

From the European business community in Korea

Business Confidence Survey

2021



Business Confidence Survey 2021

| Participating Chambers



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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 three European chambers in Korea:

- European Chamber of Commerce in Korea as the initiator,
- 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 British Chamber of Commerce in Korea, the Belgian-Korean Business Forum, 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 member.

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About Roland Berger

Roland Berger, founded in 1967, is the only leading global consultancy of German heritage and European origin. With 2,400 employees working in 36 countries, we have successful operations in all major international markets. Our 50 offices are located in the key global business hubs. Roland Berger Seoul office was founded in August 2012. The Seoul office is serving both Korean and international companies based in Korea for domestic and global strategic issues in cooperation with other Roland Berger offices around the world.

Roland Berger advises major international industry and service companies as well as public institutions. Our services cover the entire range of management consulting from strategic advice to successful implementation: e.g. new leadership and business models; innovative processes and services; M&A, private equity, and restructuring; and management support on large infrastructure projects.

Our firm is owned solely by a group of 220 partners. We share the conviction that the firm's independence provides the basis for unbiased advice to our clients.

At Roland Berger, we combine sound analyses with creative strategies that generate real and sustainable value for the client. We develop and consolidate our expertise in global Competence Centres that focus on specific industries and functional issues. We handpick interdisciplinary teams from these Competence Centres to develop the best solutions.

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Executive Summary

The economic development of the year 2021 has been impacted by the pandemic, supply chain stress, global trade tensions and rising inflation. Despite all these, trade between the European Union, the European Free Trade Association (EFTA) and the United Kingdom on the one hand and Korea on the other hand increased widely.

Exports from the respective European countries¹ to Korea amounted to USD 77.6 billion, around 22% more than the year before. Goods exported from Korea to these countries even grew by about 28% to USD 69.4 billion. These positive trends are reflected in this year's Business Confidence Survey, in which 154 European companies participated, representing in Korea around 51,000 employees and a turnover of about EUR 48.6 billion or KRW 66.6 trillion.

Overall, a large majority of European companies operating in Korea were satisfied with the business performance in 2021. The numbers of companies being either very content or content increased to 71% compared to 63% in 2020. 29% of the companies reported an increase of sales between 5% and 10% while four out of ten companies saw their sales growing by even 10% or more. Profitability remained high with 84% of companies recording a positive EBIT (Earnings Before Interest and Tax); almost 60% of the companies reported increased EBIT margins compared to 2020.

The business outlook for the next two years is positive. Six out of ten companies plan to increase their investment or operational expenses, while only 6% forecast a reduction. In addition to the growing investment, the confident business expectations are also shown by the intention of 62% of the respondents to increase their workforce while almost one third of the participating corporations plan to keep their current level.

The Korean market has become increasingly important for European companies' global strategy since the start of the pandemic. While already for 2020 a high 51% of respondents reported the growing significance, the percentage increased in this survey to even 62%.

Despite the positive business development and expectations, the replies of the European companies also show strong concerns and numerous fields of improvements. Labor costs and labor relations remain areas of uneasiness. The number of companies reporting that doing business in Korea has become more difficult in the past two years stays high at 58%, with only 7% seeing an improvement. More than a third of the company representatives state that the reforms implemented in 2021 have not helped their business, slightly more than the group of companies considering some reforms as helpful while others not. While the economic growth and the capacity for innovation are perceived as positive market parameters, the score regarding the legislative environment, the discretionary enforcement of regulations as well as the transparency of policy-making and implementation remains low. About every third company reports that within the past two years government policies relevant to foreign companies have become less fair or more discriminatory in its respective sector. 31% of European companies even expect a worsening of the situation while 10% of respondents foresee improvement.

The Korean-European business relations have widely defied the globally difficult economic circumstances so far. While many challenges persist and new threats have appeared, the European business community sees a large potential, particularly if the described shortcomings are addressed adequately. For this, the Business Confidence Survey can 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.

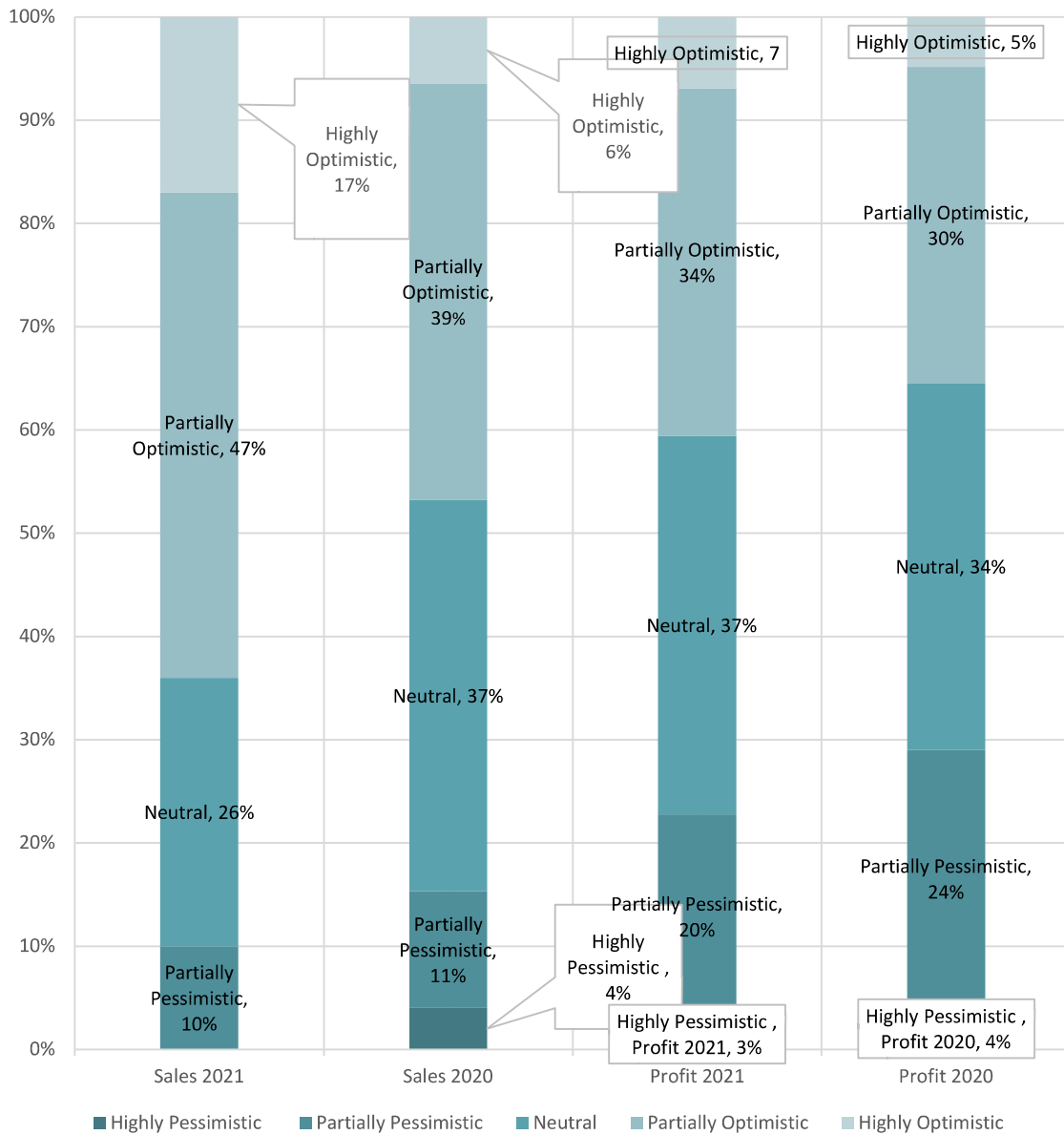
1. Member States of the European Union, Member States of the European Free Trade Association and United Kingdom.

Business Development

Business Development

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

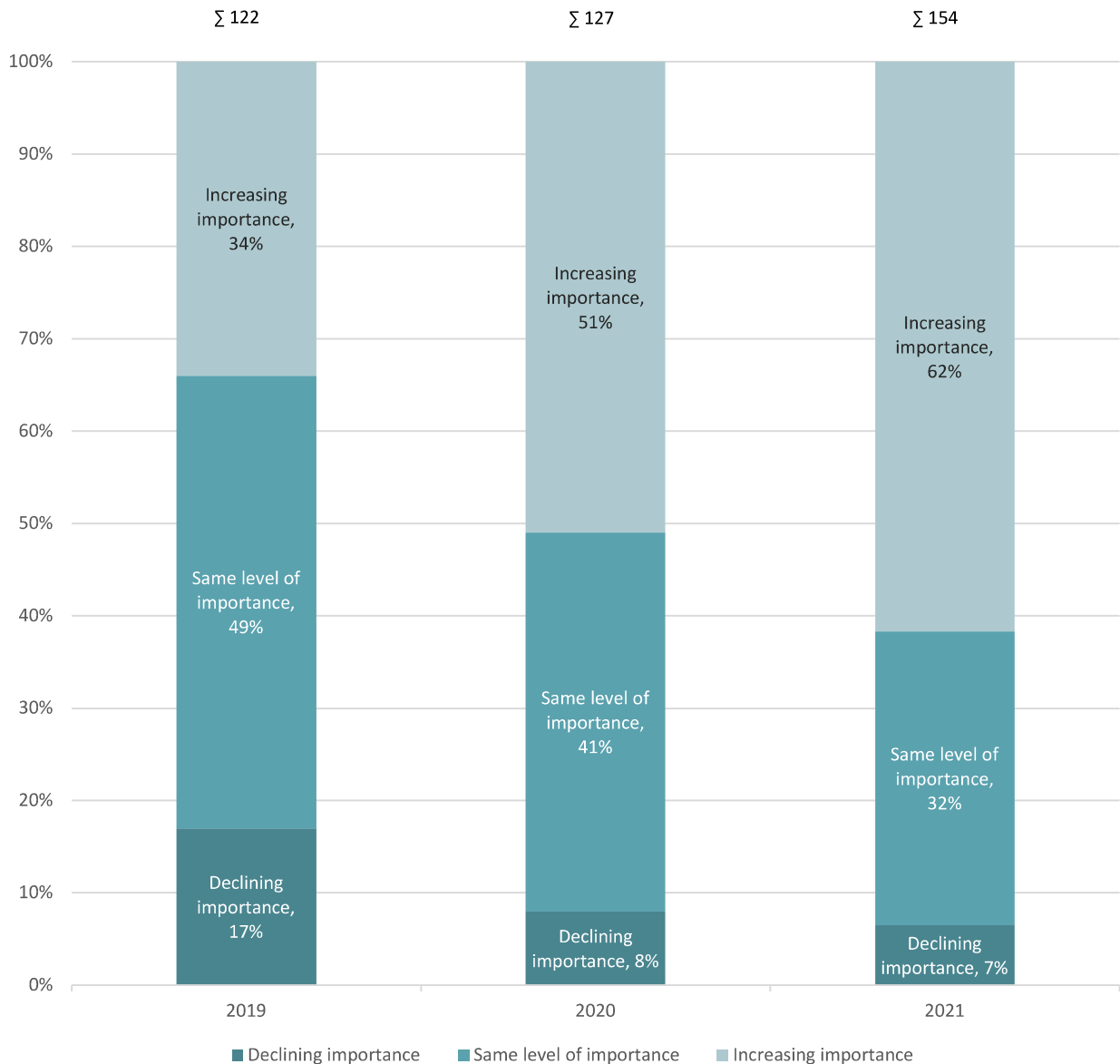
Σ 154



64% (45% in 2020) of companies evaluate the future sales prospects rather positive. In respect to the outlook of profitability, 41% (35% in 2020) of responding companies also have a positive view, 22% (28% in 2020) of responding companies are rather pessimistic.

