

FOREST PRODUCTS FEATURE ARTICLES

SOUTH KOREA:

MARKET SHOWS SIGNS OF RECOVERY

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Korea has managed to weather the fiscal crisis of 1998 and as a result, the demand for wood is growing. Wood imports in South Korea increased 17 percent in 2002, helping to fuel healthy growth in U.S. wood exports to South Korea. Although still below the 1997 level, U.S. exports are 14 percent higher than in 2001, having increased from \$117 million in 2001 to \$134 million in 2002. Significantly higher quantities of U.S. exports of hardwood logs; up 11 percent since 2001; hardwood lumber, up 30 percent; and softwood lumber, up 73 percent, indicate that U.S. products remain in demand despite intensifying third country competition in the market. The sharp drop in the Korean won, from 954 won per dollar in 1997 to 1,402 won per dollar in 1998 cut Korean wood purchasing power substantially (Figure 1). However, Korea purchases of highly trade U.S. wood products have grown in terms of both won and dollars since 1998. The United States is the fifth largest supplier of wood products to Korea behind Indonesia, New Zealand, Malaysia, and China. In 2002, among the five top suppliers to Korea, China is the only country whose market share increased, increasing from 11 percent to 12 percent.

The Korean government has made a number of reforms that have helped increase growth in housing and construction. The government restructured conglomerates, otherwise known as chaebols, which resulted in banks freeing up money for consumer lending. The government also instituted a number of housing reforms, such as deregulating greenbelt zones, areas originally restricted

from land development since 1971, and easing restrictions on renovations and remodeling. During January through November 2002, 567,725 housing units were built, a 28-percent increase from the comparable period of 2001. The Ministry of Construction and Transportation (MOCT) plans to build 500,000 housing units in 2003 and supply 5 million houses during the next 10 years. This housing construction should lead to increased use of wood and increased opportunities for U.S. companies since wood exports typically rise as housing and consumer spending increase.

The best potential opportunities lie in the remodeling sector. Remodeling is considered a growth sector since many Korean buildings are over 20 years old and in need of renovation and remodeling. In July 2001, the MOCT eased restrictions on renovation and remodeling, making it easier for companies and private individuals to obtain remodeling permits and allowing for permits to extend interior space up to 10 percent of total unit space. The Korean government plans to provide housing funds and tax reductions for residential remodeling projects. Also the Korean government intends to subsidize remodeling projects, particularly those that hire energy-conserving construction companies or are geared towards low-income families.

The remodeling market is a relatively new market, having emerged in the late 1980's. The Korean remodeling industry, valued at \$8.7 billion, accounts for between 8 to 10 percent of Korea's total construction industry. By 2010, the remodeling industry is projected to double its share of the construction industry to approximately 20 percent, with a value of \$16 billion. The sheer size of the industry and the need for imported products signify tremendous opportunities for U.S. firms looking to penetrate this market. Currently, the

remodeling and reconstruction of old buildings have led to greater demand for hardwood veneer-laminated products, as developers realize the advantage of using veneer-based products to reduce construction costs. Also on the rise is the demand for particleboard and MDF interior accessories for use in kitchen cabinets and door, window, and interior trimmings. U.S. companies in the past have been successful exporting hardwoods for use in window systems and for interior uses in high-end condominiums.

Wood for structural use is still a relatively small market however, as high-rise construction continues to dominate the Korean market. Apartments represent 84 percent of construction starts, single-family homes represent 10 percent or less of all housing starts, and wood frame housing represents only 5 percent of the single family housing market. Wood frame housing is a relatively new concept, starting in 1994 when the wood frame housing supply was 97 units. In 2002, there were approximately 2,000 wood frame housing starts. Koreans attracted to North American style homes tend to be high-income families. Construction for country houses is expected to rise with the release of land from the greenbelt restrictions and the implementation of the 5-day workweek.

The wood frame housing market remains small in comparison to concrete housing in part because technical barriers have substantially hampered the expansion of wood construction. The current Korean building codes severely limit wood use in the construction of residential housing and commercial construction, prohibiting wood structures exceeding 13 meters in height and 2,000 square meters in total floor area. Multi-storied, multi-family structures are also not allowed for wood. Also disadvantageous to wood frame housing

expansion is the insufficient number of engineers knowledgeable of wood frame construction.

Market Trends

Wood products may be more favorably accepted in the future with the growing trend toward environmentally friendly buildings, the main theme for the 2002 KIBEX (Korea International Building Exposition) trade fair and the government's push for energy-conserving construction.

At the company level, marketing via the Internet may be optimal for the Korea market. South Korea has the highest per capita broadband penetration in the world.

Slightly more than one half of all households have high bandwidth connections, compared to less than 10 percent in the United States. That amounts to 25 million Internet surfers and 30 million mobile-phone users in Korea, all capable of connecting to the new exciting building information.

The recent World Cup Games have provided new opportunities in sports flooring. The government announced its goal to build gymnasiums for every school in Korea. The Ministry of Education and Human Resources Development also announced plans to establish 1202 new schools by 2004. Already the Ministry of Education is in negotiating the construction or expansion of 218 schools in eight cities and provinces within the greenbelt zone.

Figure 1:

