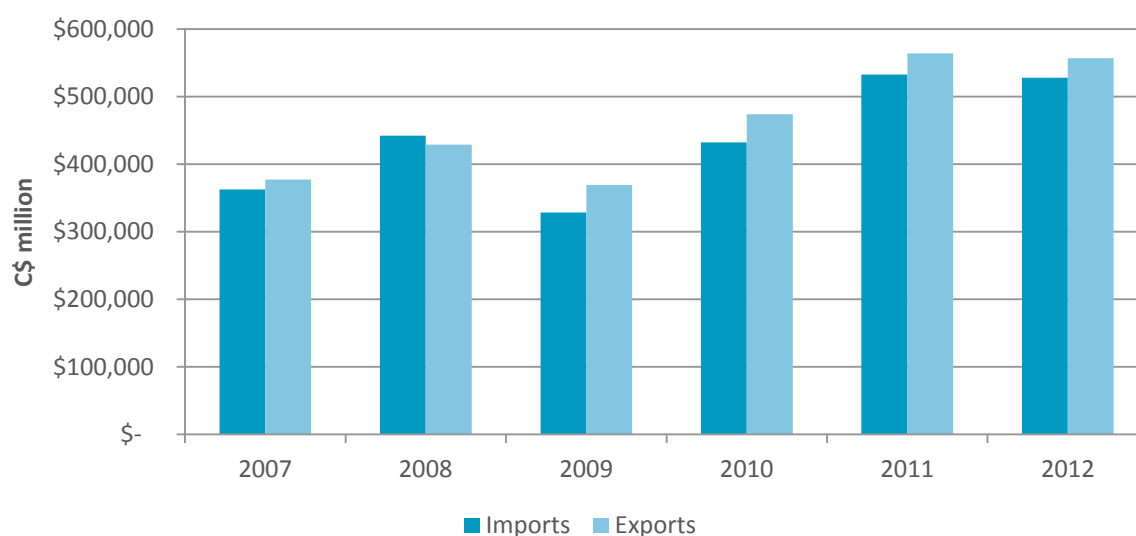
Source: Euromonitor International from national statistics

Notes: (1) Wholesale & Retail Trade includes Repair of Motor Vehicles, Motorcycles and Personal and Household Goods. (2) Financial Intermediation includes Real Estate, Renting and Business Activities. (3) Public Administration includes Defence and Compulsory Social Security. (4) Education, Health & Social Work includes Other Community, Social & Personal Service Activities

FOREIGN TRADE

Exports remain strong despite declining demand. Free trade agreements expected to further boost exports

Chart 20 South Korea's Foreign Trade: 2007-2012



Source: Euromonitor International from national statistics/OECD/IMF

CONSUMERS IN SOUTH KOREA

Key Points

- An ageing population and declining birth rates may negatively impact economic growth.
- Single-person households are expected to account for a third of all households in South Korea.
- The 30- to 45-year-old group is the largest age segment in South Korea. This group typically enjoys high disposable incomes due to low unemployment and postponement of marriage.
- The economic downturn brings growth to health and wellness products and traditional Korean restaurants. Consumers looking to conserve spending by supplementing traditional health care with alternative means and returning to local and affordable dining out options.
- Within health and wellness, value sales of fortified/functional packaged food see the most growth, by catering to consumer demand for multifunctional benefits.