Business Development

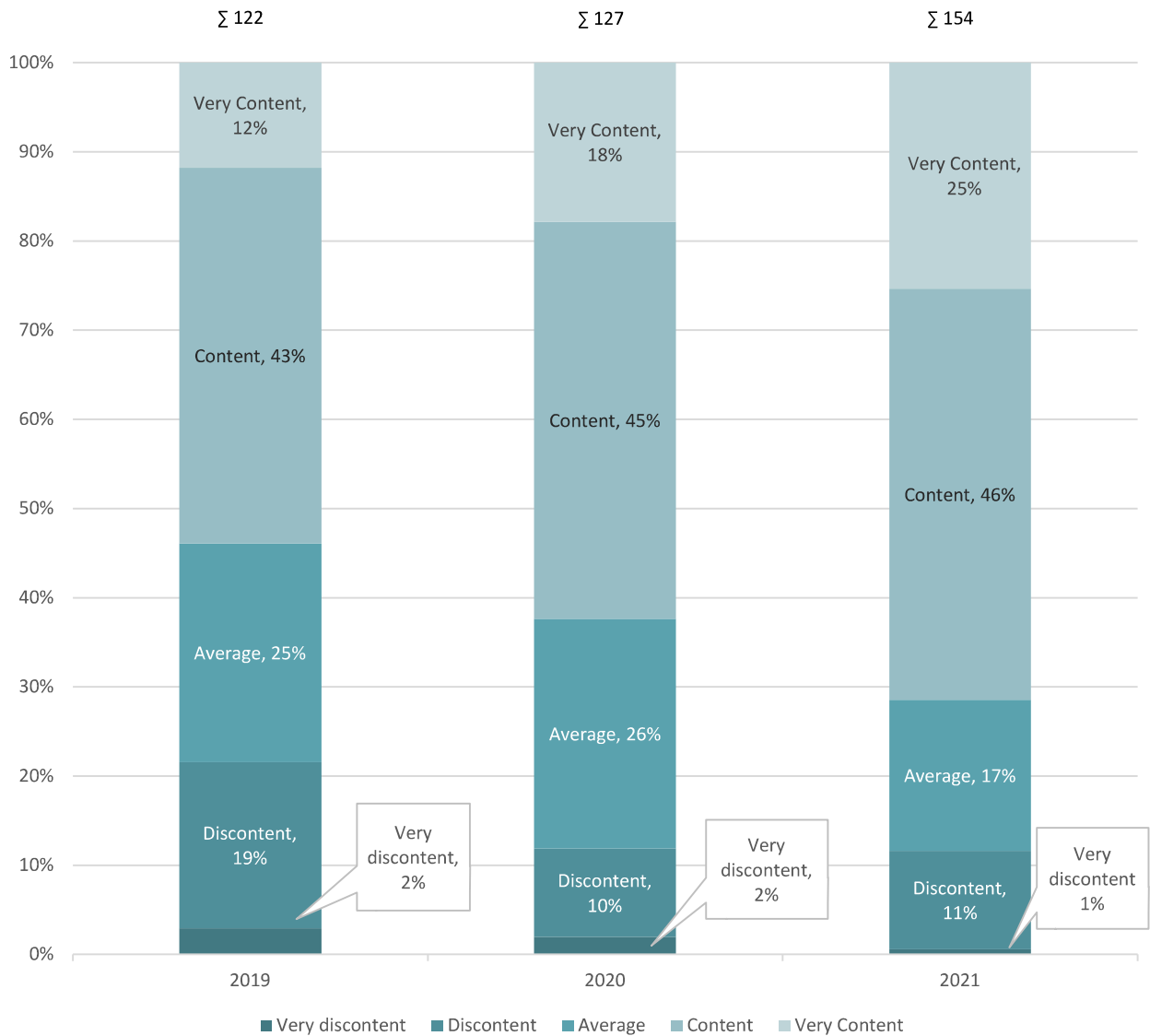
How would you characterize the importance of Korea in your company's overall global strategy?



Korea has been playing an important role in the European companies overall global strategy. In 2021, the importance has enhanced significantly more, as 62% responded that Korea will play an even more important role in their company's strategy which is a 11% increase from 2020.

Business Development

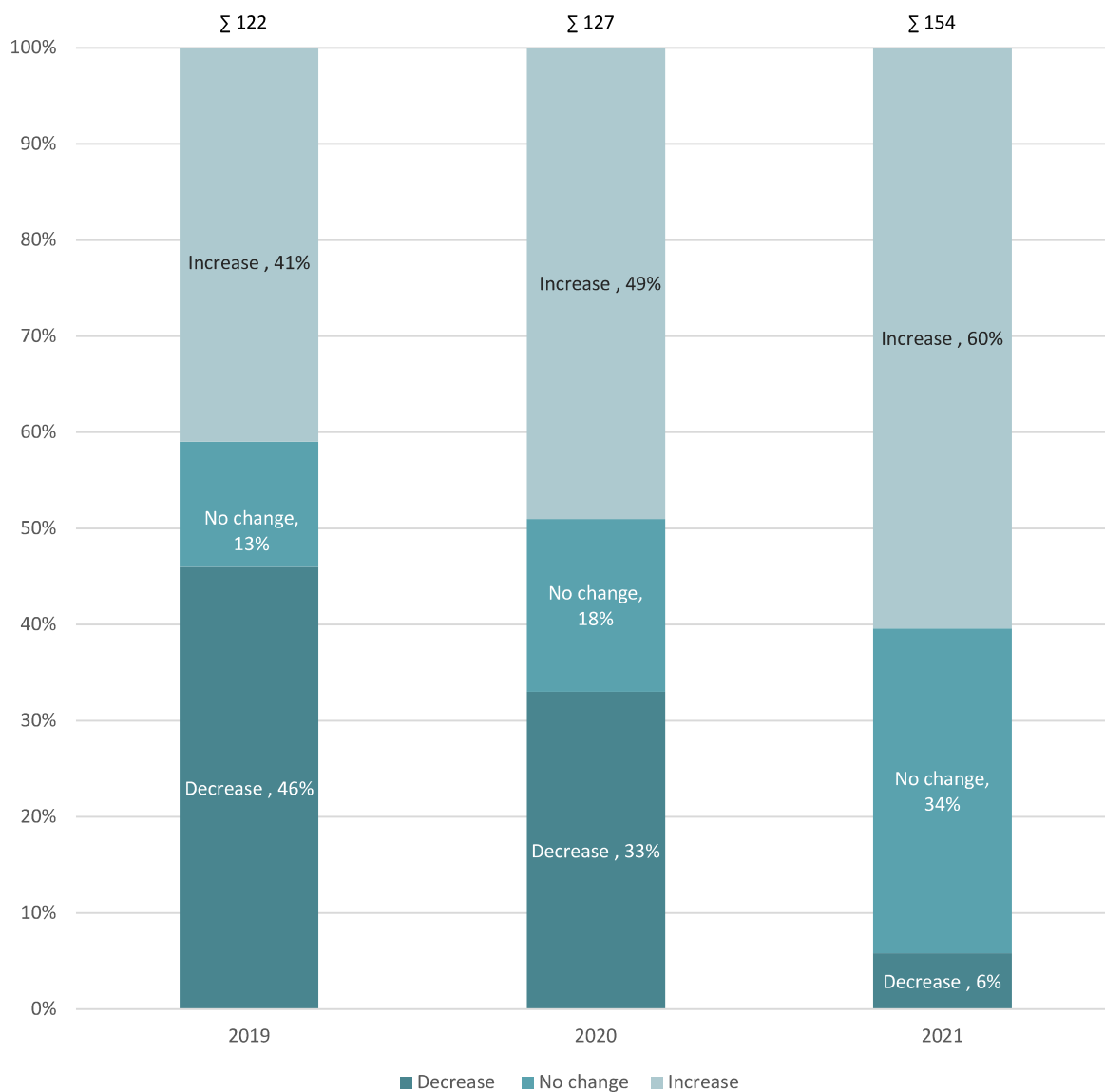
How do you view your company's performance in Korea?



The number of companies being content with their business performance has been increasing over the past few years. In 2021 71% of respondents were either content or very content. The number of companies being either discontent or very discontent was at 12%.

Business Development

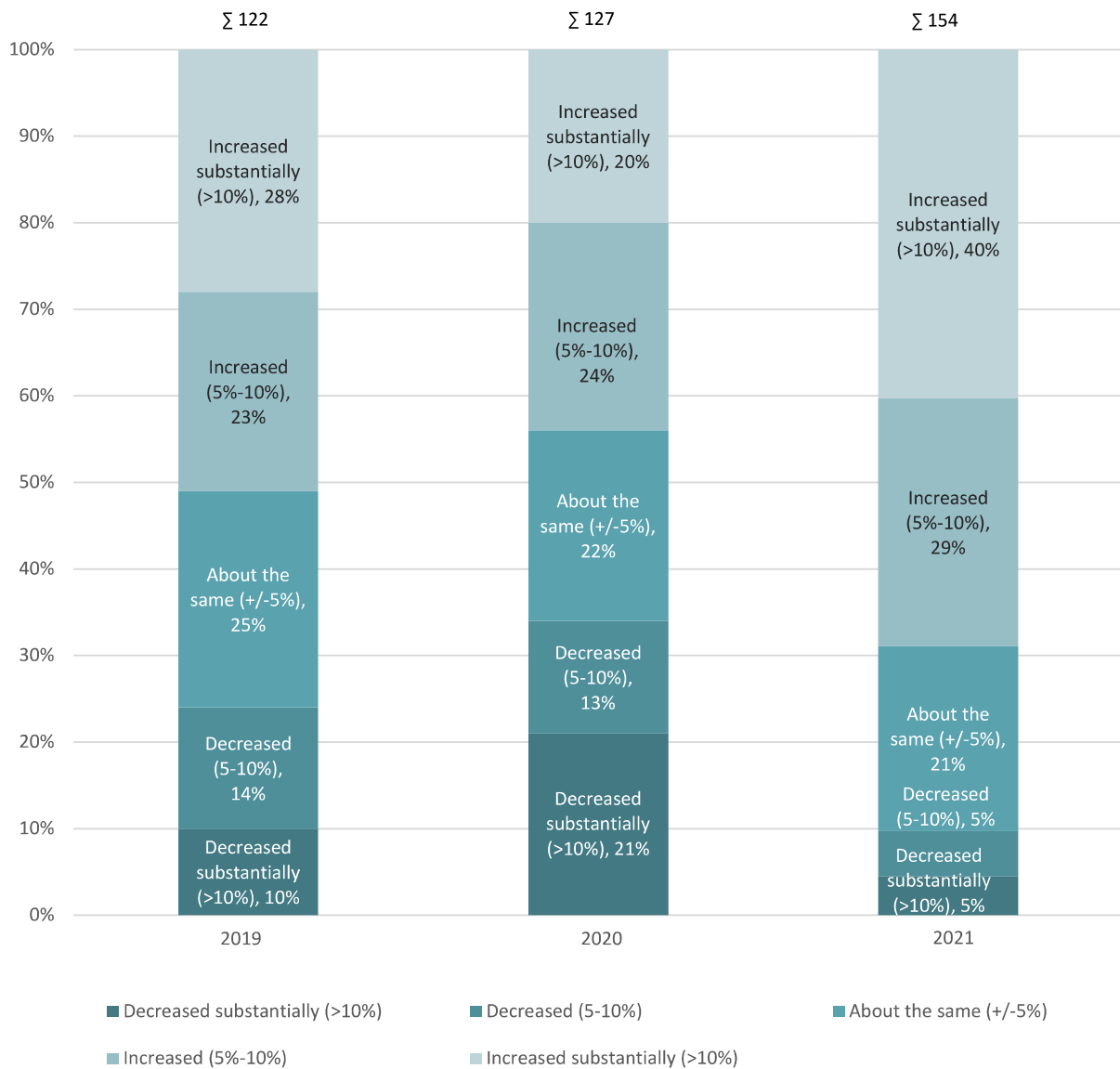
Do you plan either to increase or to decrease investment / operational expenses?



