

European Business in Korea

Business Confidence Survey 2018



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PARTICIPATING CHAMBERS OF COMMERCE

Core Team



British Chamber of Commerce in Korea (BCCK)

Tel: +82 (0)2-6365-2300, Fax: +82 (0) 2-6365-2301

Email: administrator@bcck.or.kr, Web: <http://bcck.or.kr>

Address: 13F, The-K Twin Towers, B-dong, 50, Jong-ro 1-gil, Jongno-gu Seoul, Korea 03142



European Chamber of Commerce in Korea (ECCK)

Tel: +82 (0)2 6261 2700, Fax: +82 (0)2 6261 2730

Email: ecck@ecck.eu, Web: <http://www.ecck.eu>

Address: 5F, Seoul Square, 416 Hangang-daero, Jung-gu, Seoul 04637



French-Korean Chamber of Commerce and Industry (FKCCI)

Tel: +82 (0)2 2268 9505, Fax: +82 (0)2 2268 9508

Email: welcome@fkcci.com, Web: <http://www.fkcci.com>

Address: 11F, Joy Tower, Teheran-ro 37-gil 7, Gangnam-gu, Seoul 06142



Korean-German Chamber
of Commerce and Industry
한독상공회의소

Korean-German Chamber of Commerce and Industry (KGCCI)

Tel: +82 (0)2 3780 4600, Fax: +82 (0)2 3780 4637

Email: info@kgcci.com, Web: <http://korea.ahk.de>

Address: 8F, Shinwon Plaza, 85, Dokseodang-ro, Yongsan-gu, Seoul 04419

Supporting Organizations



Belgian-Korean Business Forum (BKBF)
Email: info@bkbk.or.kr, Web: <http://www.bkbk.or.kr>



Dutch Business Council Korea (DBCK)
Tel: +82 (0)2 311 8600
Email: seo-ea@minbuza.nl, Web: <http://www.dbckorea.com>
Address: 10F, Jeongdong Bldg., 21-15 Jeongdong-gil, Jung-gu, Seoul 04518



Finland Chamber of Commerce and Industry in Korea (FINNCHAM)
Tel : +82 (0)31 283 0900
Email: korea@finncham.or.kr, Web: <http://finncham.or.kr>
Address: Cargotec Korea Ltd, Cargotec MCC Bldg., 371-2 Singal-Dong, Giheung-Gu, Yongin, Kyungki-Do 17093



Italian Chamber of Commerce in Korea (ITCCK)
Tel: +82 (0)2 402 4379, Fax: +82 (0)2 505 409 4379
Email: itcck@itcck.org, Web: <http://www.itcck.org>
Address: #309, Keumsan Bldg., 750 Gukhoedae-ro, Youngdeungpo-gu, Seoul, 07236



Norwegian Business Association, Korea (NBA)
Tel: +82 (0)2-727-7100, Fax: +82 (0) 2-727-7199
Email: Jinyeong.Kim@mfa.no, Web: -
Address: 13th Floor, Jeong-dong Building, 21-15, Jeongdong-gil, Jung-gu, Seoul 04518



Spanish Chamber of Commerce in Korea (ESCCK)
Tel: +82 2 (0)10 8448 4006
Email: info@escck.com, Web: <http://www.escck.com>
Address: 14F, Seoul Global Center, 38 Jongro, Jongro-gu Seoul 03188



Swedish Chamber of Commerce in Korea (SCCK)
Tel: +82 (0)2 739 1466
Email: scckinseoul@gmail.com, Web: <http://scckkorea.org>
Address: c/o Business Sweden, 11F, 131 Shinil bldg., Toegye-ro, Jung-gu, Seoul 04537



Swiss-Korean Business Council (SKBC)
Tel: +82 (0)2 542 5982
Email: info@skbckorea.org, Web: <http://www.skbckorea.org>
Address: 154-1, Seorin-dong, Jongro-gu, K.P.O Box 2164, Seoul 03187

ABOUT ROLAND BERGER

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Address:

Roland Berger Ltd

Tower 8 Bldg., 6F, 7 Jong-ro 5 gil, Jongno-gu, Seoul 03157

Tel.: +82 (0)2 2288 0004

Fax: +82 (0)2 2288 0011

Web: <http://www.rolandberger.com>



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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

In 2018 the Korean economy grew by 2.6%, compared to a growth rate of 3.1% in 2017. Korean exports continued to develop very positively and exceeded for the first time USD 600 billion.

