

European Business in Korea

Business Confidence Survey 2019



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SURVEY MOTIVATION AND DESIGN

The purpose of the European Business in Korea: Business Confidence Survey is to take an annual snapshot of European companies' perceptions, successes and challenges in Korea, the first survey of which was conducted in 2014.

With consistency was one of the key factors that guided the questionnaire's design and data analysis, an online survey platform akin to that of the previous years was set up for participating companies. The gathering of such replicable data was done in order to trace and understand the development of company strategies and perceptions year-on-year. However, as not all of the participants answered all of the questions, the total number of respondents are noted above each graph. A detailed breakdown of the survey's participants' profile can be found in the appendix.

The core team who worked to publish this survey comprised of four European chambers in Korea

- European Chamber of Commerce in Korea as the initiator,
- British Chamber of Commerce in Korea,
- French Korean Chamber of Commerce and Industry,
- Korean-German Chamber of Commerce and Industry.

These Chambers, in partnership with the Seoul office of Roland Berger, worked together to publish this report.

In addition to the core team, the Belgian-Korean Business Forum, the Dutch Business Council Korea, the Finland Chamber of Commerce and Industry in Korea, the Italian Chamber of Commerce in Korea, the Norwegian Business Association, the Spanish Chamber of Commerce in Korea, the Swedish Chamber of Commerce in Korea, and the Swiss-Korean Business Council supported the survey by distributing the questionnaire to their respective members.

EXECUTIVE SUMMARY

The business environment in 2019 definitely was a challenging one which led to a decent growth of the Korean economy by 2.0% versus 2.6% in 2018. Global trade and investment faced certain headwinds leading to – in general – lower exports but also less foreign direct investments. The reasons were many, but Korean economy certainly was heavily affected by the trade friction between the US and the PR China but also the conflict about export controls initiated by the Japanese government.

Korea with its population of 50 million people but also with its globally leading companies, is and remains an important market for European companies conducting B2B and B2C business. 34% of European business leaders state that Korea has an increasing importance and 49% are of the opinion that the level of importance is as high it was in the preceding year(s).

Despite more than half of European companies being content with its business performance, it also has to be noted that Korea is and remains a difficult market to operate in. 62% of business leaders state that conducting business has become more difficult. As a result, only 41% of European businesses have plans for further expanding their business; this is in line with that only 35% have hired additional head count in 2019 but 22% of companies actually have decreased their workforce. 65% stated that reforms implemented by the Korean government have not helped their business and also the outlook for the next two years is not much better as 57% of business leaders do not think that the administration will come up with meaningful reforms related to business. A key area of high concern is the rising labour costs as pointed out by 69% of company representatives.

122 European company executives, representing companies with a combined workforce exceeding 53,000 employees and a total turnover of more than EUR 40 billion, answered the survey. The European business community believes in the Korean market and its current and future potential. It seems nevertheless, that a review in some areas is needed to ensure further economic growth.

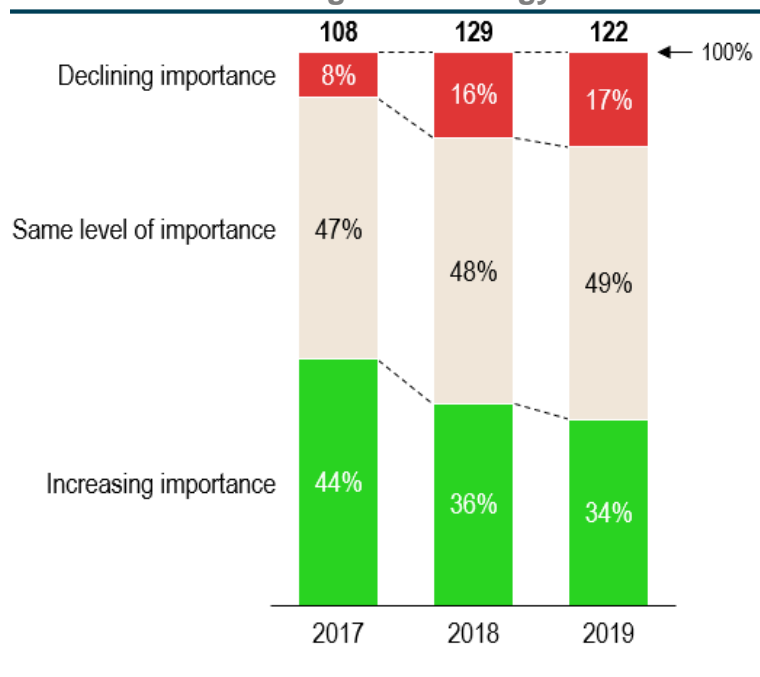
The challenges ahead for Korea, and all industry players both domestic and foreign, are considerable. The European business community hopes that the Business Confidence Survey will be a useful tool for business people and policy makers to make future-forward decisions for the mutual benefit of the Korean society, the Korean economy, and European and Korean businesses.

1. Operational status of European companies in Korea

1.1 Korea's importance in global strategy

Figure 1: Korea's importance in global strategy – YoY

How would you characterize the importance of Korea in your company's overall global strategy?



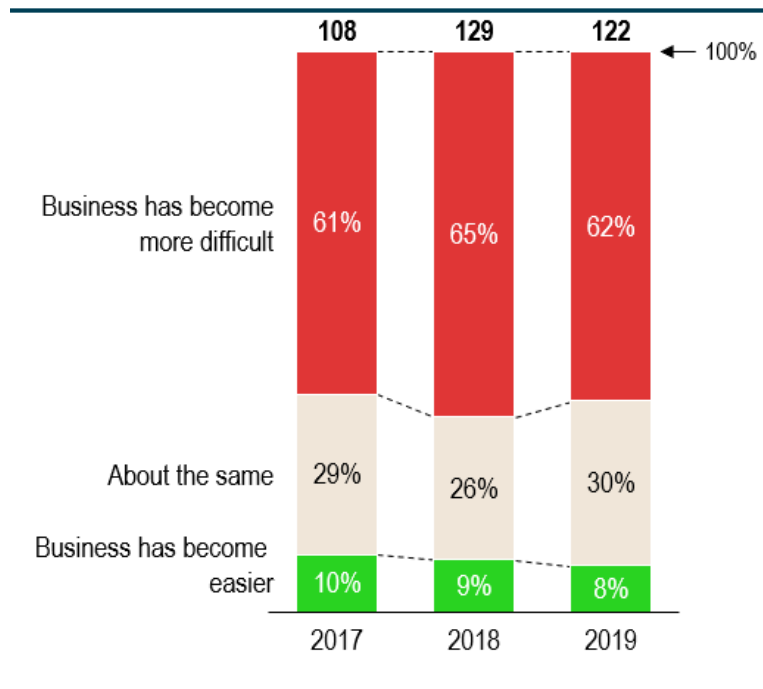
European companies overall value Korea as an important market; 34% of responding companies see an increasing importance as for 49% of corporations it is the same level of importance. 17% of companies instead experience a decline importance of the Korean market in their company's overall strategy.

The number of companies seeing the Korean market of becoming more important was going down in 2019; in 2017, 44% of foreign CEOs were of the opinion that Korea has an increasing importance, it declined to 36% in 2018 and further in 2019 to 34%. Replies from companies evaluating Korea of having the same importance came up at 47% in 2017, 48% in 2018 and 49% in 2019. The share of companies evaluating the Korean market with a declining importance was 8% in 2017, 16% in 2018 and 17% in 2019.

1.2 Business development

Figure 2: Business development – YoY

How has doing business in Korea for your company developed over the last couple of years?



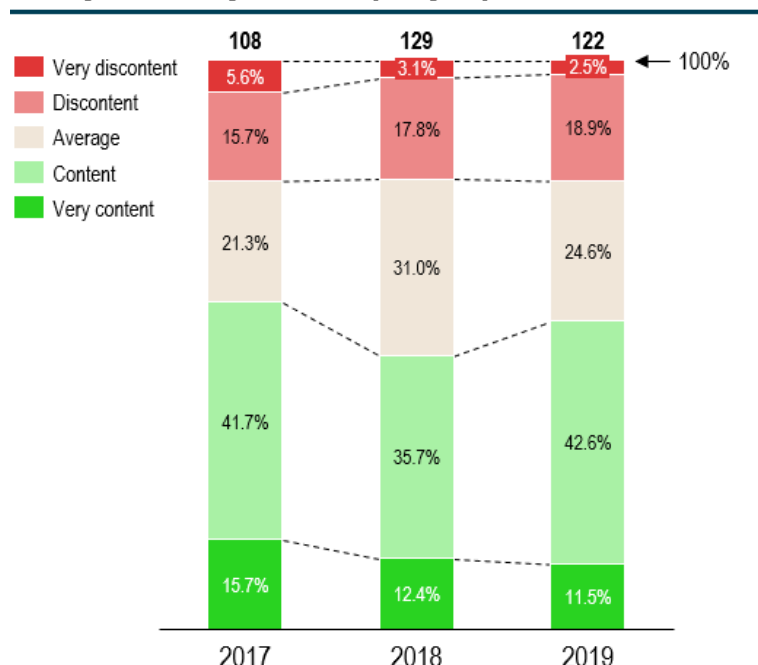
A majority of 62% of responding companies feel that conducting business has become more difficult while 30% indicate that is about the same and 8% also stated that it actually has become easier.

Replies from companies interpreting that the business environment has become more difficult stood at 61% in 2017, 65% in 2018 and 62% in 2019. The number of replies indicating that the situation is about the same were 29% in 2017, 26% in 2018 and 30% in 2019. 10% in 2017, 9% in 2018 and 8% in 2019 agreed that business has become easier.

1.3 Performance in Korea

Figure 3: Performance in Korea – YoY

How do you view your company's performance in Korea?