The majority of the companies, namely, 94% of respondents are planning to either increase their investment and/or operational expenses or at least maintain those.

Business Development

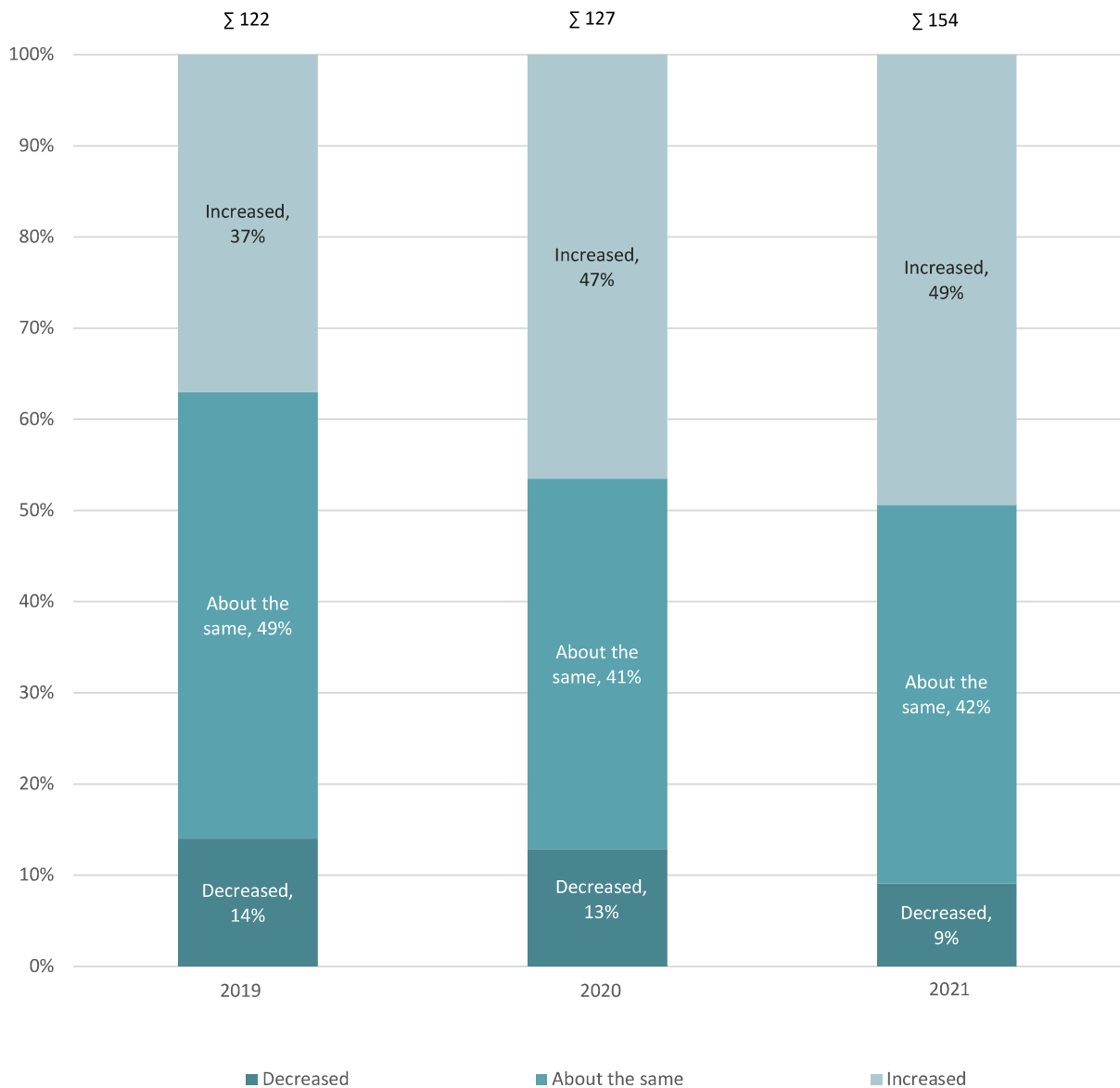
How did your company's revenue in Korea change in 2021 compared to that of 2020?



69% of European companies operating in Korea reported a higher turnover than previous year, 21% a turnover more in line with the preceding year but 10% a decrease in revenue.

Business Development

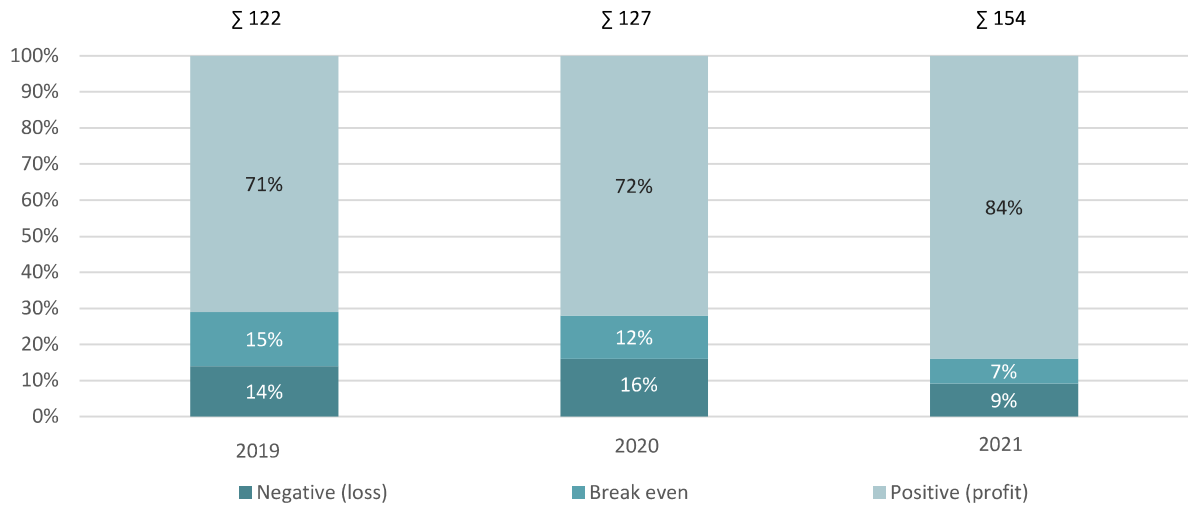
How did your market share evolve in 2021 versus 2020?



Almost half, namely, 49% of European companies increased their market share in 2021. 41% replied that they maintained their market position in 2021, but 9% of participating companies experienced a lower market share than in 2020.

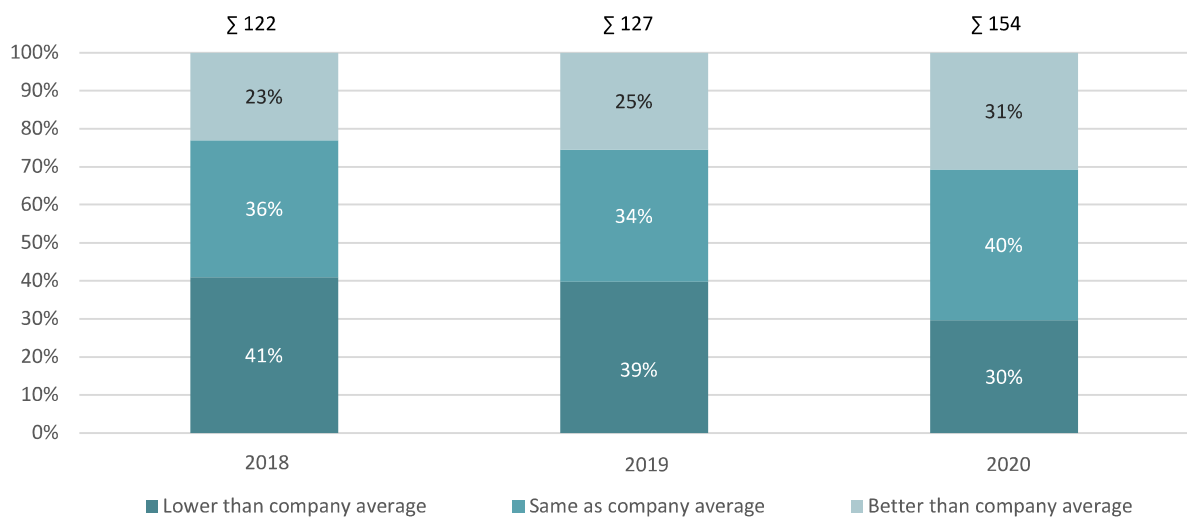
Business Development

Please characterize the EBIT (Earnings before interest and tax) of your company in Korea in 2021



84% of European companies generated a positive EBIT, 7% broke even and 9% reported a negative EBIT.