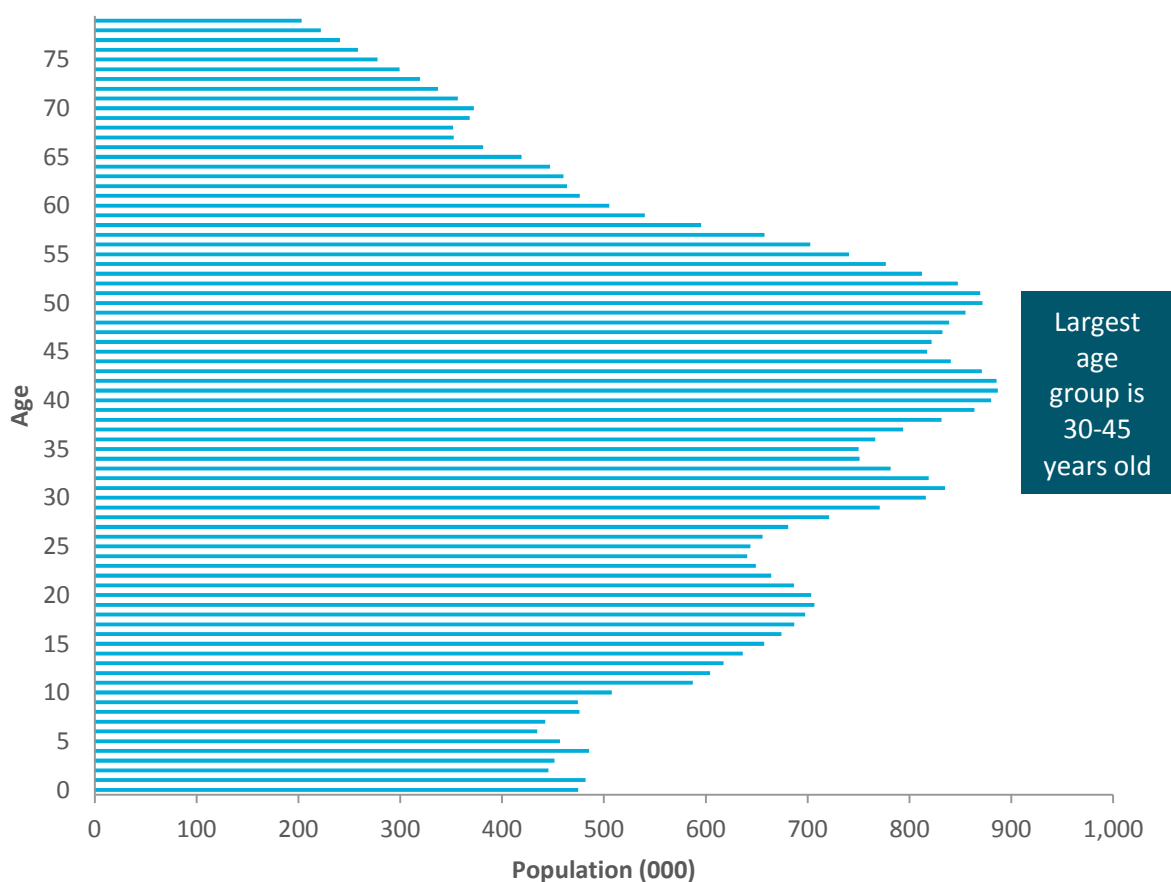
DEMOGRAPHICS

Ageing population and declining birth rates may hinder future economic growth

- South Korea's population reached 50.0 million as of 2012, representing a marginal growth of 2.9 per cent since 2007. Rapid population ageing, as a result of falling birth rates and longer life expectancy, continues to be the major social risk for South Korea. The share of the population aged over 65 to total population rose to 11.8 per cent in 2012, compared to 9.9 per cent in 2007 and 7.2 per cent in 2000. Although South Korea's working age population is still increasing slightly, it is expected to start to decline by 2020. A shrinking workforce, combined with a greying population, will pose a major challenge to South Korea's government finances and growth potential in the long term.
- In 2012, there were 1.4 million babies and infants in South Korea, down from 1.9 million in 2000. Due to the social stigma attached to women having children out of wedlock and more women delaying marriage, birth rates have been declining.
- There are many other factors influencing the choice of couples remaining childless or waiting to raise children, but amongst the most powerful are South Korea's current economic issues. The cost of day care, in particular, has put a huge financial strain on young, working families. The government has recognised this and is attempting to expand state-sponsored day care for families in the bottom 70 per cent of the income table in order to ease pressure on household spending.

30- to 45-year-olds are the largest age segment

- Middle Youth (30- to 45-years-old) are presently the largest age segment, amounting 12.4 million in 2012. By 2015, it is projected that the number will decline slightly to 11.8 million. In South Korea, the Middle Youth are the crux of the economy. While unemployment is high for people in both their twenties and fifties, those in their thirties and forties tend to be employed. They also account for the largest percentage of the population who live in one-room apartments; 48 per cent of the country's single-person households are made up of people in their thirties, according to a recent report in the Korea Times.