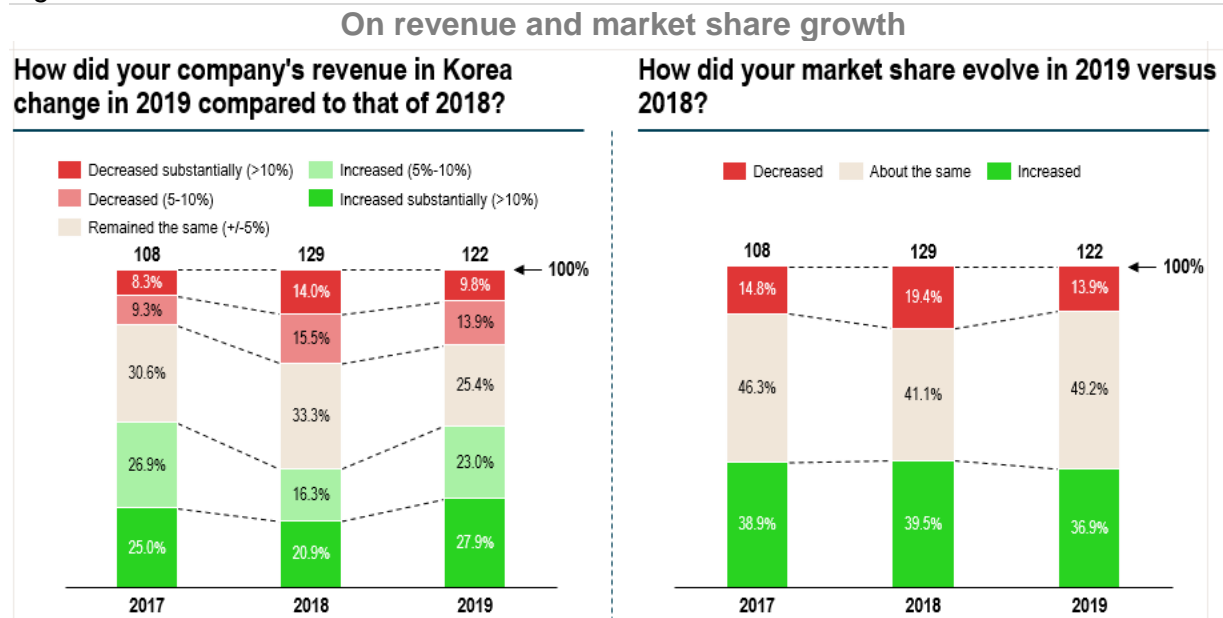


A majority of 54% – 11% being very content and being 43% content – European companies evaluate their business performance as positive, 25% as average and 21% as not content (19% discontent and 2% very discontent).

Companies seeing their business performance positive (very content and content) accounted for 57% (16% being very content and 42% content) in 2017, 48% (12% being very content and 36% content) in 2018 and 54% (11% being very content and 43% content). The number of replies indicating that the situation is about the same were 21% in 2017, 31% in 2018 and 25% in 2019. Corporations viewing their business performance in a more a neutral view accounted for 21% in 2017, 31% in 2018 and 25% in 2019. The share of companies evaluating their business discontent (discontent plus very discontent) is stable over the years reaching 21% in each year of the survey; notably the share of being very discontent decreased from 6% in 2017, to 3% in 2018 and 2% in 2019 as those being discontent increased from 16% in 2017 to 18% in 2018 to 19% in 2019.

1.4 Revenue and market share

Figure 4: Revenue and market share



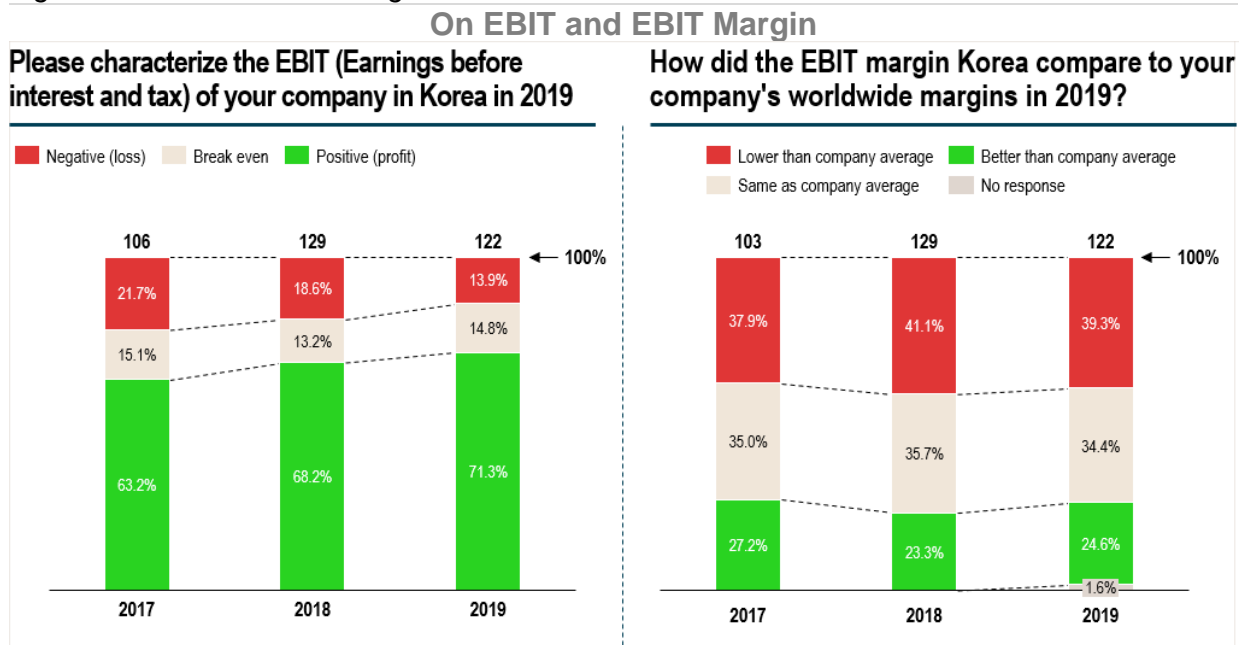
The majority of responding companies, namely 51% (28% increased substantially, 23% increased), reported higher sales in 2019 versus 2018; 25% generated a turnover which was in line with the previous year and 24% (14% decreased, 10% decreased substantially) of corporations experienced a lower turnover.

In comparison to previous years, positive responses (increased and increased substantially revenue) grew substantially from 37% in 2018 to 51% in 2019 and therewith reached a similar level as in 2017 where 52% of feedbacks were positive. Negative responses in 2019 (decreased and decreased substantially) came up at 24% (30% in 2018, 18% in 2017). The number of companies feeding back that their sales reached 25% in 2019 versus 33% in 2018 and 31% in 2017.

37% of the respondents saw their market share increasing compared to 40% in 2018 and 39% in 2017. 49% (41% in 2018, 46% in 2017) reported about the same market share and 14% (19% in 2018, 15% in 2017) experienced a smaller market share.

1.5 EBIT and EBIT margin

Figure 5: EBIT and EBIT margin



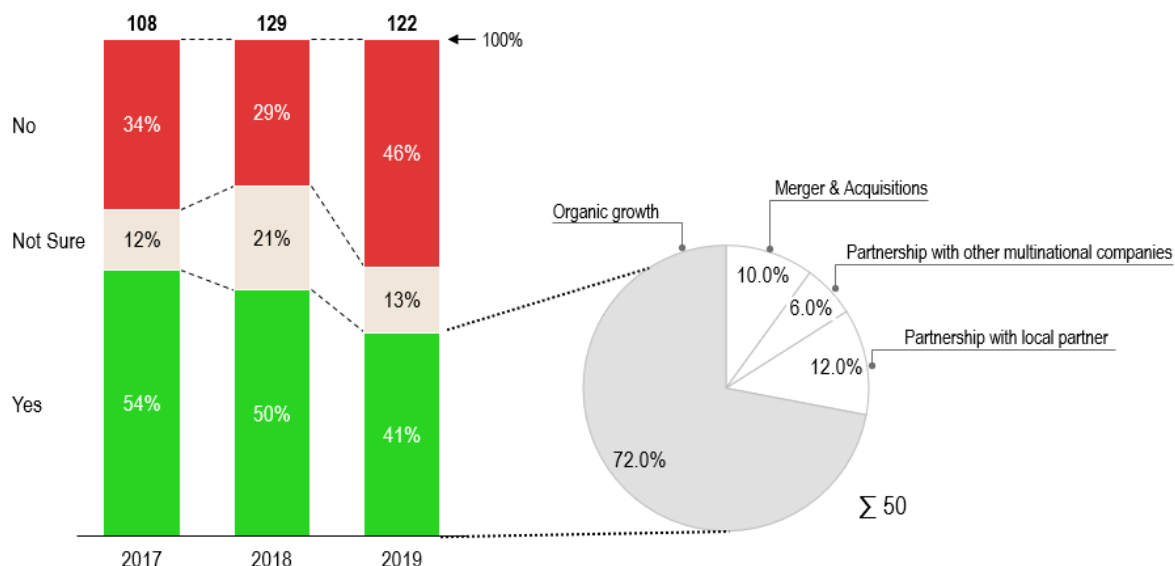
In 2019, 71% (68% in 2018, 63% in 2017) of European companies reached positive earnings before interest and tax (EBIT); 15% (13% in 2018, 15% in 2017) broke even but 14% (19% in 2018, 22% in 2017) reported a negative EBIT.

25% (23% in 2018, 27% in 2017) of participating companies reported an EBIT margin better than their company-group's average, 34% (36% in 2018, 35% in 2017) had an EBIT margin which was in line with their group, and 39% (41% in 2018, 38% in 2017) of corporations remained below their group's profitability.

1.6 Operation expansions

Figure 6: Plans for expansion in Korea

Are you planning to expand your operations in Korea in 2020? If yes, by which means?

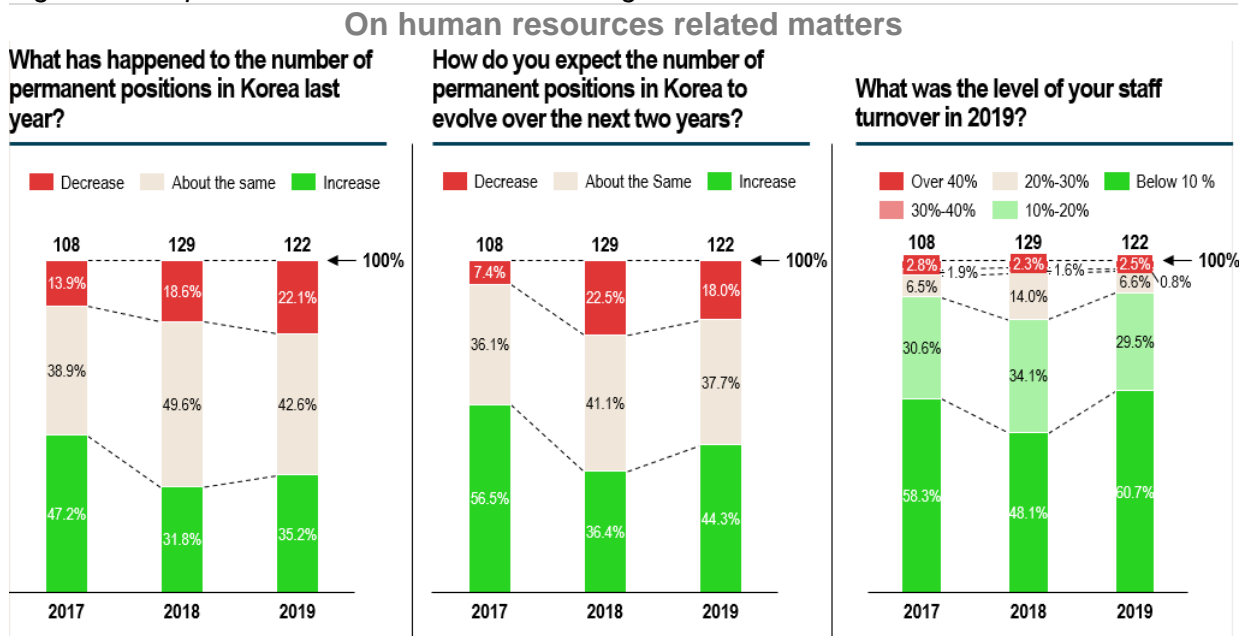


European companies seem to become more cautious with business extension; the number of companies planning to expand their operations came up at 41%, considerably lower than in 2018 when the respective share of replies was 50% and 54% in 2017. 13% of responding companies were not yet sure if to expand operations compared to 21% in 2018 and 12% in 2017. The number of companies not yet planning to expand their operations increased from 29% in 2018 to 46% in 2019 (34% in 2017).