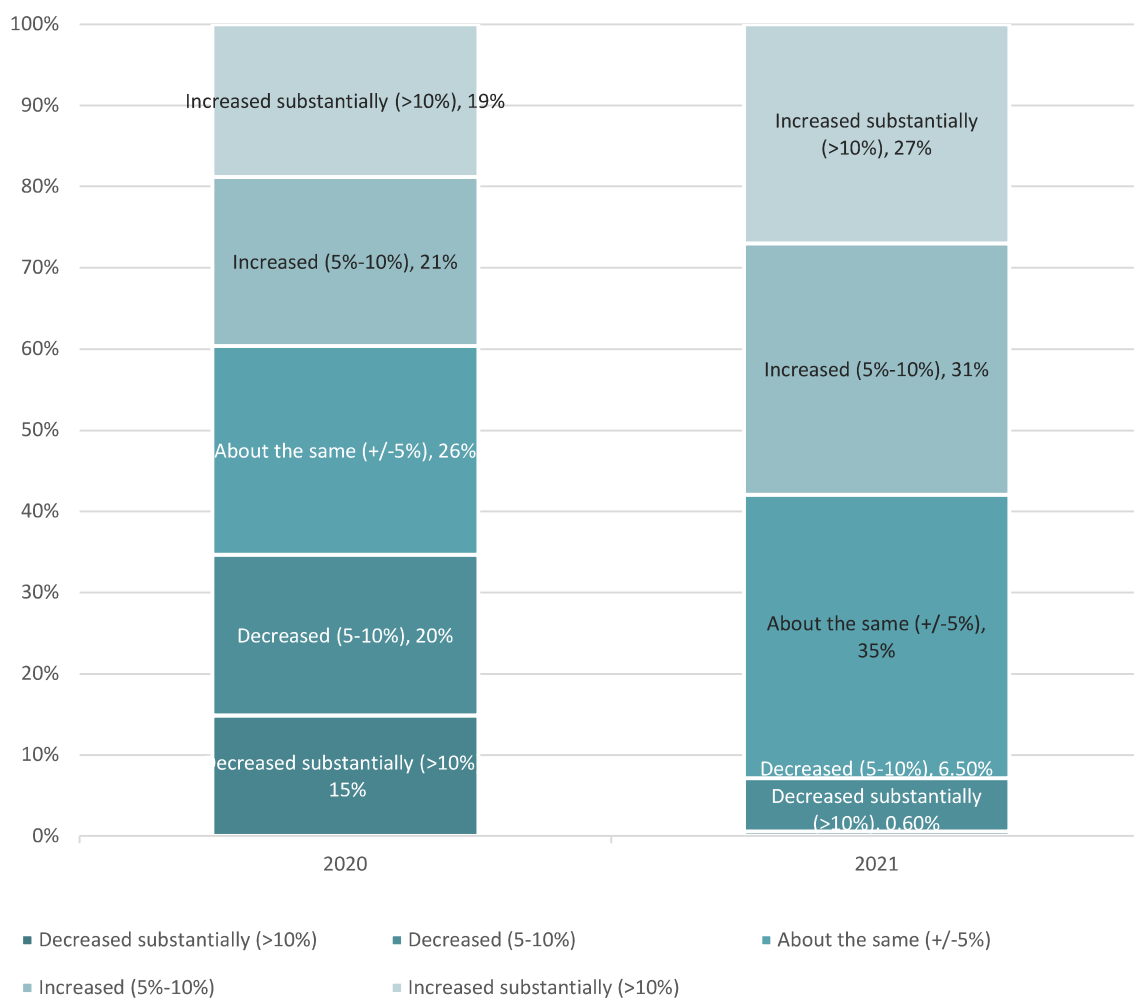
How did the EBIT margin Korea compare to your company's worldwide margins in 2019?



31% of participating companies did better in terms of profitability than their group average, 40% were in line with their peers, and 30% failed to reach the group's profitability average.

Business Development

How was your company's EBIT margin in Korea for 2021 compared to 2020 results?



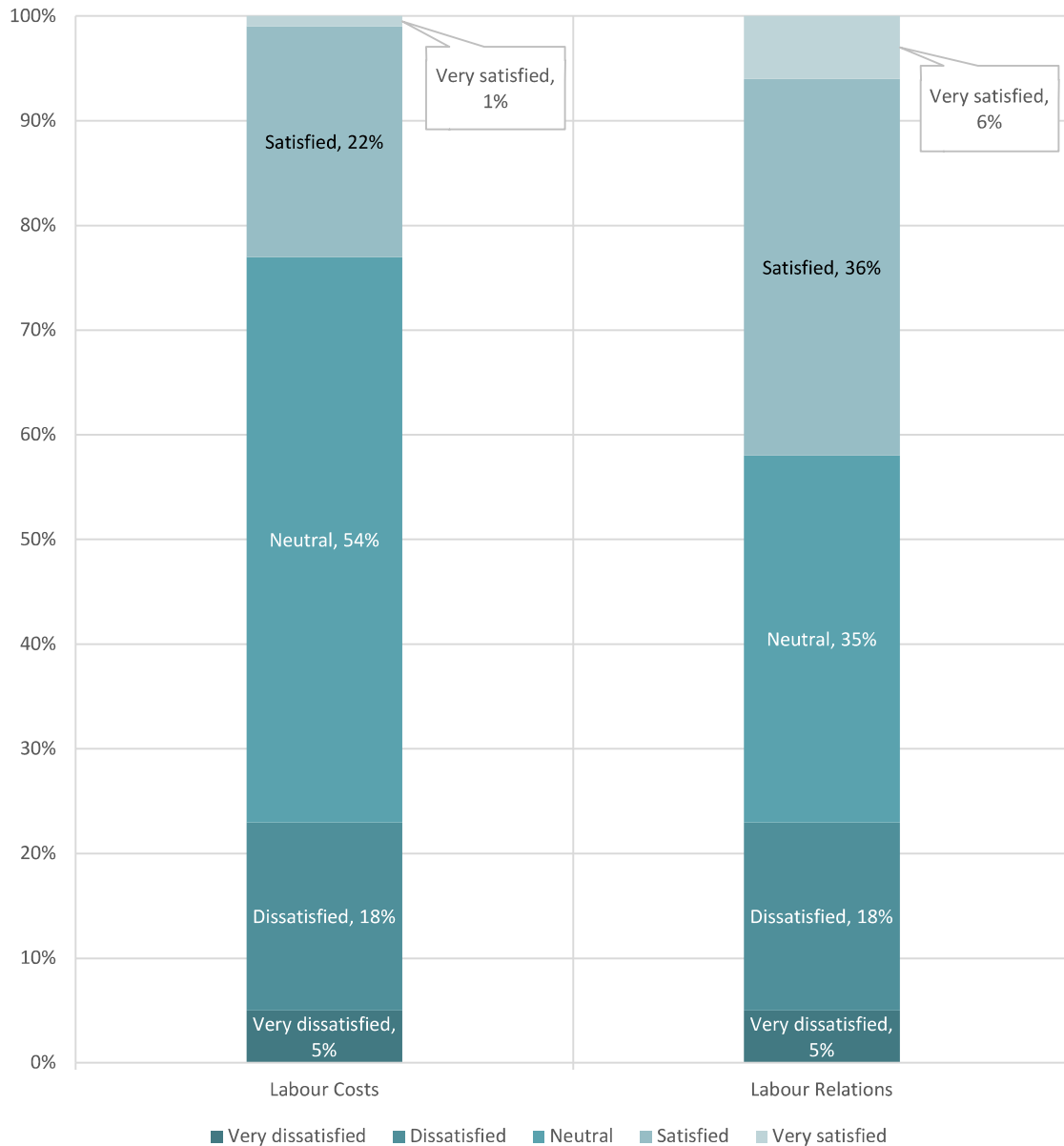
The EBIT margin in 2021 improved versus 2020 for 58% of European companies. 35% said EBIT margin remained about the same whereas, 7% replied they experienced a decrease in EBIT margin.

HR / Labour



HR/Labour

How satisfied are you with Labour Management – Labour Costs and Labour Relations – at your company in 2021

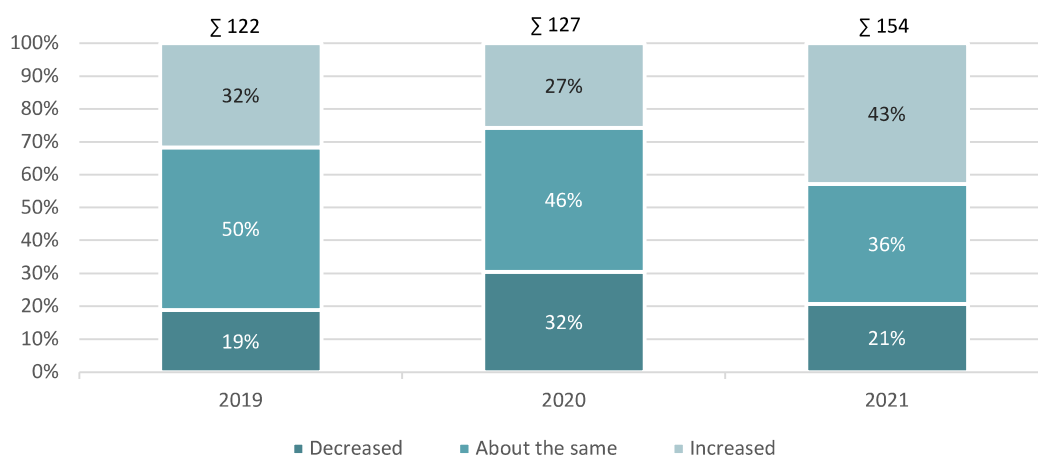


Labour costs but also labour relations are not as seen as much as in 2020 as an area of concern for European companies. Labour costs are perceived positive at 23% of responding companies (15% in 2020), 54% neutral (42% in 2020) and 23% negative (42% in 2020). In labour relation, 42% (15% in 2020) of company representatives are rather satisfied, 35% (42% in 2020) neutral and 23% (41% in 2020) dissatisfied.

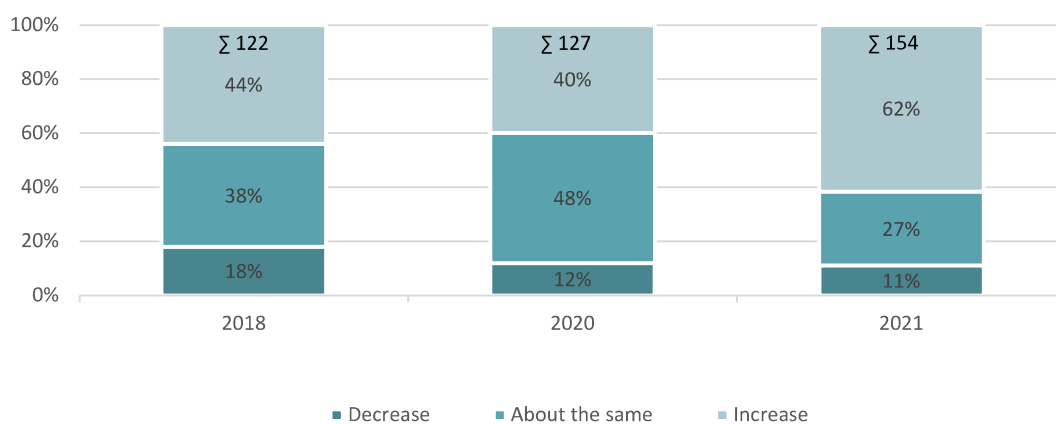
HR/Labour

What has happened to the number of permanent positions in your company in Korea in 2021?

43% of responding companies increased their permanent positions, 36% employed a similar number of people and 21% of companies reduced head count.



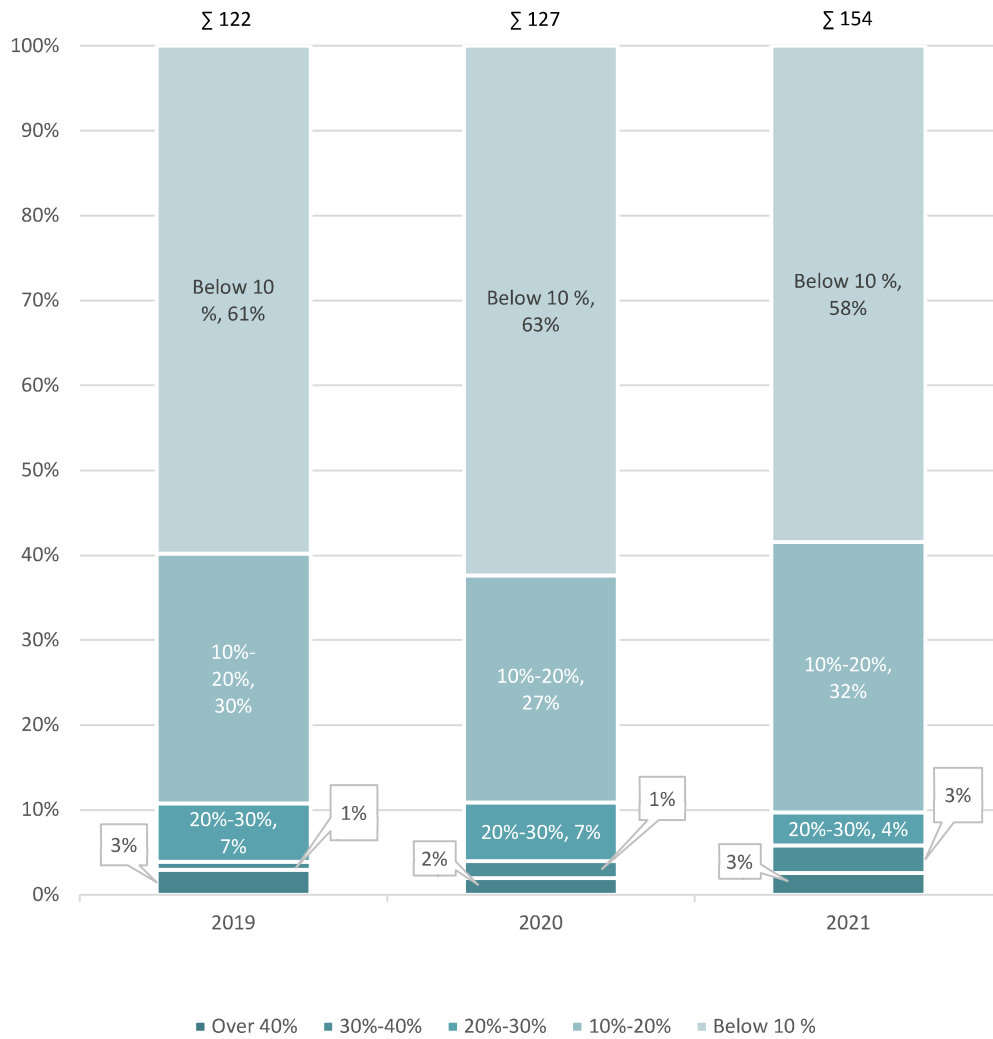
How do you expect the number of permanent positions in Korea to evolve over the next two years?



The majority of European companies are expecting to increase their workforce (62%) or to maintain them (27%) as only 11% foresee a reduction of employees.

HR/Labour

What was the level of your staff turnover in Korea in 2021?



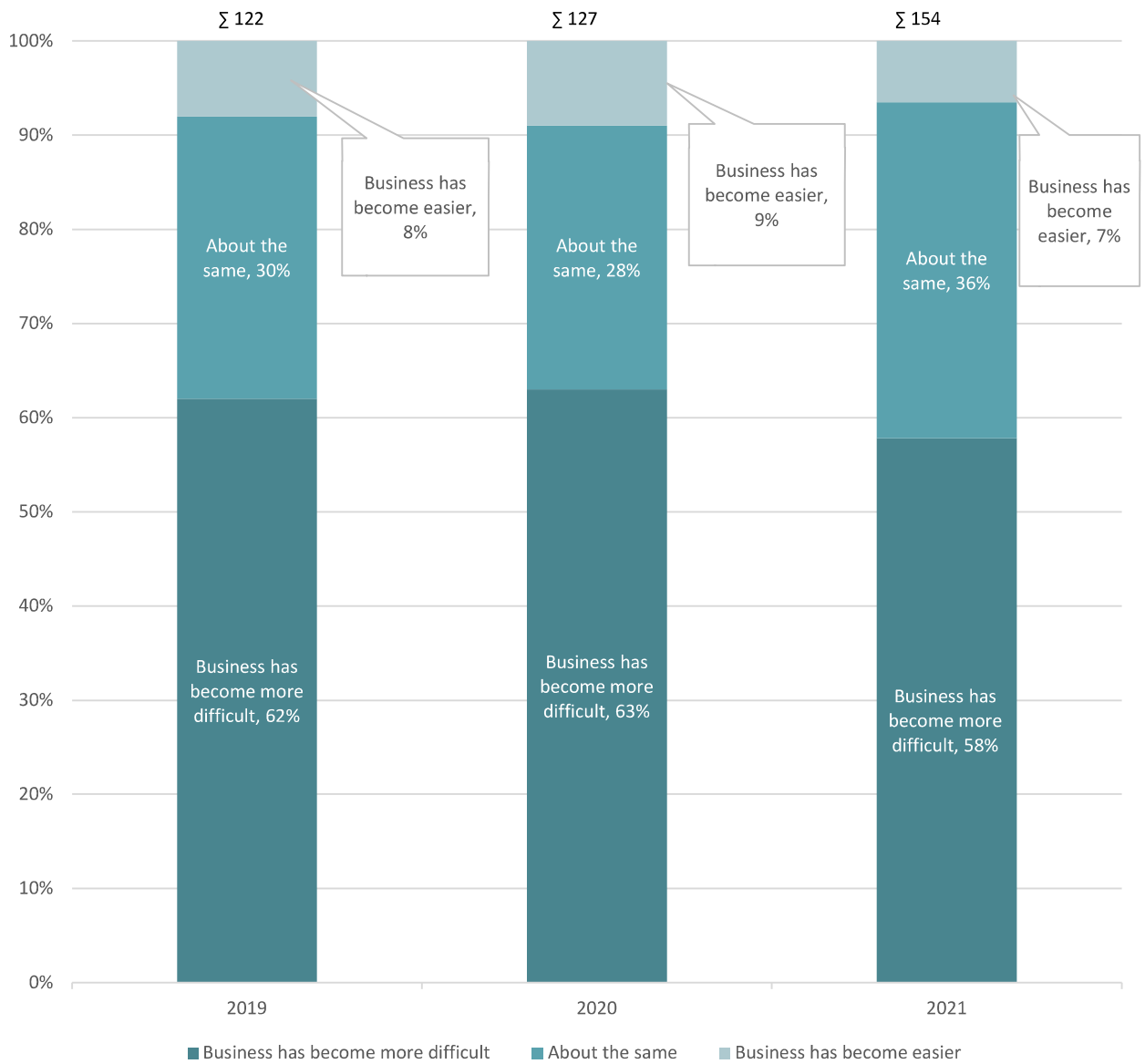
The level of staff turnover has been very low; 90% of companies reported a staff turnover of less than 20%.

Business Environment



Business Environment

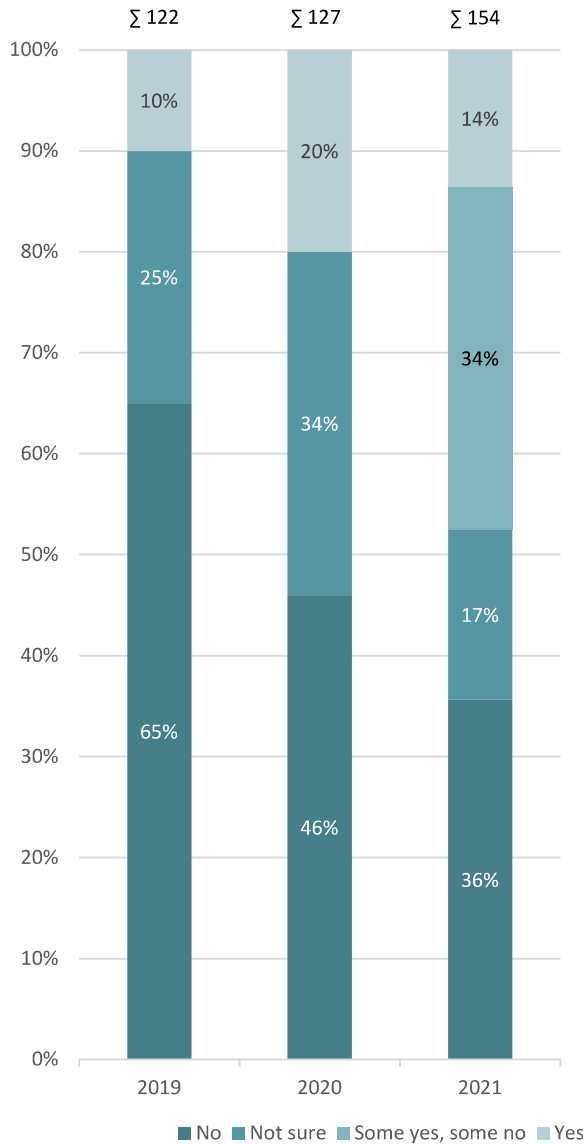
How has doing business in Korea for your company developed over the last 2 years?



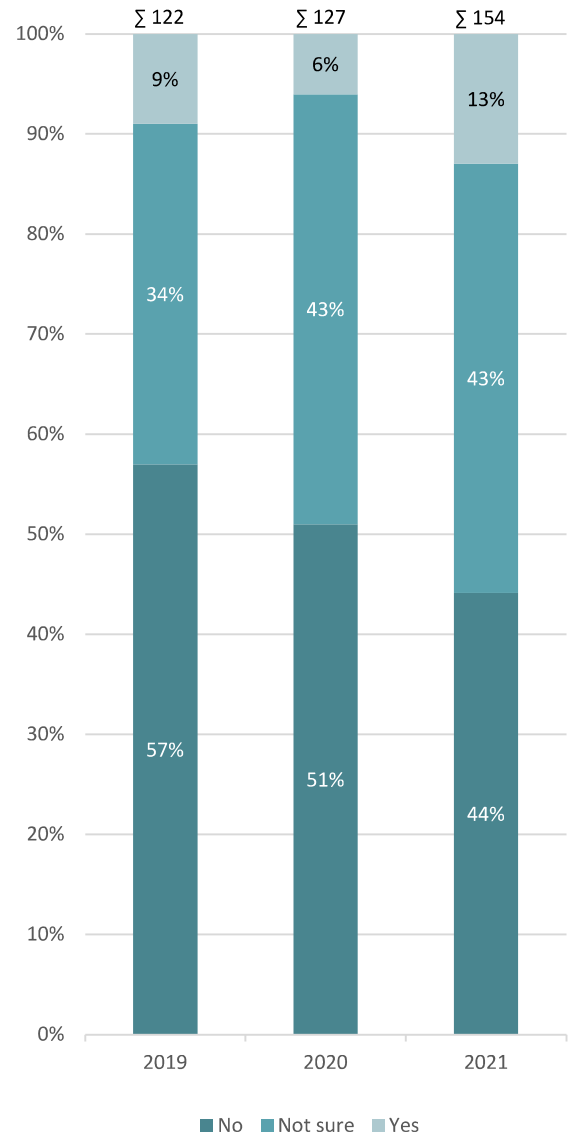
The majority of respondents (58%) replied that the business situation has become more difficult over the past two years, as 36% view the situation more neutral and 7% have a positive stance.