Chart 21 Age Pyramid in 2012

Source: Euromonitor International from national statistics/UN

Low earners still make up the majority

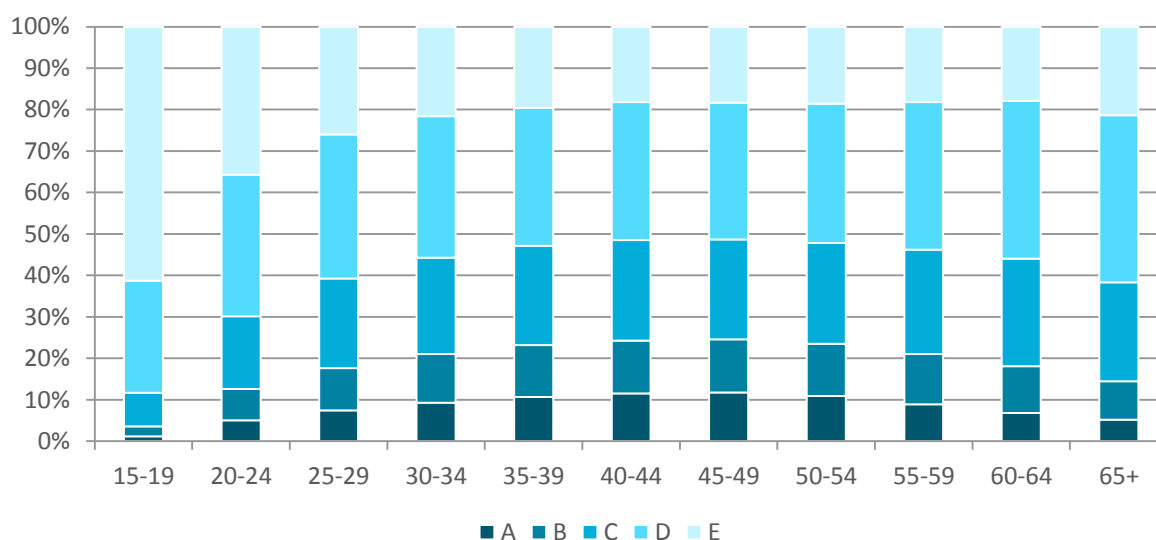
- Social class D⁷ was the largest group in South Korea's social class distribution in 2011, accounting for 34.5 per cent of the population aged 15+. Social class E was the second largest, with a share of 24.6 per cent of the population aged 15+ in the same year. The two social classes encompass unskilled, semi-skilled workers, as well as students, pensioners and those who live on welfare. The 65+ age group was dominant in social class D, as it made up 15.8 per cent of social classes D in 2011. Meanwhile, social class E was most represented by the 15-19 age group, which accounted for 20.6 per cent of social class E in 2011.
- Consumers belonging to this market segment often spend most on necessities, but their discretionary spending power is set to rise as income increases. Marketers of basic, value-for-money products and services can benefit from South Korea's low earners due to their sheer size. By 2020, social class D will remain the largest social group, while the elderly population will become even more representative in both social class D and E, due to South Korea's rapid population ageing.

⁷ See social class definitions on Page 47 for reference

Largest earners fall into the 40-49 age group

- The majority of South Korea’s most affluent social class was found in the 40-49 age group, which accounted for 29.2 per cent of social class A in 2011. Such demographic distribution is similar to neighbouring Japan. By 2020, South Korea’s social class A is forecast to include 3.6 million people, but it will remain largely in older age groups, as its share in the population aged 15+ is expected to remain largely unchanged at 8.0 per cent. This social class primarily represents the country’s urban elite consumers, who are keen on purchasing upmarket, luxury products and services.
- South Koreans currently retire at 53 years-old, much sooner than retirees in most other OECD countries. Early retirement is one reason why the financial stability of this age group tends to peak at around the mid-50s, dropping soon afterwards. There is a widespread concern that many Mid-Lifers (ages 45 to 59) are ill-prepared for retirement as household debt is at its highest level amongst people within this age group. Indeed, six out of 10 South Koreans in their forties and fifties are in debt, according to the Korea Chamber of Commerce. Even those who have managed to avoid debt are struggling.

Chart 22 Age Composition of Social Classes ABCDE: 2011⁸



Source: Euromonitor International from national statistics

⁸ Social Class A presents data referring to the number of individuals with a gross income over 200per cent of an average gross income of all individuals aged 15+. Social Class B presents data referring to the number of individuals with a gross income between 150per cent and 200per cent of an average gross income of all individuals aged 15+. Social Class C presents data referring to the number of individuals with a gross income between 100per cent and 150per cent of an average gross income of all individuals aged 15+. Social Class D presents data referring to the number of individuals with a gross income between 50.0per cent and 100per cent of an average gross income of all individuals aged 15+. Social Class E presents data referring to the number of individuals with a gross income less than 50.0per cent of an average gross income of all individuals aged 15+.

CONSUMER HABITS

General Purchase Habits

Brand-conscious Koreans hesitant to change shopping habits

- South Korea's average annual disposable income provides enough for discretionary spending on items, such as transport, communications and leisure. The potential for luxury spending does exist, driven by the country's rising disposable income and a growing popularity of a celebrity culture. The South Korean middle class and young shoppers are known to be brand-oriented. In fact, they can save their money for months or use credit cards so that they can buy luxury items, such as handbags and watches. While such spending habits remained largely unchanged during the 2008-2009 economic downturn, South Korean consumers have become more conscious about the impact of the Eurozone debt crisis and global economic slowdown since 2011, as continued falling demand for South Korean exports significantly affected the country's export-driven economy.

TV and online shopping are popular avenues for busy consumers

- Some busy consumers do not have much spare time to shop at stores, and this is one reason for the great popularity of TV shopping channels. The website Arirang TV ascribes its success to South Korea's excellent postal service and reliable delivery service. One regular customer told the station "Home shopping channels have good quality products at competitive prices. I bought things like underwear and cosmetics in the past. I was initially worried since I wasn't able to see the product itself and I was worried about aftersales service. But I've been very happy so far."
- Generally, South Koreans are very comfortable with technology and it comes as no surprise that online shopping has grown significantly amongst consumers in recent years. In 2012, per household spending online reached C\$1,351, up from C\$1,261 in 2011 and up significantly from just C\$901 in 2007.

Eating and Drinking Habits

Rising food prices and economic concerns have an impact on eating habits

- In 2012, food expenditure per capita dropped to C\$1,351 compared to C\$1,441 in 2011. Many consumers have been cutting down on food purchases due to inflation and concerns about the unstable economy. Dining on local cuisine at local "mom and pop" restaurants can sometimes be less expensive than preparing meals and eating at home, particularly for singles and couples. Restaurants serving native cuisine will cost around C\$5.40 per person.

For those that can afford it, convenient and healthy traditional Korean meals become more popular

- After growth in the popularity of fast food such as pizza and fried chicken over the 2007-2012 period, many consumers have been driving demand for hansik, traditional Korean food. This trend has accompanied the recent theme of eating healthy, "healing" food and a return to a less expensive back-to-basics mentality during a time of economic uncertainty. Even with rising prices for basic groceries, consumers who can afford it are willing to pay more for foods that they believe are beneficial to their health.

- While Koreans have traditionally eaten in a group, sharing from dishes laid at the centre of the table, the fast pace of work and other aspects of living has prompted many hungry consumers to seek out convenient, cheap lunchbox takeaways that they eat alone. Lunchboxes, or dosirak, generally contain rice, protein and kimchi.