The most favoured way of business expansion is by organic growth (72%) followed by a partnership (12%) with a local partner and M&A (10%) which is more or less in line with the previous year where the values were 67%, 19% and 12%, respectively.

1.7 Human resources/hiring

Figure 7: Responses for human resources/hiring



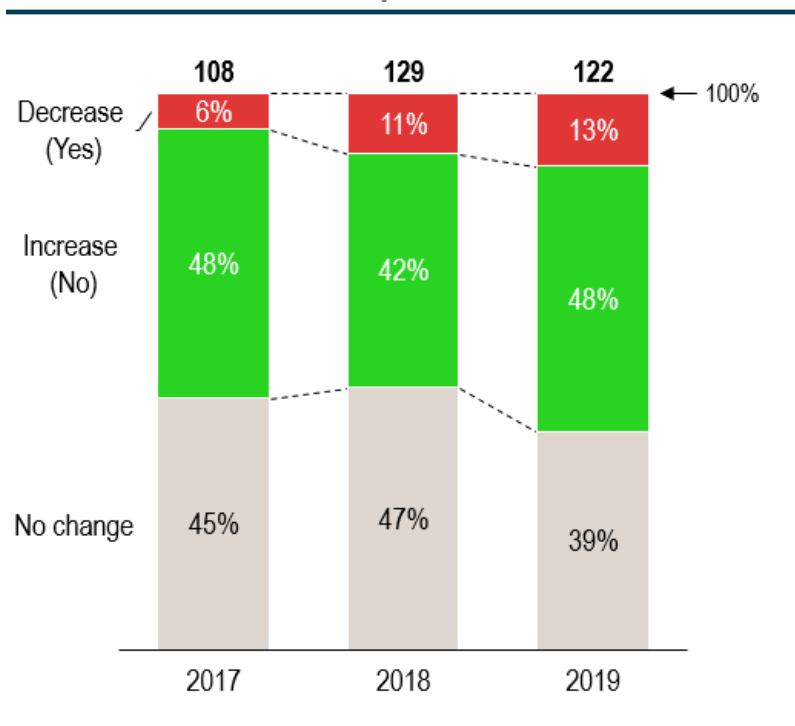
In 2019, 35% of European companies increased their permanent positions which is higher than in 2018 where the respective feedback ratio stood at 32% but considerably lower than in 2017 where 47% of companies hired additional head count. 43% of companies replied that they employed the same number of permanent staff (50% in 2018, 39% in 2017). 22% of responding companies instead operate their business with a reduced headcount (19% in 2018, 14% in 2017). Companies are a bit more optimistic for the two up-coming years; 44% of legal entities expect to create additional permanent positions compared to 36% in 2018 (although the value in 2017 was 57%). 38% of companies do not foresee adding people to their existing workforce (41% in 2018, 36% in 2017). 18% of European firms expect a decrease in permanent positions, down versus 2018 (23%) but up versus 2017 (7%).

The ratio for staff turnover of below 20% (staff turnover of below 10% plus staff turnover between 10% and 20%) stood at 90% (82% in 2018, 88% in 2017). The staff turnover between 20% and 30% was 14% (7% in 2018, 7% in 2017). 3% of companies replied that they had a staff turnover of more than 30% (4% in 2018, 3% in 2017).

1.8 Cost saving initiatives

Figure 8: Planned cost saving this year

Do you plan either to increase or to decrease investment / operational expenses?



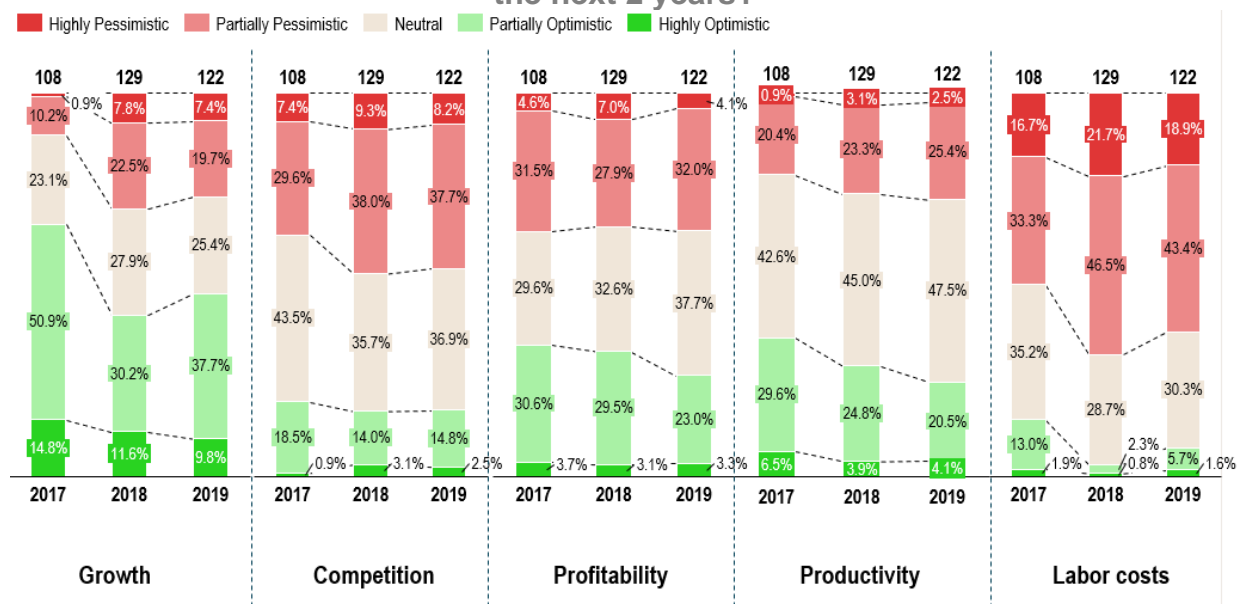
The huge majority of responding firms – namely 87% - plan either to operate with the same amount in investment / operational expenses or to even increase it as only 13% consider a reduction (11% in 2018, 6% in 2017). 48 % of legal entities intend to increase spending in business compared to 42% in 2018 and 48% in 2017 as 39% of company representatives do not foresee any change in their business spending (47% in 2018, 45% in 2017).

2. Business outlook

The companies were asked to share their views on the business outlook for the next two years with specific reference to five key areas: Growth, Competition, Profitability, Productivity, and Labour costs

Figure 9: Business outlook – Overview

How would you describe the business outlook for your industry in Korea within the next 2 years?



The majority, namely 48% (10% highly optimistic and 38% optimistic), of company representatives is optimistic about Growth, 25% have a neutral view and 27% are either partially or highly pessimistic. Overall, this is an improvement in optimism versus 2018 but still below the evaluation in 2017.

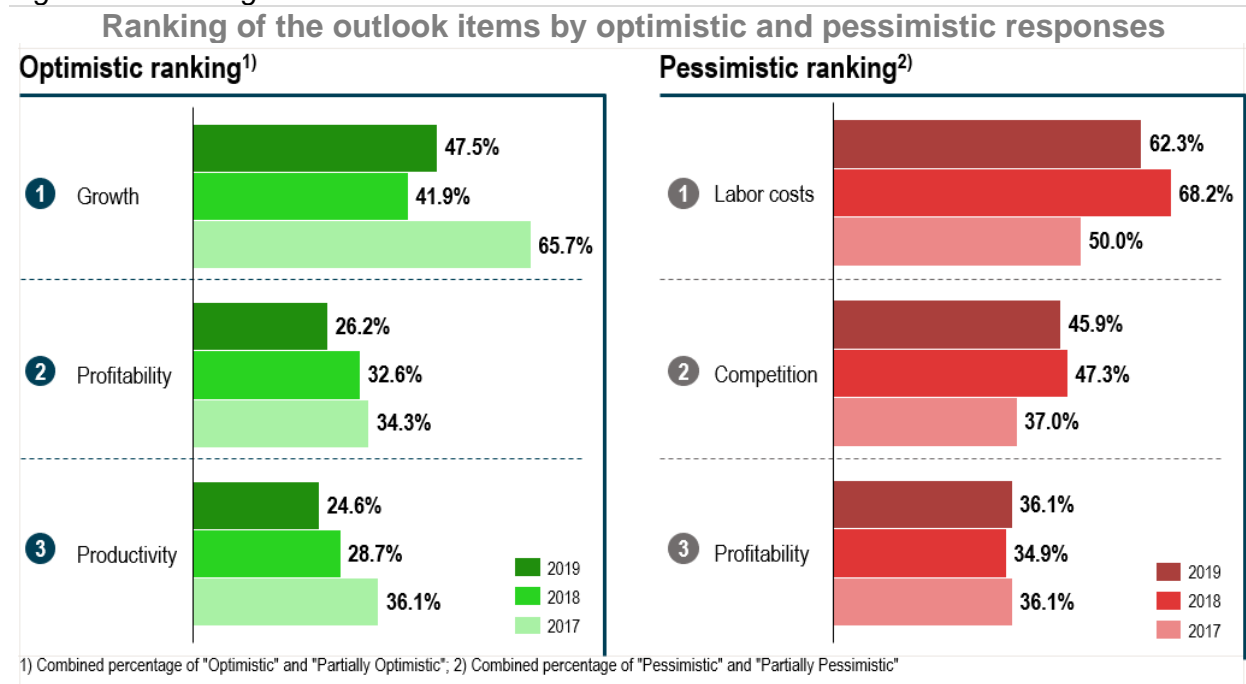
Competition remains an area where only 17% (2% highly optimistic, 15% optimistic) are optimistic about the trend for the next two years as 37% rather evaluate this in a neutral way but 46% (38% pessimistic, 8% highly pessimistic) are rather pessimistic. The results in 2019 are more less in line with those in previous years.