Business Environment

Do you believe that reforms implemented this year have helped your business?



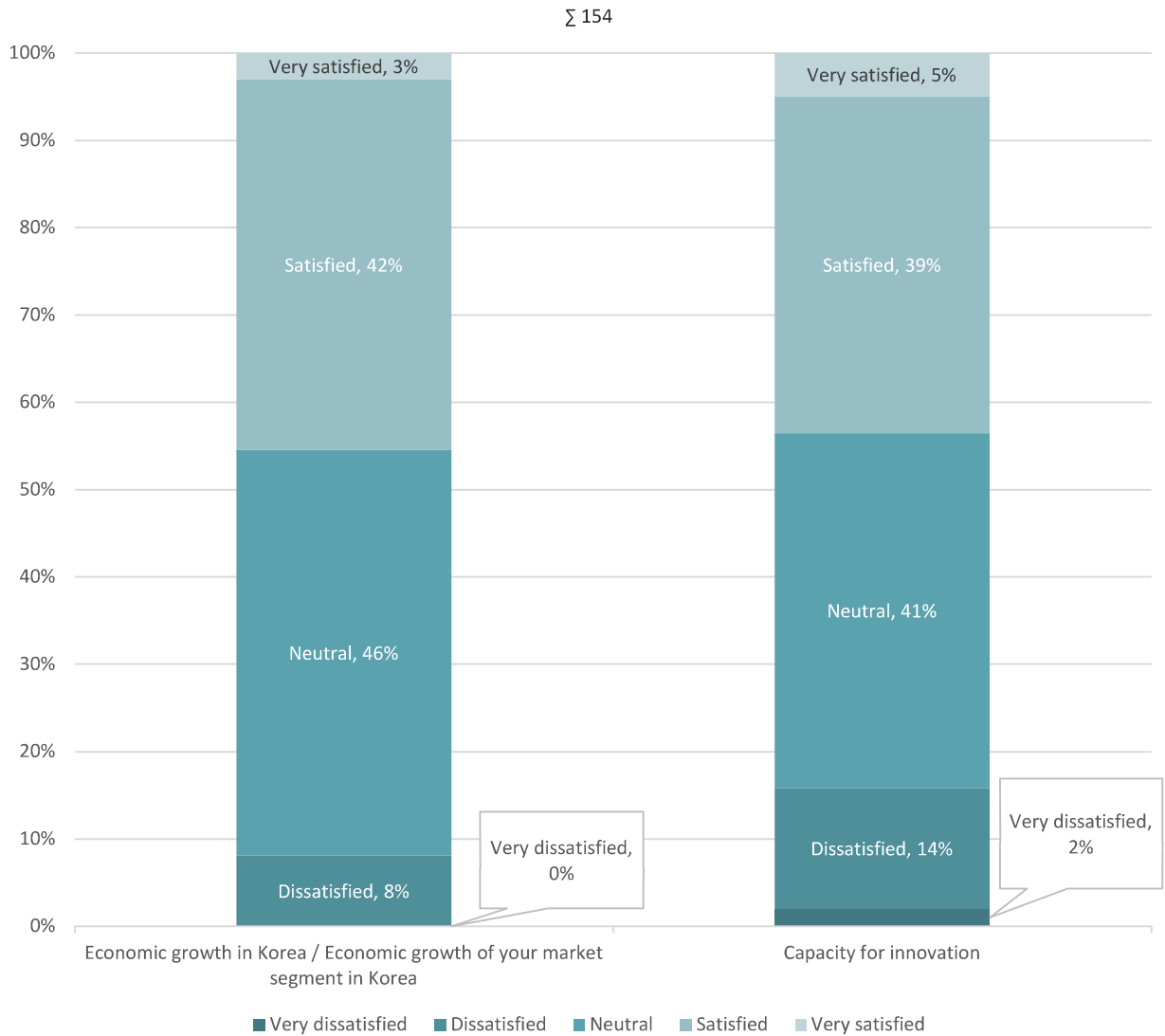
Do you believe that the Korean government will implement meaningful reforms next year?



14% of responding CEOs are of the opinion that reforms implemented in 2021 have been helpful for their business, 34% see that some of the reforms were helpful and some were not, 36% feedback that those reforms have not supporting their business positively and 36% are not sure about the impact. The outlook for reforms to be implemented displays a similar picture, 13% of respondents are hopeful, 43% are not and 44% are uncertain about the impact of those reforms. The outlook for 2022 looks similar although there is less optimism but more skepticism as well as uncertainty.

Business Environment

How do you perceive the following market parameters in your specific business in Korea (I)?

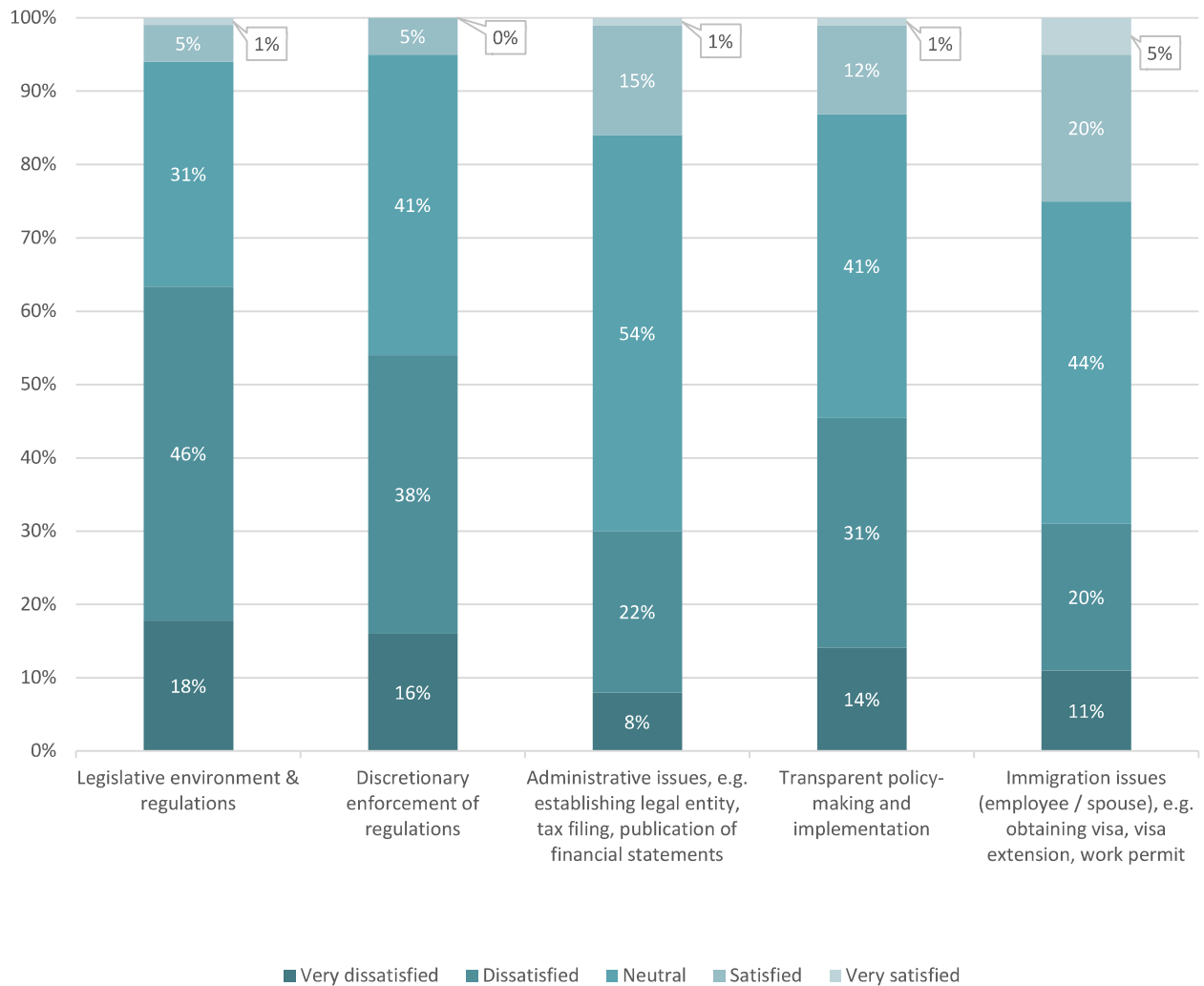


Economic growth is widely seen positive as stated by 45% of respondents, 46% have a neutral view and only 8% of company executives are dissatisfied. Innovation is valued in a similar way: 44% of company representatives are satisfied, 41% neutral and 16% dissatisfied.

Business Environment

How do you perceive the following market parameters in your specific business in Korea (II)?

