

Food Industry Market Opportunities in Japan and South Korea

2007 State of Maine Trade Mission to Japan and Korea



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Economic overview

JAPAN

Gross Domestic Product (GDP) in U.S. dollars:	4.9 trillion (2006)
GDP per capita in U.S. dollars:	33,100
Real GDP growth rate:	2.8%
Inflation:	0.4%
Unemployment:	4.1%

In 2006, Japan’s balance-of-trade surplus was \$69.6 billion compared to \$72.6 billion in 2005. The Japanese Finance Ministry reported that the decline was due mainly to the high cost of oil as energy imports offset exports of cars and semiconductors. With GDP growth rates of 2.75% in 2005 and 2.8% in 2006, Japan has essentially completed its post-bubble adjustment, allowing for stable and consistent future growth.¹

Japan is a vibrant, prosperous country, with the world’s second largest economy. Japanese consumers spend hundreds of billions of dollars on food, clothing, travel, entertainment and a

¹ Excerpts from the U.S. Department of Commerce’s Country Commercial Guide 2007

wide variety of other consumer goods and services. The top Japanese firms are among the most efficient and well-run firms in the world. Unemployment, while high by historic Japanese standards, is around 4.1% lower than in most developed countries. The average Japanese household has over \$100,000 in savings, and disposable income of about \$4,000 per month. Japan is one of the largest overseas markets for U.S. exporters, with imports from the U.S. totaling over \$59 billion in 2006.²

Maine Exports to Japan

From State: **Maine**

Commodity: **Total all commodities**

Destination: **Japan**

Series: **Origin of Movement**

HS Code: **ALL**

Order: **Desc**

Unit: **Total dollar value**

Sorted by: **2006**

Runtime: **13:39:04 PM, Thu Jun 28 2007 EDT**

Rank	Code	Description	ANNUAL 2004	ANNUAL 2005	ANNUAL 2006	APR 2006 YTD	APR 2007 YTD	%2004- 2005	%2005- 2006
		TOTAL ALL COMMODITIES	84,551,613.	87,514,044.	128,581,078.	34,891,440.	40,270,486.	3.50	46.93
3	03	Fish, Crustaceans & Aquatic Invertebrates	20,901,992.	17,508,250.	18,682,191.	6,492,305.	6,444,440.	-16.24	6.71
8	08	Edible Fruit & Nuts; Citrus Fruit Or Melon Peel	6,302,754.	5,014,601.	5,605,611.	2,178,434.	2,778,084.	-20.44	11.79
11	30	Pharmaceutical Products	1,078,065.	1,371,731.	1,100,221.	253,340.	297,975.	27.24	-19.79
12	05	Products Of Animal Origin, Nesoi	1,106,833.	702,508.	799,909.	252,117.	244,960.	-36.53	13.86
16	20	Prep Vegetables, Fruit, Nuts Or Other Plant Parts	653,259.	212,810.	584,867.	88,529.	77,792.	-67.42	174.83
28	02	Meat And Edible Meat Offal		0.	0.	78,003. 0.	0. 0.nan	0.inf	0.nan
31	07	Edible Vegetables & Certain Roots & Tubers		61,837.	53,048.	63,135. 0.	0. -14.21	19.01	0.nan

Source: WISERTrade at HCC: State Exports by HS Database

Market Opportunities in the Japanese Food Sector

The United States remained Japan's top supplier of farm products, with a 22 percent market share in 2005. While U.S. farm exports to Japan decreased slightly in CY 2005 to \$9.7 billion, pork and processed foods showed good growth and corn, soybeans and wheat exports remained strong. At 40%, the Japanese food self sufficiency rate is the lowest of all industrialized countries, compared to the U.S. rate of 119%. The Japanese also spend a very high percentage of their income on food (almost 20% compared to 10% in the United States). In 2005, the value of Japan's consumer food and beverage market was \$584 billion.

Opportunities exist for a range of agricultural products, in particular, processed and consumer ready food products. For U.S. companies to tap into this dynamic market, they should be aware of several key factors affecting food purchase trends. These factors are a rapidly aging population, diversification of eating habits, emphasis on high quality, increasing demand for convenience, and food safety concerns. Exporters interested in the Japanese market should make

² Excerpts from the U.S. Department of Commerce's Country Commercial Guide 2007

note that three of the biggest annual food related trade shows in Japan and all of Asia are: Foodex Japan, International Food Ingredients & Additives Exhibition and Conference (IFIA) Japan, and Health Ingredients (HI) Japan.

Japan's population is aging faster than any other country in the world. According to Japan's National Institute of Population and Social Security Research, by 2010 23 percent of the population will be over 65 years of age. Coupled with the fact that Japanese life expectancy is the highest in the world, there is a strong demand for "healthy foods."

Advantages for American Agricultural Goods in Japan

Food Safety

- The United States boasts the world's most advanced traceability technology. American agriculture can successfully differentiate itself from Japan and third countries on the food safety issue by increasing disclosure concerning its livestock rearing practices and agricultural production methods.

Health Consciousness

- The increasing popularity of organic food, works to the advantage of enterprises from the United States, an advanced nation in terms of natural foods. The health and organic foods segment in Japan shows the greatest market growth potential. Companies such as Whole Foods know-how in this area are likely to see their methods for success catch on in Japan.

Stable Supply

- The United States has always been Japan's most stable source of food, and no other country can challenge America's position as Japan's biggest import partner for key food products

Cultural Influence

- Consumers in Japan are strongly influenced by American food culture via the Japanese media.

Source: USDA Foreign Agricultural Service GAIN Report JA6527

Since the 1960's, the Japanese diet has become dramatically westernized. In 1960, the source of per capita protein consumption was 32% from rice, 24% from seafood, 5% from meat and 3% from dairy products. In 2005, the percentages became 12%, 22%, 17% and 10%. Rice and tofu-based products have been replaced by meat and dairy as the main source of protein. In addition to this move towards westernization, food trends have recently become more complex. Various ethnic foods are also becoming popular and are often combined with Japanese cuisine creating "fusion" foods. Another aspect of diversification is the trend of "individual eating", or convenience foods. Because of the busy, fast paced lifestyle of modern Japanese, it has become less common for all family members to eat together. "Individualization" of eating makes convenience an essential factor.³

³ Excerpts from the U.S. Department of Commerce's Country Commercial Guide 2007

Economic Overview

SOUTH KOREA

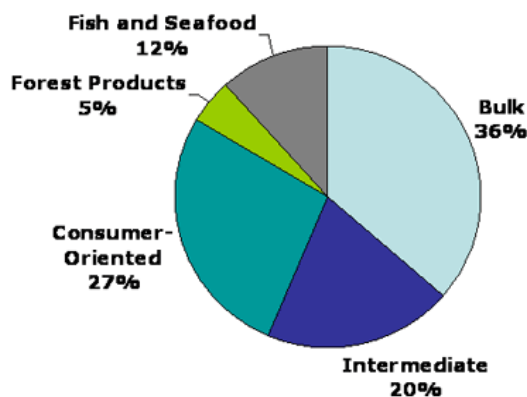
Gross Domestic Product (GDP) in U.S. dollars:	1.19 trillion (2006)
GDP per capita in U.S. dollars:	24,500
Real GDP growth rate:	4.8%
Inflation:	2.2%
Unemployment:	3.3%

The Republic of Korea's economic growth over the past 30 years has been spectacular. Per capita GNP, only \$100 in 1963, exceeded \$16,000 in 2005. South Korea is now the United States seventh-largest trading partner and is the 11th-largest economy in the world. In recent years, Korea's economy moved away from the centrally planned, government-directed investment model toward a more market-oriented one. Korea bounced back from the 1997-98 Asian financial crisis with through some International Monetary Fund (IMF) assistance, but based largely on extensive financial reforms that restored stability to markets. These economic reforms, pushed by President Kim Dae-jung, helped Korea maintain one of Asia's few expanding economies, with growth rates of 10% in 1999 and 9% in 2000. The slowing global economy and falling exports slowed growth to 3.3% in 2001, prompting consumer stimulus measures that led to 7.0% growth in 2002. Consumer over-shopping and rising household debt, along with external factors, slowed growth to near 3% again in 2003. Economic performance in 2004 improved to 4.6% due to an increase in exports, and remained at or above 4% in 2005 and into 2006.⁴