Representatives of European legal entities are less optimistic about Profitability; the share of optimistic replies decreased from 34% in 2017, 33% in 2018 to 26% in 2019. The majority of companies feel neutral about the development of their Profitability (38% in 2019, 33% in 2018, 30% in 2017) but a considerable group of 36% is rather pessimistic (35% in 2018, 36% in 2017).

25% of firms are optimistic about their Productivity (4% highly optimistic, 21% optimistic), 48% rather neutral and 28% pessimistic (25% pessimistic, 3% highly pessimistic). In comparison to previous years, there are less company representatives optimistic (25% in 2019, 29% in 2018, 36% in 2017) but more pessimistic (28% in 2019, 26% in 2018, 21% in 2017).

Labour costs remains an area of concern: In respect to the development of labour costs within the next two years, only 7% (3% in 2018, 15% in 2017) of business leaders express their optimism, 30% (29% in 2018, 35% in 2017) are neutral but 62% (68% in 2018, 50% in 2017) of them are either partially or highly pessimistic.

Figure 10: Ranking of the business outlook items



European companies in their business outlook for the next two years are mostly optimistic regarding Growth. In 2019, 48% of business leaders were either partially optimistic or optimistic on Growth. This represents an increase versus 2018 of 6 percentage points but remained below the value of 66% from 2017.

Profitability is the second area where business leaders feel most optimistic about. The response ratio came up to 26% which is lower than in 2018 and in 2017 when the respective values were 33% and 34%, respectively.

Productivity comes in third as 25% of business leaders were either partially optimistic or optimistic. This represents a decrease of 4 percentage points versus 2018 and a decrease of 11 percentage points compared to 2017.

As in previous years, Labour costs remains the main concern for European companies. 62% (68% in 2018, 50% in 2017) of business leaders are either partially or highly pessimistic. Company representatives also have a pessimistic evaluation of Competition; 46% sees the outlook for the next two up-coming years rather pessimistic which is a bit lower than the feedback from 2018 (47%) but higher than in 2017 (37%). Lastly, profitability was seen pessimistically by 36% of industry representatives – an evaluation which is similar to the preceding years.

3. Business challenges

Business challenges were measured through 21 different elements in the areas of economy, finance/cost, regulation, politics, legal, and social/infrastructure. Respondents were given five options to choose from: Highly insignificant, Partially Insignificant, Neutral, Partially Significant and Highly Significant.

Figure 11: Top 5 Business challenges – 2019, 2018, 2017
The top 5 items with the highest percentage of Highly significant and Partially Significant responses

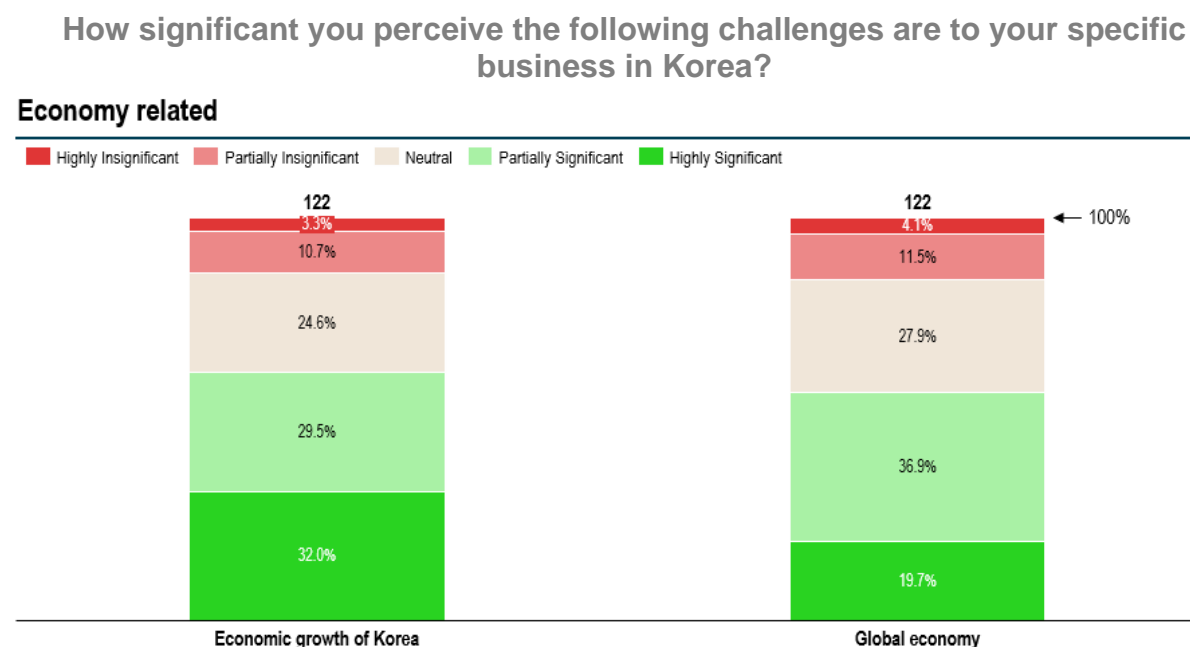
Top 5 business challenges by order of significance ¹⁾ – Item comparison YoY					
2019		2018		2017	
1 Rising labor costs	68.9%	1 Economic growth of Korea	72.9%	1 Economic growth of Korea	86.1%
2 Ambiguous rules & regulations	68.0%	2 Rising labor costs	70.5%	2 Rising labor costs	73.1%
3 Economic growth of Korea	61.5%	3 Ambiguous rules & regulations	60.5%	3 Ambiguous rules & regulations	68.5%
4 Discretionary enforcement of regulations, Market access barriers	60.7%	4 Global economy growth	58.9%	4 Market access barriers	65.7%
5 Global economy growth	56.6%	5 Discretionary enforcement of regulations, Economic nationalism / anti foreign business sentiment	56.6%	5 Discretionary enforcement of regulations	64.8%

1) Combined percentage of "Highly significant" and "Partially significant"

The growth of the Korean economy has been considered the main challenge since the beginning of the launch of the Business Confidence Survey in 2014. In the current survey, however, the main challenge named by the CEOs of European companies is the Rising labour costs (69% in 2019, 71% in 2018, 73% in 2017) followed by Ambiguous rules & regulations (68% in 2019, 61% in 2018, 69% in 2017) and Economic growth of Korea which was named by 62% (73% in 2018, 86% in 2017) of respondents as a key challenge. Lastly, 61% of respondents sees Discretionary enforcement of regulations / Market access barriers as a key challenge as 57% sees this for Global economy growth.

3.1 Economy related & financing

Figure 12: Economy related challenges



Business leaders, namely 62% (73% in 2018, 86% in 2017), see the growth of the Korean economy either as partially or highly significant for their business as 25% (15% in 2018, 10% in 2017) rather had a neutral view and 14% (12% in 2018, 4% in 2017) felt that this is rather insignificant (partially and highly insignificant).

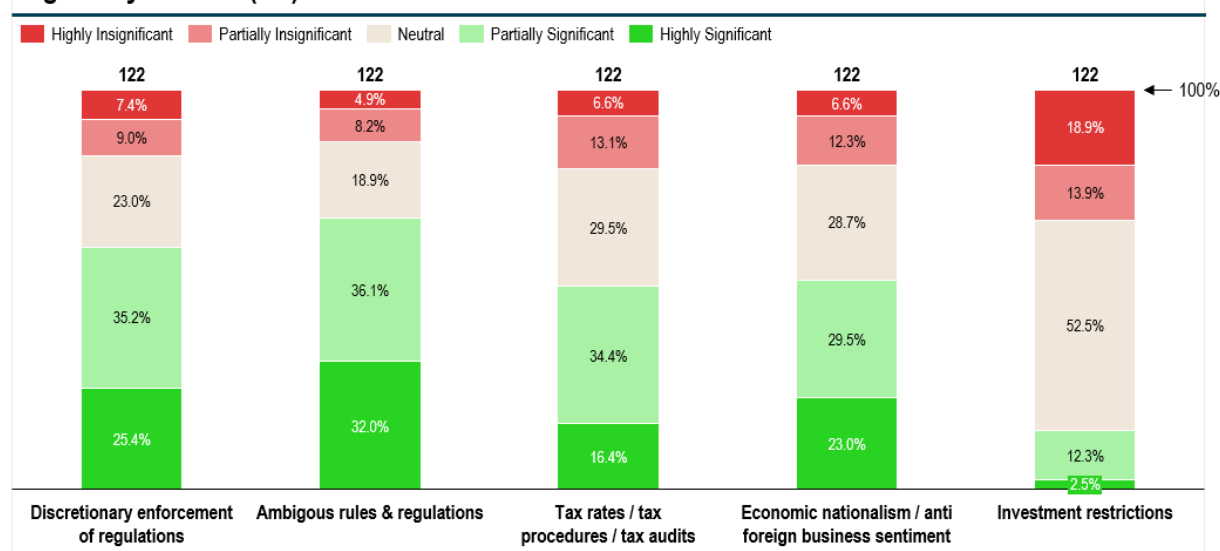
Naturally, the development of the global economy has a significant impact on the Korean economy. 57% (59% in 2018, 63% in 2017) of executives do rate this as either partially or highly significant while 28% (24% in 2018, 27% in 2017) have rather a neutral view and 16% (17% in 2018 and 9% in 2017) indicating that this is somewhat insignificant.

3.2 Regulations/Political issues

Figure 13: Regulations/Political related challenges

How significant you perceive the following challenges are to your specific business in Korea?