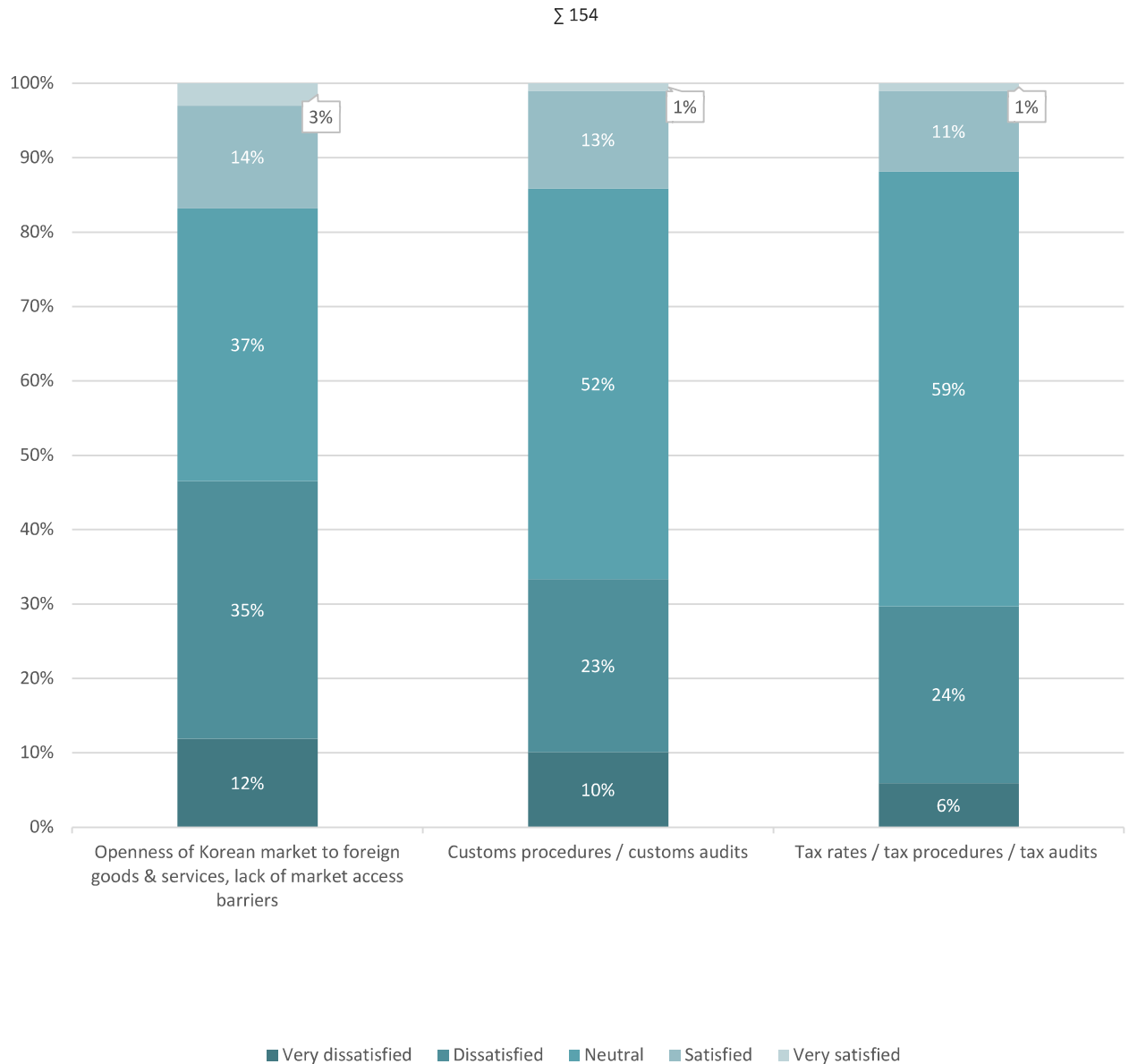
Σ 154



European companies evaluate especially the legislative environment and regulations (63% of respondents stating dissatisfaction), the discretionary enforcement of regulations (54 not being satisfied) as non-satisfactory. Administrative Issues and the transparency policymaking fare a bit better but still far from being evaluated positively. The only parameter here with a certain positive perception (25%) is Immigration although also here the satisfaction level decreased versus 2020 when it was 33%.

Business Environment

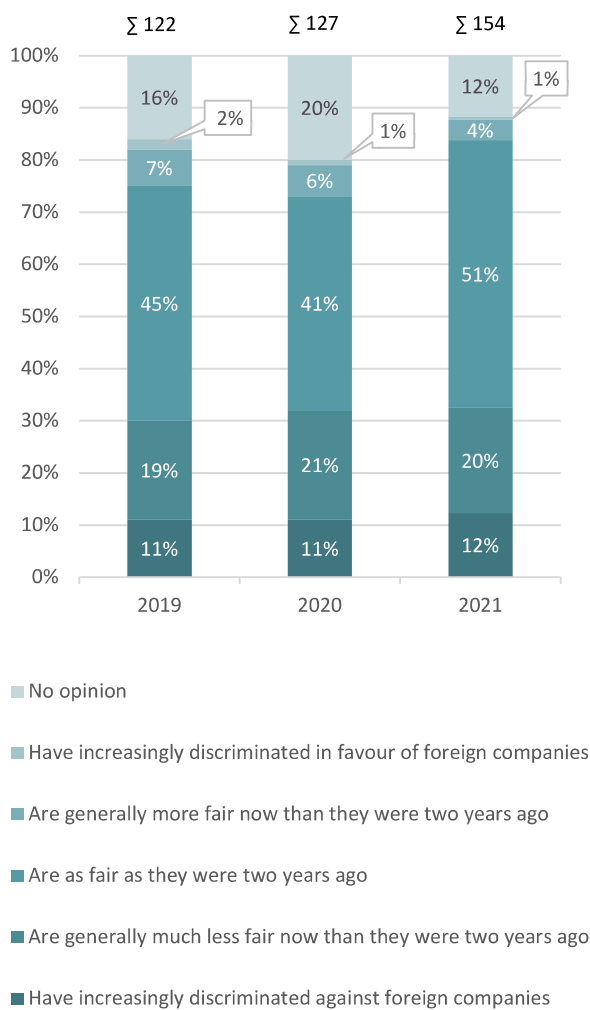
How do you perceive the following market parameters in your specific business in Korea (III)?



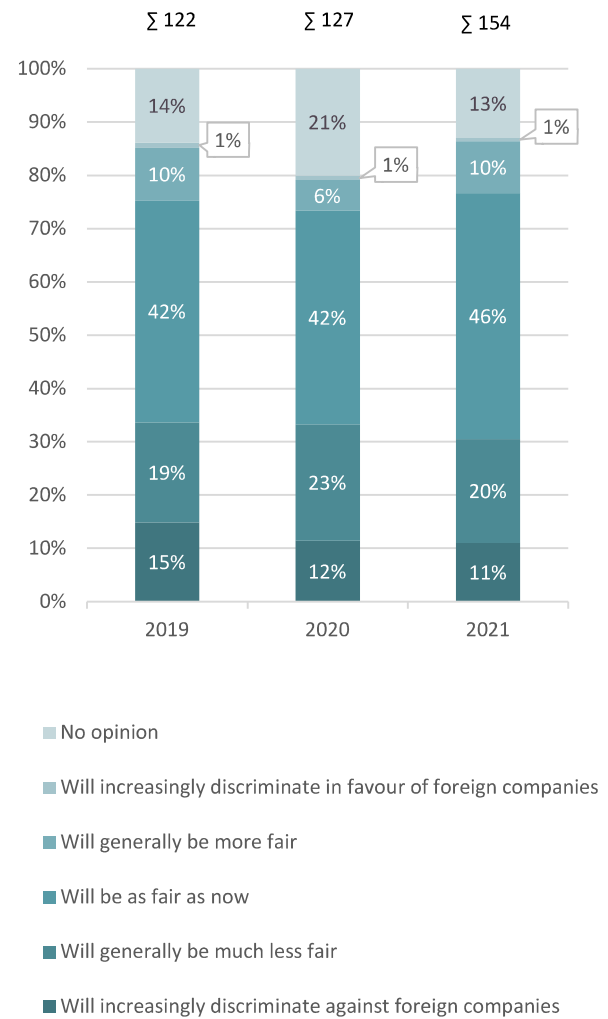
Company representatives have a certain concern about free market access for foreign products as 47% express a non-positive view on that. With respect to custom procedures / custom audits and tax rates, tax procedures / tax audits a bigger share of responding companies have a more neutral or even positive view – although the ratio of negative evaluation of 33% and 30%, respectively cannot be easily neglected.

Business Environment

Within your business sector, how have government policies relevant to foreign companies' business environment changed over the past two years?



How do you perceive government policies relevant to foreign companies' business environment will change over the next two years?

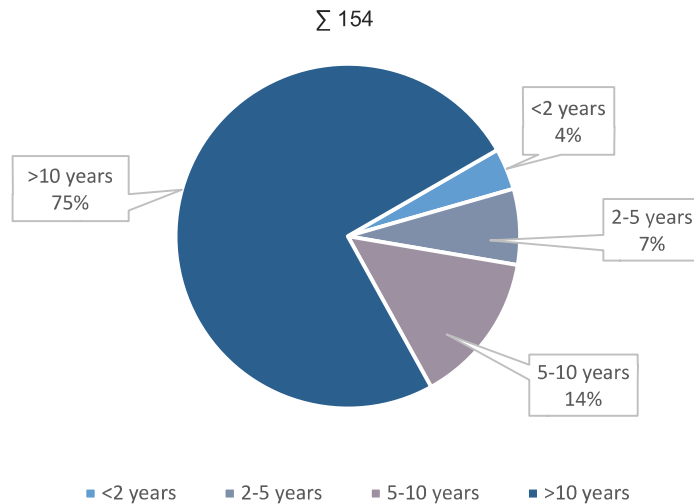


The majority of European companies stated that government policies have been as fair as they were two years ago and perceives it will be as fair as now over the next two years. About one third of companies believe that Korean government policies regarding foreign companies' business environment have been and will be discriminatory against foreign companies.

Respondent Profile

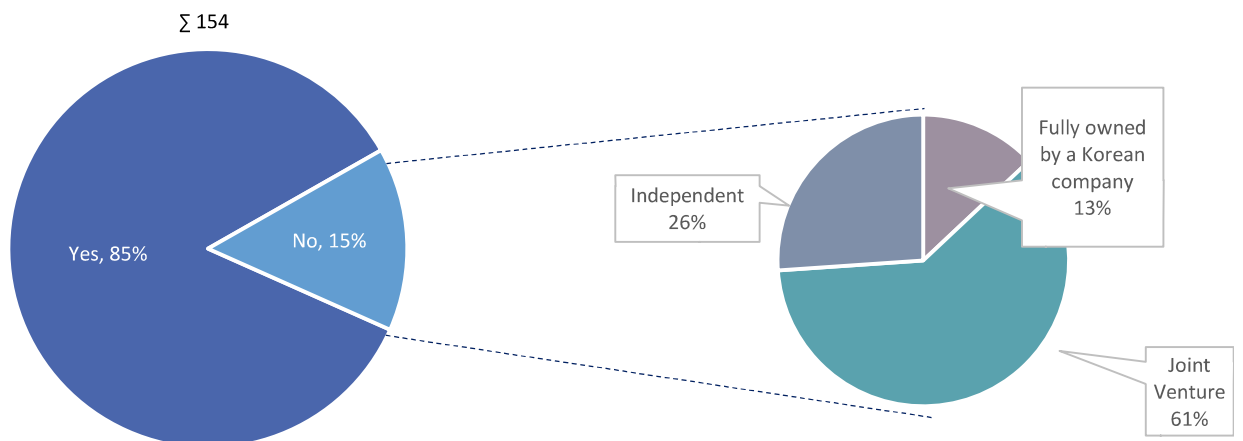
Respondent Profile

How long has your company been operating in Korea?



The majority of companies responding to the survey has been in Korea for a considerable period of time. Almost 75% of the respondents replied that they have been operating in Korea more than 10 years and 14% of the companies have been operating for more than 5 years. On the other hand, 11% of companies participating in this survey have been active in the Korean market 5 years or less.

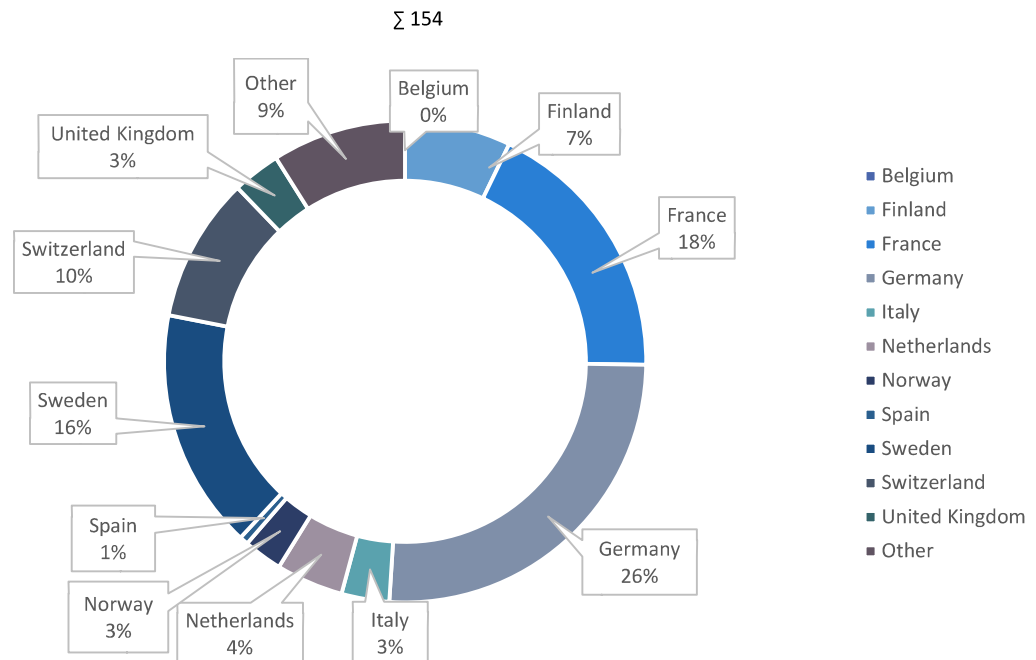
Is your company fully owned by a European company?