Diners turn to affordable Korean restaurants

- In light of tightened consumer budgets, the majority of South Korean consumers have traded down to cheaper options when dining out. Amidst the continued slump in the domestic economy, fast food outlets and other consumer foodservice outlets which offer a diverse range of menus at lower prices registered faster sales growth than other consumer foodservice outlets. During 2012, fast food operators actively launched set-meal menus at competitive prices and constantly offered diverse promotional discounts in throughout the year.
- Convenience stores recorded the highest sales growth in fast food during 2012, a trend which was in line with the growing demand for low-priced meals among local consumers. In particular, the traditional lunch boxes known as dosirak are becoming increasingly popular in convenience stores and this boosted sales growth in convenience stores fast food during 2012. As the dosirak menus offered in convenience stores carry far lower unit prices than similar traditional meals in other kinds of consumer foodservice outlets, demand for dosirak from convenience stores increased rapidly in South Korea during 2012.
- In full-service restaurants, the number of bunsik restaurants grew rapidly in 2012. Bunsik restaurants are South Korean restaurants which provide low-priced everyday meals and snack items such as fried rice, gimbap, ramen and other types of noodles. Amidst the ongoing downturn in South Korea's domestic economy, increasing numbers of local consumers visited chained bunsik outlets in search of low-priced menus, motivating the leading chains to expand their outlet networks significantly over the course of 2012.

Quick Facts on Dining Out in South Korea

- Most popular formats:
 - **Full-service restaurants**
 - **Cafes/bars**
 - **Fast food**
- Top foodservice chains
 1. **Paris Baguette**
 2. **Lotteria**
 3. **McDonald's**
 4. **BBQ**
 5. **VIPs**

Health & Wellness Habits

Health and wellness still puts up a strong performance in 2012

- Sales of health and wellness products continued to show a strong performance in 2012, with a 10.0 per cent increase. Fortified/functional (FF) recorded the highest increase in value sales of 12.0 per cent, followed by organic with nine per cent. Consumers continued to look for multifunctional effects from health and wellness products, and, as a result, it became important for manufacturers to develop new functional ingredients to attract consumers. The industry also took advantage of safety issues in packaged food, as consumers tended to shift to health and wellness products, especially organic foods and beverages, which are considered of a higher quality due to the controlled manufacturing process.

RETAIL LANDSCAPE

Key Points

- New regulations restricting the opening hours of hypermarkets and supermarkets have the potential to negatively influence future growth of these retailers, in favor of traditional stores.
- Convenience stores registered the strongest growth, with the number of outlets more than doubling between 2007 and 2012.

Hypermarkets and convenience stores poised for additional growth

- Sales through grocery retailers increased in 2012 due to the ongoing rise of modern grocery retailers, as convenience stores and hypermarkets recorded particularly healthy growth rates.
- Supermarkets recorded much lower growth during 2012 due to regulations which were implemented in South Korea during 2011, placing restrictions on the ability of the operators of chained supermarkets to expand their outlet networks, resulting in the closure of some 100 supermarkets between 2007 and 2012. These restrictions involve a prohibition on supermarkets chains opening new outlets within a one kilometer radius of a traditional market.

Table 6 Ranking of Largest Retail Distribution Channels in South Korea by Outlets: 2012

1. Food/Drink Specialists
2. Independent Food Stores
3. Convenience Stores
4. Supermarkets

Source: Trade associations, trade press, company research, trade interviews, Euromonitor International estimates

REFERENCES

For data sources and more information on topics discussed in this report, please visit the links listed below.

Description	Source
Export Tools for British Columbians	http://www.britishcolumbia.ca/Export/Index.aspx
Exporting Your Products from British Columbia	http://www.britishcolumbia.ca/Export/Exporting-Your-Products.aspx
Contact our Trade and Investment Representative Office in South Korea	https://www.britishcolumbia.ca/global/trade-and-investment-representatives/korea.aspx
Agriculture and Agri-Food Canada - Agri-Food Trade Policy	http://www.agr.gc.ca/itpd-dpci/index-eng.htm
Foreign Affairs, Trade and Development Canada	http://www.international.gc.ca/trade-agreements-accords-commerciaux/index.aspx
South Korea Ministry of Agriculture, Food and Rural Affairs	http://english.mafra.go.kr/main.jsp
National Agricultural Products Quality Management Service – food labelling regulations for South Korea	http://www.naqs.go.kr/english/index.jsp