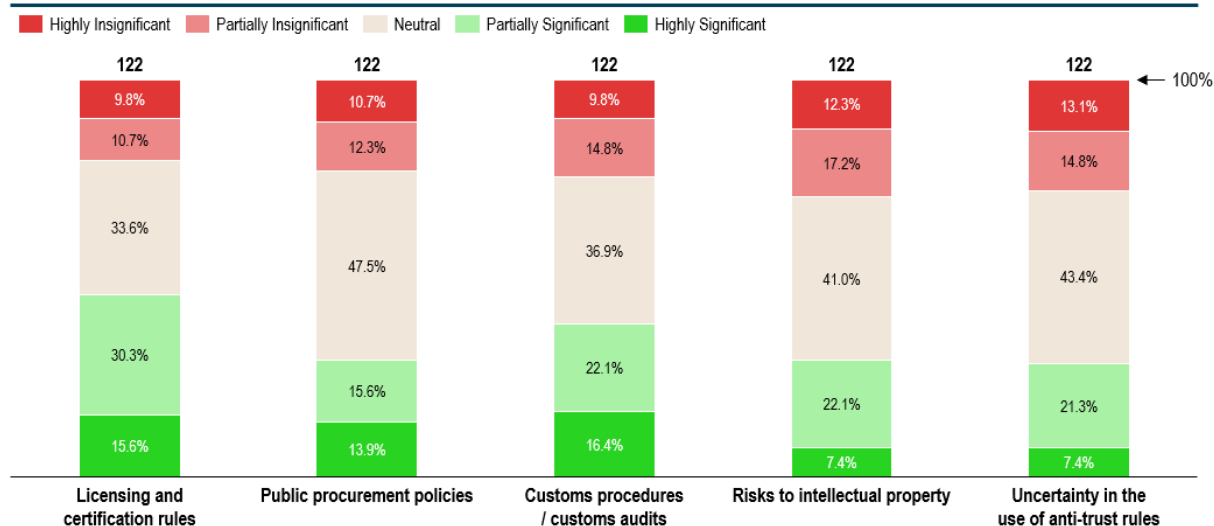
Regulatory/Political (1/2)



Ambiguous Rules and Regulations is perceived by 68% (60% in 2018, 69% in 2017) of respondents as either a partially or highly significant business challenge. Discretionary Enforcement of Regulations was named by 61% (57% in 2018, 67% in 2017) of companies as a significant challenge to business. Economic Nationalism / Anti-foreign Business Sentiment is seen by 53% (57% in 2018, 54% in 2017) of European business leaders as a key challenge. Other considerable challenges are perceived by 51% (47% in 2018) of respondents in Tax Rates / Tax Procedures / Tax Audits. Investment restrictions instead is valued only by a minority – namely 15% – (23% in 2018, 48% in 2017) of respondents as a significant challenge.

How significant you perceive the following challenges are to your specific business in Korea?

Regulatory/Political (2/2)



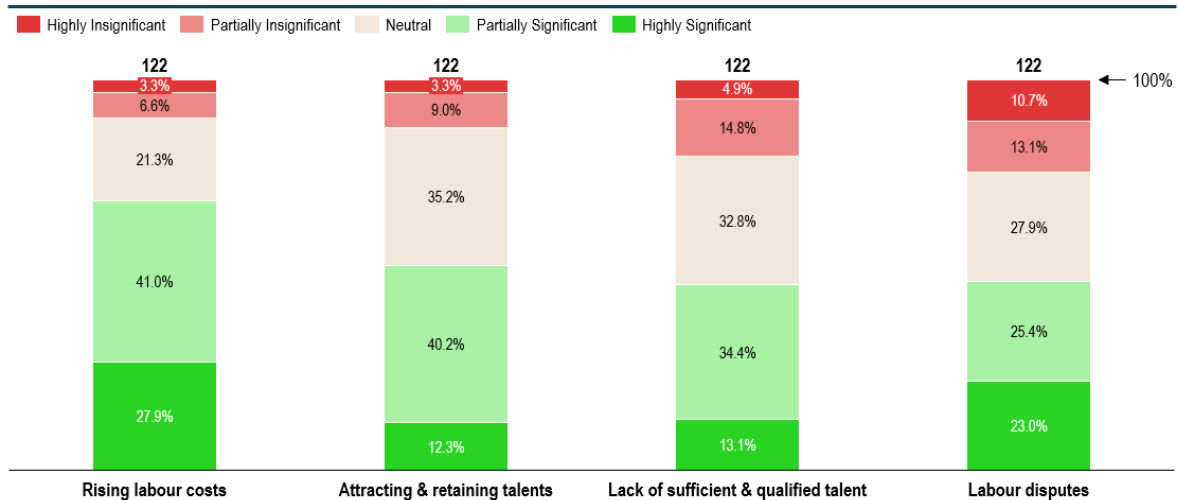
Licensing and Certification Rules which 46% (42% in 2018, 52% in 2017) of company representatives rate this as either partially or highly significant. Customs Procedures have been named by 39% (44% in 2018, 53% in 2017) as a significant challenge (partially or highly significant). 30% (30% in 2018, 42% in 2017) of business leaders are of the opinion that Public Procurement Policies has either a partially or highly significant impact on their businesses. Risks to Intellectual Property 30% (35% in 2018, 36% in 2017) and Uncertainty in the Use of Anti-Trust Rules 29% (26% in 2018, 32% in 2017) are areas where the majority of business leaders do not assume them having a major impact on their business.

3.3 Labour

Figure 14: Labour related challenges

How significant you perceive the following challenges are to your specific business in Korea?

Labour related



The biggest challenge according to European business leaders in the HR area is and remains the Rising labour costs; 28% (26% in 2018, 32% in 2017) of company executives alone rate this as highly significant and additional 41% (44% in 2018, 25% in 2017) as partially significant.

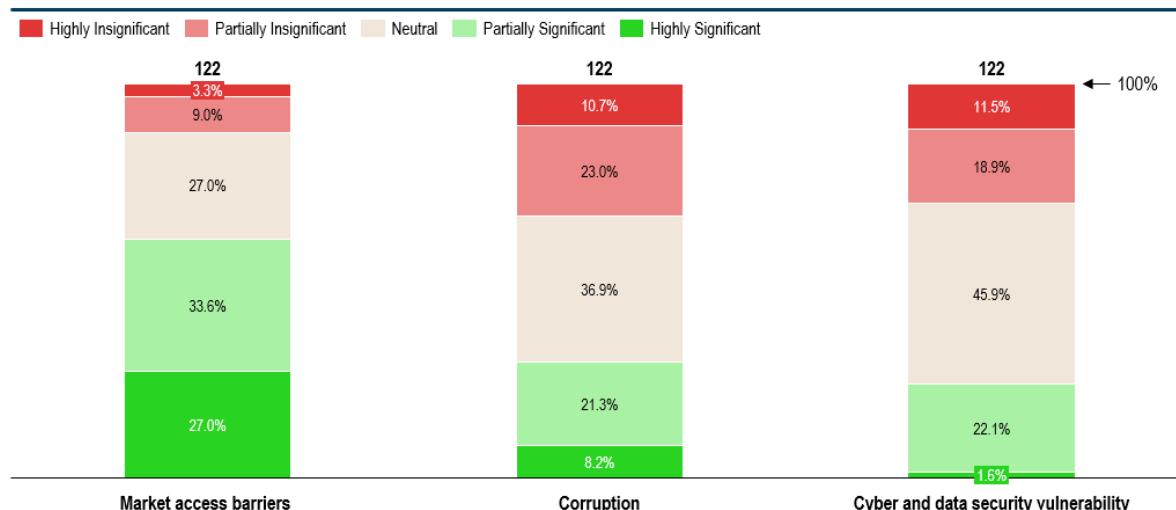
Attracting and retaining talents is named by 52% (52% in 2018, 56% in 2017) as a either a partially or highly significant issue. The feedback on Labour Disputes has somehow worsened as 48% of European company representatives see this as partially or highly significant challenge in 2019, compared to 40% in 2018 and 44% in 2017. Finally, 48% (43% in 2018, 47% in 2017) of firms also rate the Lack of sufficient and qualified talents as significant.

3.4 Social/Infrastructure

Figure 15: Social/Infrastructure related challenges

How significant you perceive the following challenges are to your specific business in Korea?

Social/Infrastructure related



Market access barriers is and remains a key challenge for European companies operating in Korea. A majority of, 61%, European business leaders mark that as either a partially or highly significant challenge compared to 53% in 2018 and 66% in 2017. 27% (27% in 2018, 22% in 2017) perceive this rather in a neutral way and 12% (20% in 2018, 12% in 2017) state that Market access barriers are either partially or highly insignificant.

The feedback on corruption indicates that for 30% (33% in 2018, 34% in 2017) of business leaders it is a significant challenge but 37% (40% in 2018, 40% in 2017) of them rate this as neutral and 34% (28% in 2018, 26% in 2017) as either partially or highly insignificant.

Cyber and data security vulnerability was seen in 2019 as partially or highly significant by 24% (30% in 2018, 32% in 2017), neutral by 46% (45% in 2018, 51% in 2017) and as partially or highly insignificant by 30% (24% in 2018, 18% in 2017).

4. Performance drivers for the Korean economy

Performance drivers were measured through 12 different elements in the areas of Regulation/Policy, Social/Infrastructure and Economy/Trade. Business challenges were measured through 21 different items in the areas of Economy, Finance/Cost, Regulation, Politics, Legal, and Social/Infrastructure. Respondents were given five options to choose from: Highly insignificant, Partially Insignificant, Neutral, Partially Significant and Highly Significant.

Figure 16: Top 5 Economic performance drivers in 2019, 2018, 2017

The top 5 items with the highest total percentage of Highly significant and Partially Significant responses

Top 5 economic performance drivers by order of significance ¹⁾ – Item comparison YoY					
2019		2018		2017	
1 Fair competition	75.4%	1 Fair competition	74.4%	1 Rule of law/Transparent policy-making	87.0%
2 Transparent policy-making and implementation	74.6%	2 Rule of law/Transparent policy-making	72.1%	2 Promote more fair competition	82.4%
3 Productivity growth	74.6%	3 Productivity growth	70.5%	3 Domestic consumption	75.9%
4 Capacity for innovation	67.2%	4 Openness of Korean market to foreign goods & services	65.9%	4 Openness of Korean market to foreign goods & services	74.1%
5 Domestic consumption	64.8%	5 Capacity for innovation	64.3%	5 Productivity growth	73.1%

1) Combined percentage of "Highly significant" and "Partially significant";

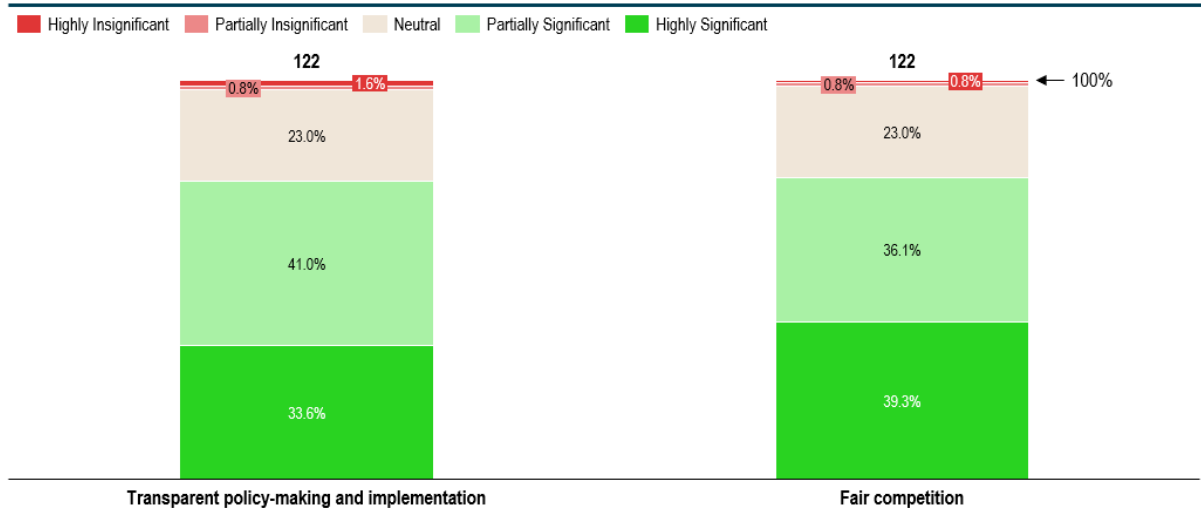
In 2019, a bit more than 75% of business leaders replied that the most significant economic performance driver is Fair competition; considered equally important are Transparent policy-making and implementation and Productivity growth which were named by a bit less 75% as key economic performance drivers. Capacity for Innovation (67%) and Domestic consumption (65%) make the list complete.