The majority of firms responding to the survey, namely, 85% of the respondents are fully owned by a European company, whereas 9% are joint ventures, 2% are Korean companies and 4% are independent corporations.

Respondent Profile

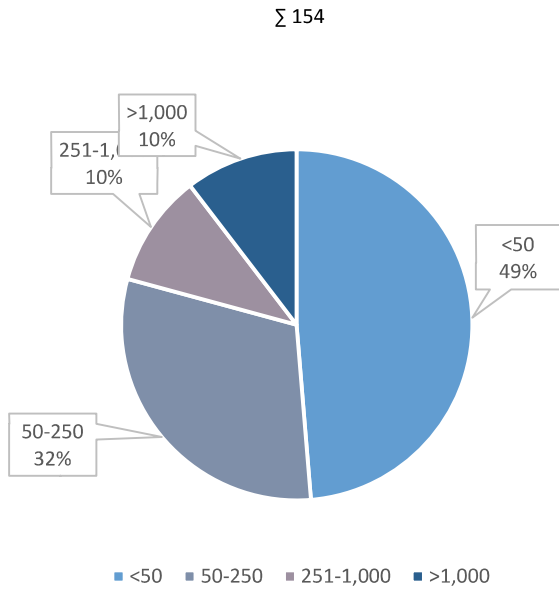
Where is your company headquarters registered in?



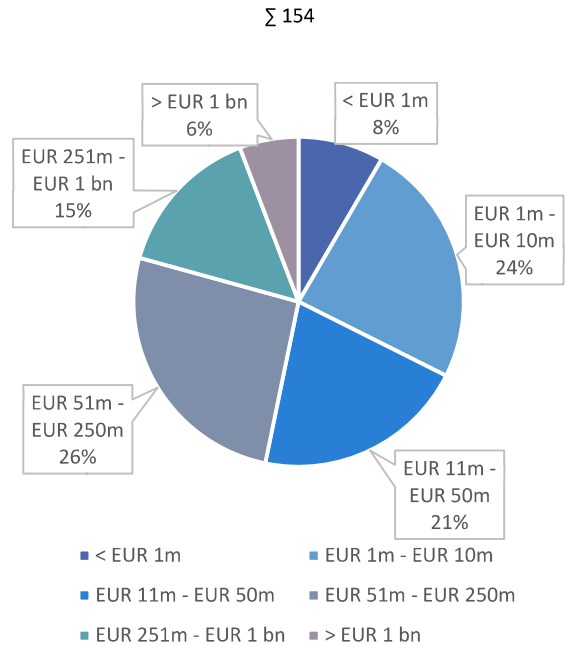
The majority of companies participating in the survey have their headquarters in Germany (26%); other company nationalities with a strong representation are France (18%), Sweden (16%), Switzerland (10%), Finland (7%) and to a certain extent the Netherlands (4%) and Norway & Italy (3%).

Respondent Profile

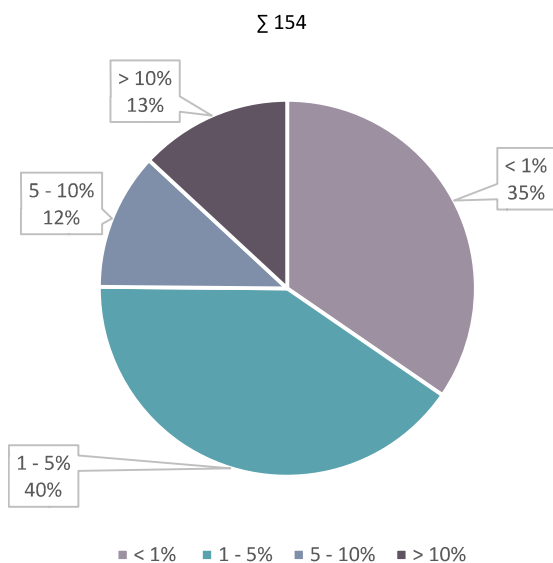
How many employees do you have in Korea in 2020?



What was the total revenue of your company in Korea in 2020?



What proportion of global revenues was generated in Korea?

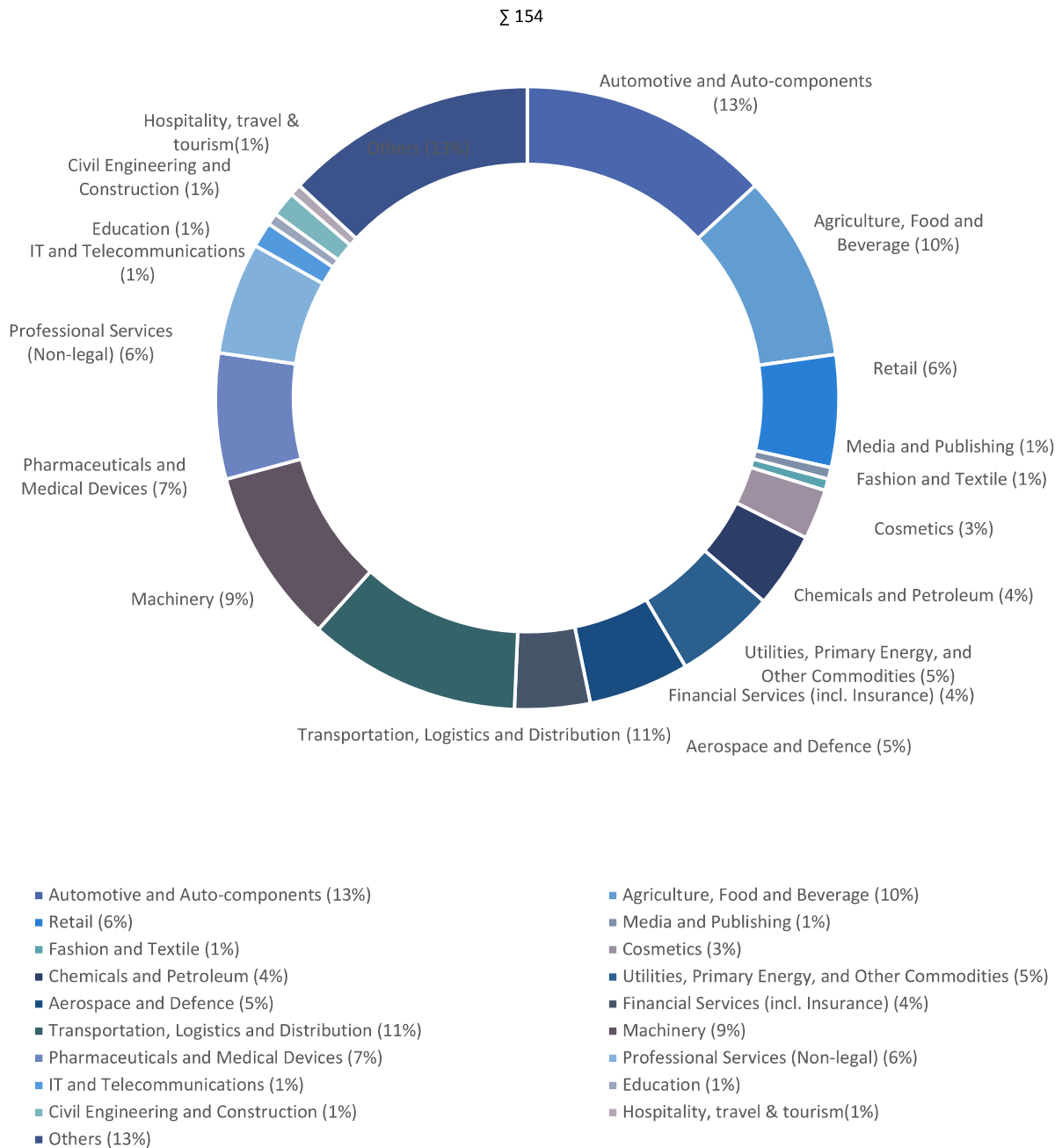


Employee number, revenue size and proportion

Companies with up to 50 employees and a turnover of up to 50 million EUR account for 49% respectively 53% as companies with more than 1,000 employees and a turnover above 1 billion EUR account for 10% and 6%, respectively. The majority of companies (75% generate up to 5% of their groups global revenue and 13% more than 10%.

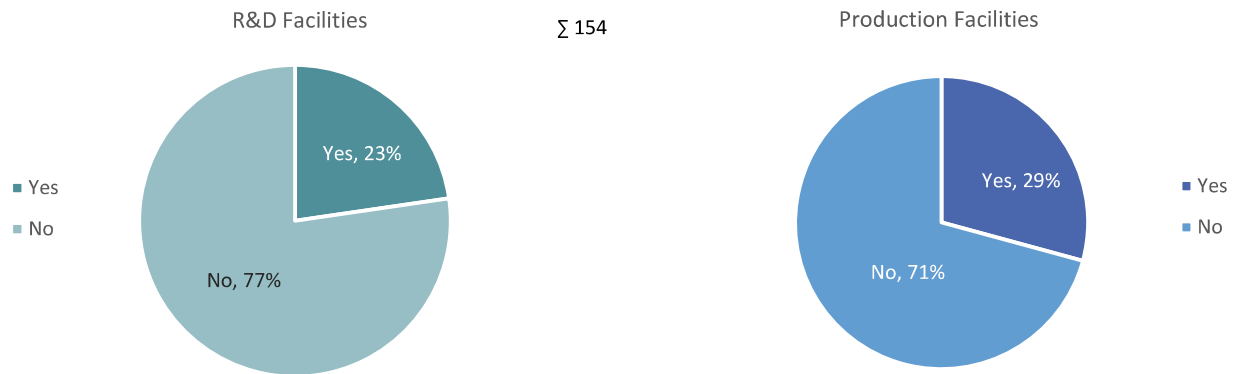
Respondent Profile

In what industry is your company active in?



The highest number of replies came from Automotive and Auto Components sector (13%), followed by Transportation, Logistics and Distribution (11%), Agriculture, Food and Beverage (10%), Machinery (9%), and Pharmaceuticals and Medical Devices (7%).

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



The majority of responding companies (77%) run their operations relying on overseas R&D activities as only 23% have their R&D facilities in Korea. A similar picture can be seen for production, where 71% of European corporations import their products to the Korean market, whereas 29% produce goods either partially or fully in Korea.



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