Market Opportunities in the South Korean Food Sector

South Korea, home to 50 million people, has an evolving retail food industry. According to a USDA report for the Foreign Agricultural Service by Sangyong Oh, "South Korea is the sixth-largest food and agricultural export market for the United States. The US supplies a wide range of agricultural products to South Korea including corn, soybeans, wheat, and processed foods. As the predominantly urban population becomes more affluent, convenience is a driving force in the retail food industry. As of 2005, the retail food market was estimated at \$50 billion, up 5 percent from the year before. Though overall growth has slowed in recent years, modern retail outlets are growing rapidly. Since their introduction in 1993, modern mass retail businesses in South Korea have expanded dramatically, accounting for 40 percent of the retail food sales in 2005.

U.S. Food and Agricultural Exports to South Korea Top \$2.7 Billion



In Fiscal 2006, Consumer-Oriented Product Category Grew 18% From Year Before

⁴ U.S Department of State

Like U.S. consumers, Korean shoppers look for better value, convenience, new tastes, and safer and fresher products. For affluent groups and young professionals, quality and image can outweigh price and other factors when making purchasing decisions. Due in part to increasing health awareness of aging consumers, there is a public emphasis on healthy eating. Organic foods and wines have gained popularity among health-conscious consumers. Korean culture has long subscribed to the health attributes of ordinary foods. This belief contributes to an ongoing trend to seek these effects in almost every food encountered in the market.

With little arable land Korea depends heavily on imports as the country's resources cannot supply for all needs. About 70 percent of all foods are imported. In 2006, U.S. consumer oriented products accounted for \$882 million of the \$2.7 billion worth of U.S. foods imported in 2006. The recent growth of mass retailers and increasingly sophisticated tastes are translating into opportunities for consumer-ready food products. Large retailers are looking for ways to increase their assortment of imported foods. Bestselling U.S. products include pork, poultry, seafood, processed vegetables, fruits, tree nuts, dairy products, juices, alcoholic beverages, condiments, sauces, cooking oils, organic foods, coffee, snacks, and confectioneries. Products with good potential include processed turkey meat, specialty cheeses, soups and broths, ethnic sauces and spices, prepared foods, processed organic products, packaged fresh vegetables, and specialty fresh fruits.”

Changing Tastes and Dining Preferences⁵

South Korean consumers' eating habits have changed dramatically in recent years. A diet long based on rice has become progressively more centered on wheat and protein. Consumers are also seeking more diversity and are becoming more quality-oriented. Consumption of fish, fruits, and vegetables has increased.

Consumer preferences are shifting toward foods that are convenient rather than those that require lengthy preparation. Home preparation is becoming increasingly rare. Monthly expenditures on food and beverages per household in cities averaged \$519 in 2004, 23 percent of a household's total expenditures. The eating-out portion of expenditures, which has been rising very fast, accounted for 46.6 percent of the total.

Working members of a household often have business dinners five nights a week, which is one reason that restaurant consumption has continued to grow. Busy consumers can purchase ready-made, local-style food items such as kimchi or bulgogi (barbecue) at grocery or convenience stores.

Consumers prefer products that have a national brand and/or have long been recognized in the market. Nevertheless, the younger generation has had a lot of exposure to Western-style foods, especially U.S. products. Approximately 40,000 South Korean elementary and middle school students study in the United States every year and are somewhat accustomed to U.S. brands and tastes.

⁵ From “South Korea, Already a Major Market, Offers Further Opportunities for U.S. Agriculture” by Seh Won Kim, US Dept of Agriculture, FAS, April 2006