4.1 Regulation/policy

Figure 17: Performance drivers – Regulation/policy

How important are the following drivers for economic performance of Korea in the coming years?

Regulation/policy



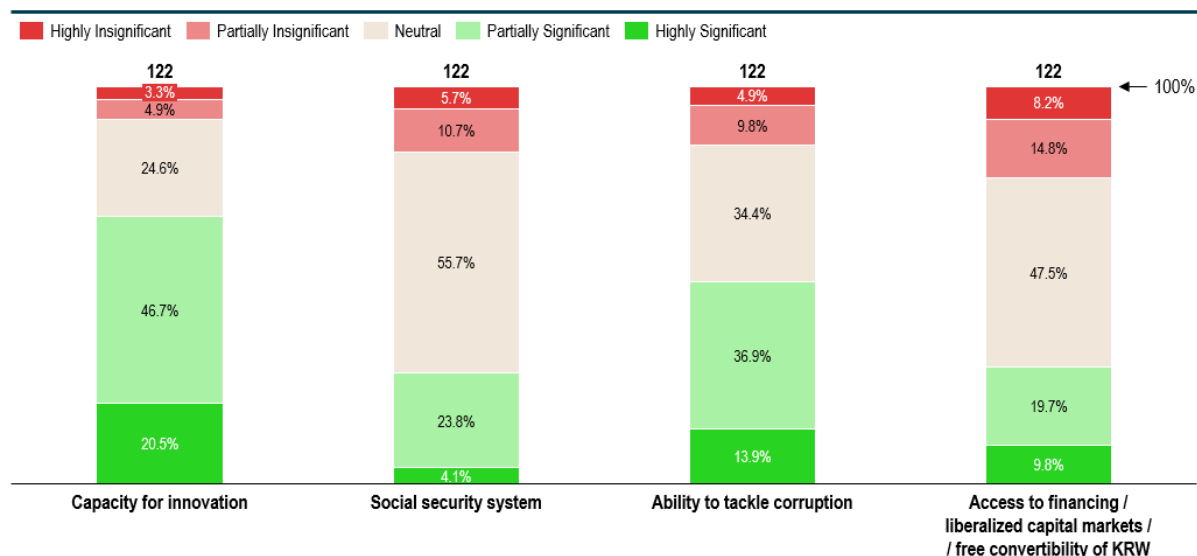
Fair Competition is seen by a huge majority of 75% (partially and highly significant) of executives as a key driver for their company's economic performance; the respective feedback in 2018 was 74% and in 2017 82%. Transparent Policy Making and Implementation was named by 75% (72% in 2018, 87% in 2017) of business leaders being either partially or highly significant for their economic development in Korea.

4.2 Social/Infrastructure

Figure 18: Performance drivers – Social/Infrastructure

How important are the following drivers for economic performance of Korea in the coming years?

Social/Infrastructure related



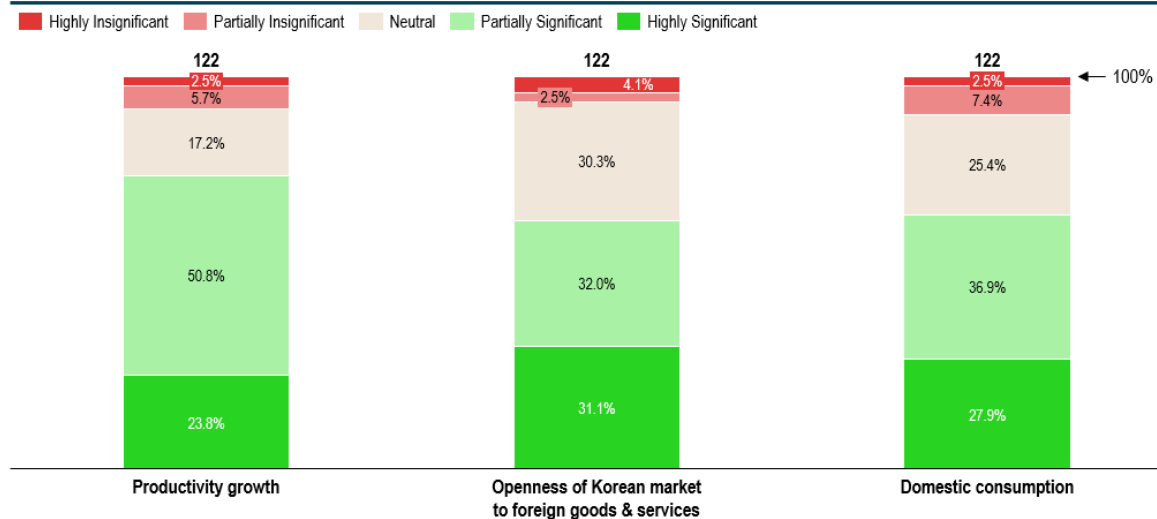
In the area of Social and Infrastructure, the key performance drivers are Capacity for Innovation and the Ability to Tackle. The majority of European business leaders, namely 67%, see the Capacity for Innovation as either partially and highly significant; the respective feedback ration in 2018 was 64% and in 2017 69%. The Ability to Tackle Corruption was named by 51% (47% in 2018, 65% in 2017) of company representatives as either partially or highly significant. The view by executives on Social Security System is overall more balanced as 28% (36% in 2018, 45% in 2017) consider this as significant but 56% (50% in 2018, 47% in 2017) as neutral. The situation is similar for Access to Financing / Liberalized Capital Markets where 30% (30% in 2018, 41% in 2017) of business leaders see this as a significant area but 48% (49% in 2018, 52% in 2017) have a neutral view.

4.3 Economy/trade

Figure 19: Performance drivers – Economy/trade

How important are the following drivers for economic performance of Korea in the coming years?

Economy/trade



In the area of economy and trade, Productivity Growth was seen by 75% (71% in 2018, 73% in 2017) of company representatives as an important factor. Domestic Consumption was rated by 65% (64% in 2018, 76% in 2017) of corporations as either partially or highly significant. 63% (66% in 2018, 74% in 2017) of the respondents are of the opinion that the Openness of Korean Market to Foreign Goods & Services is crucial for business success.

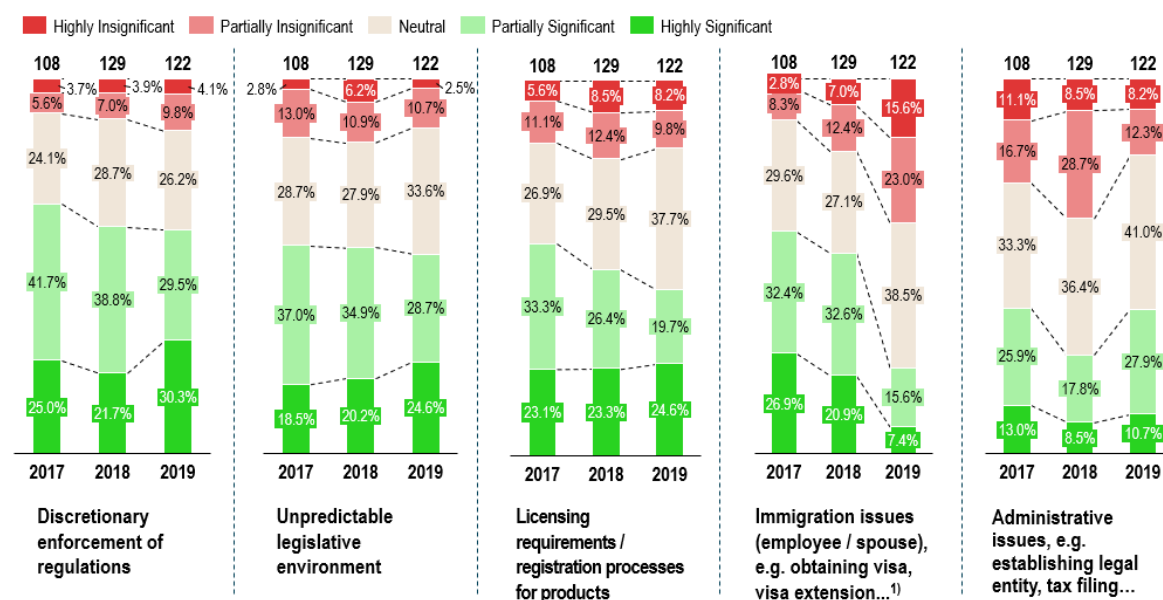
5. On Korea's legislative/regulatory environments and governments

To measure European companies' position towards Korea's legislative and regulatory environment, questions on regulatory obstacles, confidence in Korea's litigation systems and views on Korean and European governments' actions were asked.

5.1 Regulatory obstacles in Korea

Figure 20: Regulatory obstacles YoY

How significant are the following regulatory obstacles when doing business in Korea?



1) Discrimination against foreign multinational companies, until 2018

60% (61% in 2018, 77% in 2017) of respondents named Discretionary Enforcement of Regulations as either partially or highly significant, 26% (29% in 2018, 24% in 2017) had a neutral stance and 14% (11% in 2018, 9% in 2017) see this as either partially or highly insignificant.

The Unpredictable Legislative Environment was considered by 53% (55% in 2018, 56% in 2017) of company representatives as partially or highly significant, by 34% (28% in 2018, 29% in 2017) as neutral and by 13% (17% in 2018, 16% in 2017) as partially or highly insignificant.

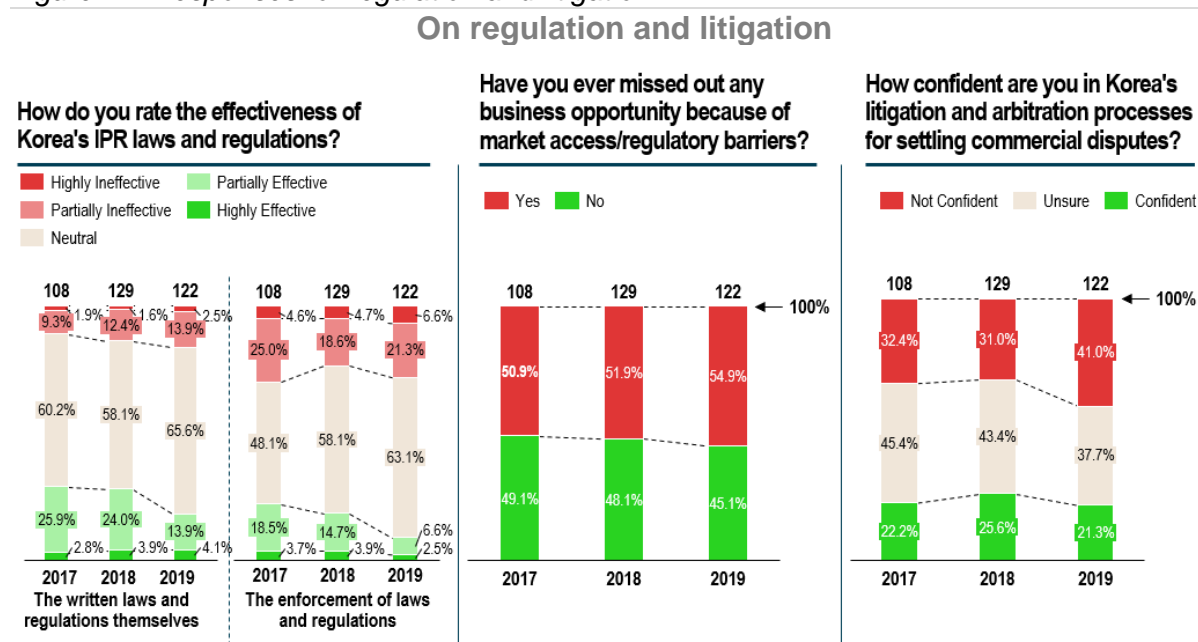
Licensing Requirements / Registration / Registration Processes for Products is seen as either partially or highly significant by 44% (50% in 2018, 56% in 2017) of respondents, 38% (30% in 2018, 27% in 2017) rather saw this in a neutral way and 18% (21% in 2018, 17% in 2017) evaluated this as either partially or highly insignificant.

In respect to Immigration, 23% of respondents stated that this is either a partially or highly significant issue; the response here is much lower compared to previous years such as 50% in 2018 or 56% in 2017. Instead, company representatives are evaluating this more neutral (38% in 2019, 30% in 2018, 27% in 2017) or even as partially or highly insignificant (39% in 2019, 19% in 2018, 11% in 2017).

In the area of Administration, 38% of company leaders state that this is a partially or highly significant issue versus 23% in 2018 and 39% in 2017, 41% (36% in 2018, 33% in 2017) have a neutral view, and 21% (37% in 2018, 28% in 2017) considers this as partially or highly insignificant.

5.2 Confidence and effectiveness of litigation and regulation

Figure 21: Responses for regulation and litigation

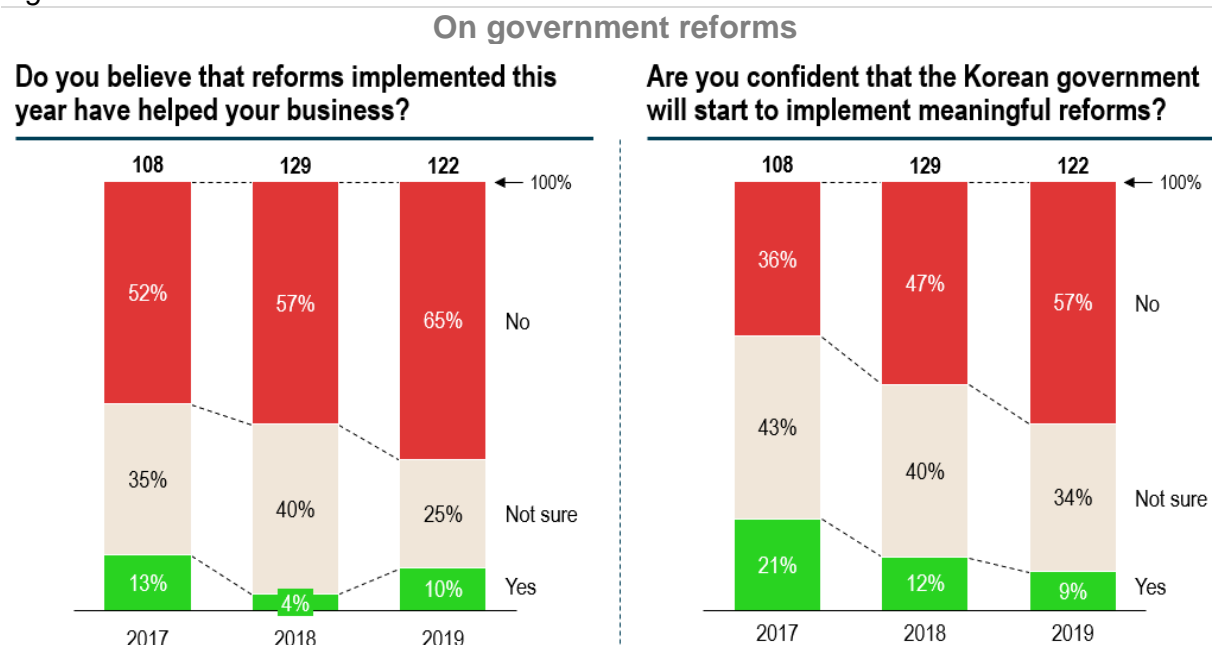


The effectiveness of Korea's legislative set-up and its execution has been an issue for companies, especially those with intellectual properties, trademarks and copyrights. The majority of respondents have a neutral view on the legislative environment (66% in 2019, 58% in 2018, 60% in 2017) and on the Law enforcement (63% in 2019, 58% in 2018, 48% in 2017). 18% (28% in 2018, 29% in 2017) of company representatives valued the Written Laws and Regulations as either partially or highly effective and 16% (14% in 2018, 11% in 2017) as partially or highly ineffective. Enforcement of Laws and Regulation is seen only by 9% of company representatives (19% in 2018, 22% in 2017) as either partially effective or highly effective; 28% (23% in 2018, 30% in 2017) instead sees this as partially and highly ineffective. 55% (52% in 2018, 51% in 2017) of all companies experienced a loss of business opportunities, due to either market access or regulatory barriers.

Litigation and Arbitration Processes for Settling Commercial Disputes remains an area where company representatives have a mixed view; 21% (26% in 2018, 22% in 2017) expressed confidence, 38% (43% in 2018, 45% in 2017) were unsure and 41% (31% in 2018, 32% in 2017) were not confident.

5.3 Opinion on government reforms

Figure 22: Government reforms – YoY

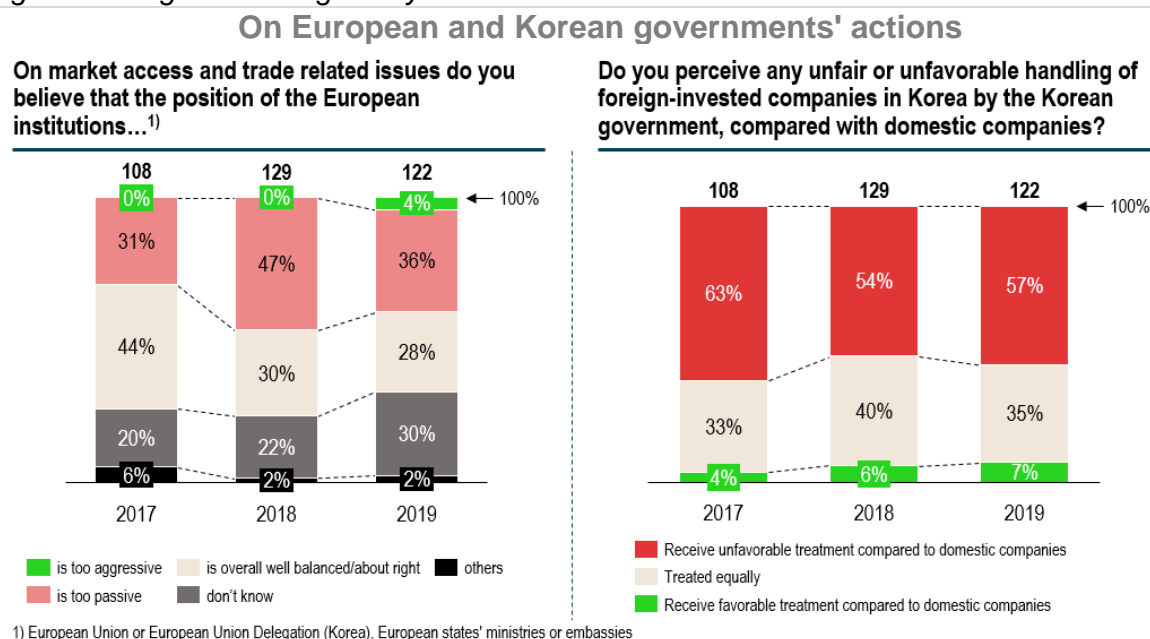


The majority of business leaders, namely 65% (57% in 2018, 52% in 2017), are of the opinion that the reforms launched and implemented in 2019 have not been supportive for business operation. 25% (40% in 2018, 35% in 2017) of executives are not sure about the impact and 10% (4% in 2018, 13% in 2017) evaluate policies launched in 2019 positively.

Business leaders are also not optimistic about the Korean government launching meaningful reforms in the near future – in fact, only 9% (12% in 2018, 21% in 2017) of respondents are optimistic about that; 34% (40% in 2018, 43% in 2017) are not sure but 57% (47% in 2018, 36% in 2017) are of the opinion that the government will not come up with meaningful initiatives in the coming years.

5.4 Opinion on European and Korean governments' actions

Figure 23: Legislative / regulatory environment YoY

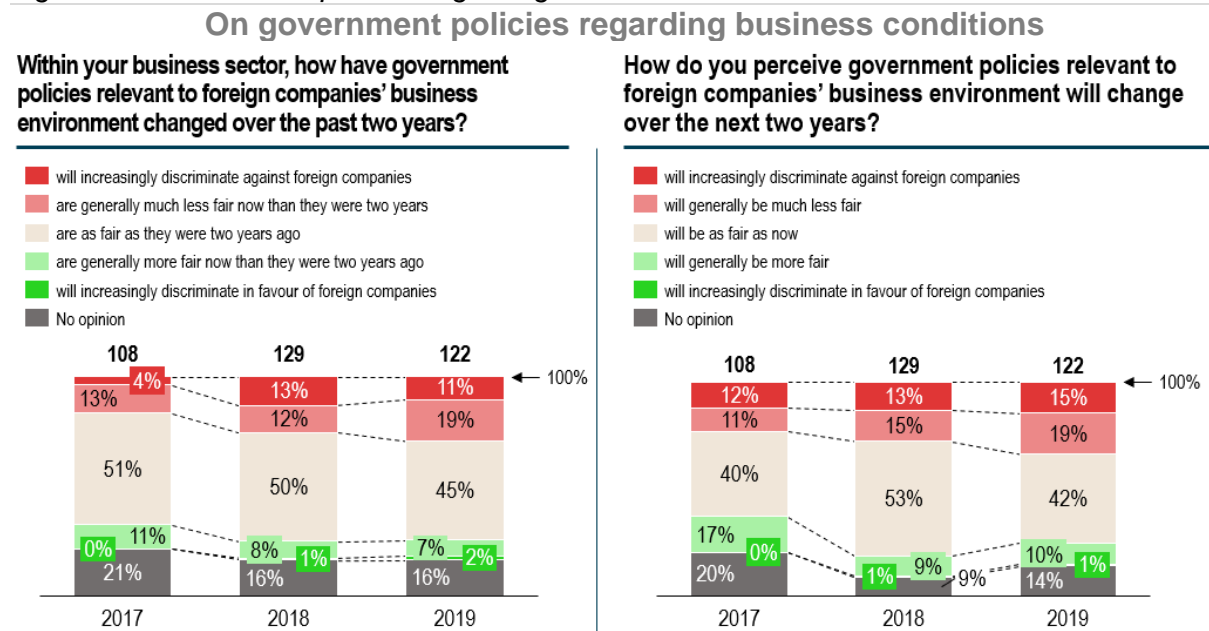


The majority of respondents, namely 40% (47% in 2018, 31% in 2017), evaluate the activities by European institutions related to market access and trade relations as too passive as 4% as too aggressive (there was no responses in 2018 and in 2017). 28% (30% in 2018, 44% in 2017) believe that the European institutions are maintaining an overall well-balanced relation in its outreach to Korean government to advocate on behalf of European business. 30% (22% in 2018, and 20% in 2017) had no opinion on that.

In respect to unfair or unfavourable treatment by the Korean government, or related government bodies, 57% (54% in 2018, 63% in 2017) of respondents indicated that they have experienced unfavourable treatment, 35% (40% in 2018, 33% in 2017) felt that they were treated equally and 7% (6% in 2018, 4% in 2017) responded that they have received favourable treatment compared to domestic companies.

5.5 Government policies regarding business conditions

Figure 24: Government policies regarding business conditions YoY



30% (25% in 2018, 17% in 2017) of European business leaders state that policies either became less fair or increasingly discriminated; 45% (50% in 2018, 51% in 2017), believe policies are as fair as they were two years ago and 9% (9% in 2018, 11% in 2017) state that government policies relevant to foreign companies, became fairer or even increasingly discriminated in favour of foreign companies. 16% (16% in 2018, 21% in 2017) of respondents had no specific opinion on that.

Regarding the outlook for the next two years, the majority – namely 53% (62% in 2018, 57% in 2017) – of respondents expect that policies will be either as fair as now or fairer but 34% (28% in 2018, 23% in 2017) of respondents believe that fairness will deteriorate.

CONCLUSION

Korea is and remains an attractive market for European businesses. Every year, new European companies are entering the Korean market and 41% of participating companies already being here intend expanding their business operation even further.

European companies consider Korea as a key market. The majority of the respondents (83%) replied that Korea holds at least the same or even a higher level of importance in their company's global strategy. Business in 2019 overall seemed to have developed nicely as 51% of responding companies have experienced a higher turnover compared to 2018; although 24% had to cope with a lower turnover. The majority of European enterprises (71%) have generated a profit in 2019, and only 15% broke even respectively 14% even reported a loss position. 48% of company representatives are still positive about the growth perspectives of their businesses for the next two years in Korea; 25% rather have a neutral view and 27% are instead pessimistic.

Despite of its attractiveness, Korea is also a challenging market. The 'Income led growth policy' – including job creation – has been a key pillar of the Korean economic policy. European companies do support this policy, but only 35% of European companies has hired additional permanent employees while 22% have reduced their workforce. This reflects the concerns of 62% of business leaders in respect to labour cost development since 2017. Naturally, this is linked to a decrease in investment plans as well as certain costs saving initiatives by corporations to safeguard companies' profitability. The survey shows that companies, in general, do not plan to reduce their operational expenses. In the contrary, 48% of companies plan to increase their operational expenses and only 8% are foreseeing lower operational costs.

Key for economic success is a transparent, fair, trust-based policy making reconciled with all stakeholders followed by a proper implementation execution. This should avoid general uncertainty respectively interpretation needs in all rules and regulations governing business.

In fact, policy making is still an area of concern. 65% of business leaders do not believe that reforms implemented in 2019 supported their businesses; a similar view exists for the years to come as 57% of respondents are not convinced that governmental reforms will positively impact their business. The areas where the highest need for a betterment is seen are labour costs, ambiguous rules & regulations, and discretionary enforcement of regulations / market access barriers. Additionally, it is the perception by 57% of business leaders that unfair or unfavourable policies do exist. This is in line with the response made by 52% of survey participants that they have lost business opportunities due to either market access issues or regulatory obstacles. It is without any doubt that the Korean government has initiated meaningful law amendments but the feedback collected in this survey indicates that an even better policy reconciliation between business and politics is necessary to further improve the overall economic landscape in Korea.

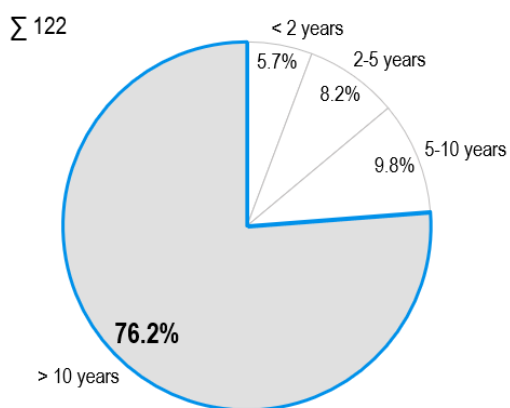
The survey grasps the opinions, views and perception of business leaders representing European business operating in Korea. A change can only be reached due to a constant and constructive dialogue with stakeholders, which is seen by the European business community as the key to success. Thus, the European business community is committed to further investment in Korea. Korea competes for foreign direct investment with other international markets. Korea can only benefit in this respect, when the overall business situation is also evaluated positively in terms of profitability, growth perspective as well as policy transparency and consistency. It is of crucial importance that a consistent and transparent economic policy is developed and implemented. An economic policy focusing on products and services, on people being employed, taxes paid and not on companies' nationality.

APPENDIX: RESPONDENT PROFILE

Figure 25: By number of years of operation in Korea

How long has your company been operating in Korea?

Results

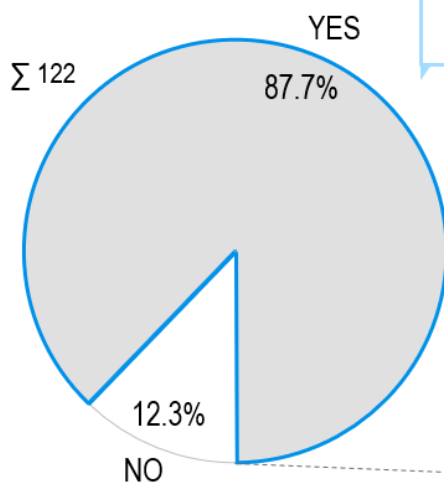


Implications

- > Majority of respondents have been in Korea for more than 10 years which implies that they have a good understanding of Korea

Figure 26: By ownership

Is your company fully owned by a European company?



- > Majority of the respondents are fully owned by European headquarters, which means that their **opinions are based on "pure European" perspective**

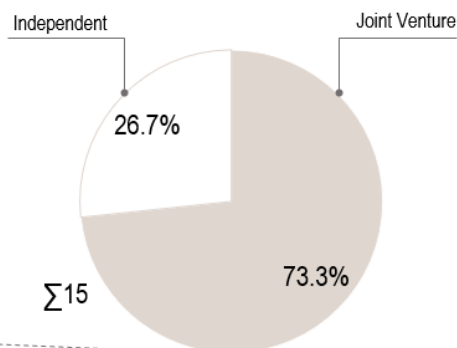
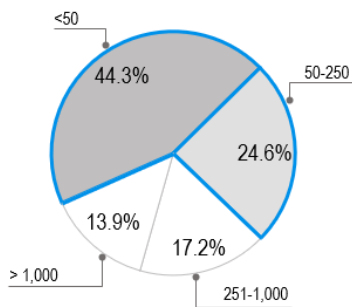


Figure 28: By size

Employee number, revenue size and proportion

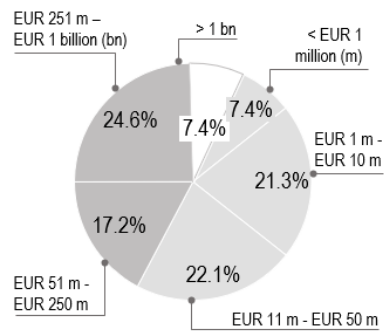
How many employees do you have in Korea?

Σ 122



What was the total revenue of your company in Korea in 2019?

Σ 122



What proportion of global revenues was generated in Korea?

Σ 122

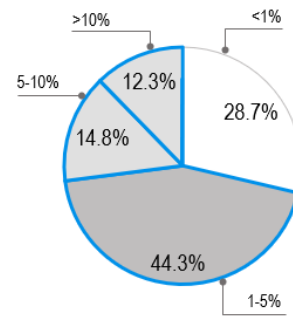
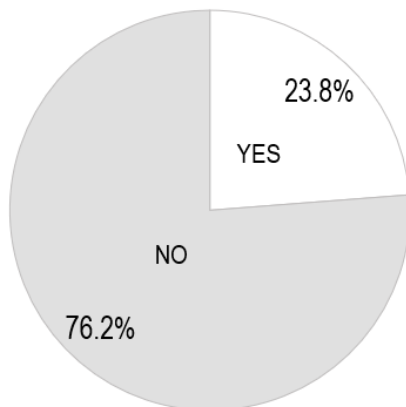


Figure 29: Ownership of R&D or production facilities

Does your company have R&D or manufacturing facilities in Korea?

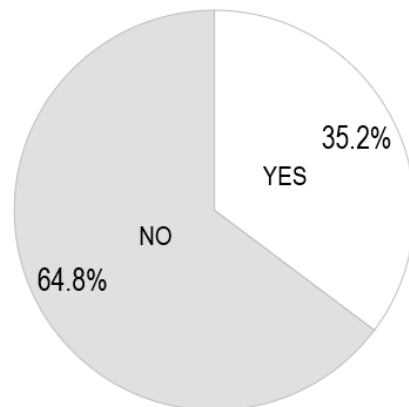
R&D facilities

Σ 122



Production facilities

Σ 122



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