For European businesses, Korea is and will continue to be, an important market – 36% of participating companies stated that Korea has an increasing importance in their company's global strategy. It needs to be noted though that growth perspectives overall are not that favourable anymore as they used to be. Market segments previously having a positive outlook, changed to a more stagnant growth outlook.

Overall, it can be stated that not much progress has been made in terms of substantial changes referring to improvements in business environment. 65% of business leaders have stated that conducting business has become more difficult compared to two years ago. Furthermore, 57% of business leaders could not see that reforms implemented in 2018 improved the business environment and 47% are also of the opinion that there will be no meaningful reforms in 2019 and thereafter. A key area of high concern is the rising labour costs as pointed out by 68% of company representatives.

European company executives, representing a combined workforce exceeding 38,000 employees and a total combined turnover of EUR 36 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 is needed to ensure further economic growth.

Beside the Economic Growth of Korea, Rising Labour Costs, Ambiguous Rules and Regulations, Market Access Barriers, and Discretionary Enforcement of Regulations but also Economic Nationalism /Anti-foreign Business Sentiment have been identified as key business challenges. Furthermore, the feedback from company leaders also states that efforts are needed to better Fair Competition, the Rule of Law / Transparent Policy Making, and Productivity Growth.

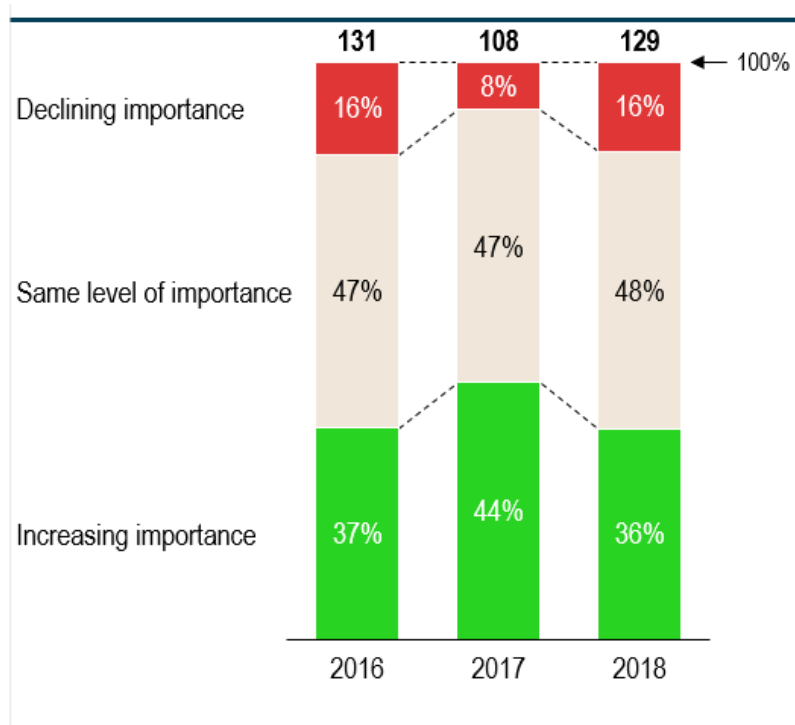
The challenges ahead for Korea, and all industry players both domestic and foreign, are considerable. The European business community hopes that the Business Confidence Survey will be a useful tool for business people and policy makers to make future-forward decisions for the mutual benefit of the Korean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



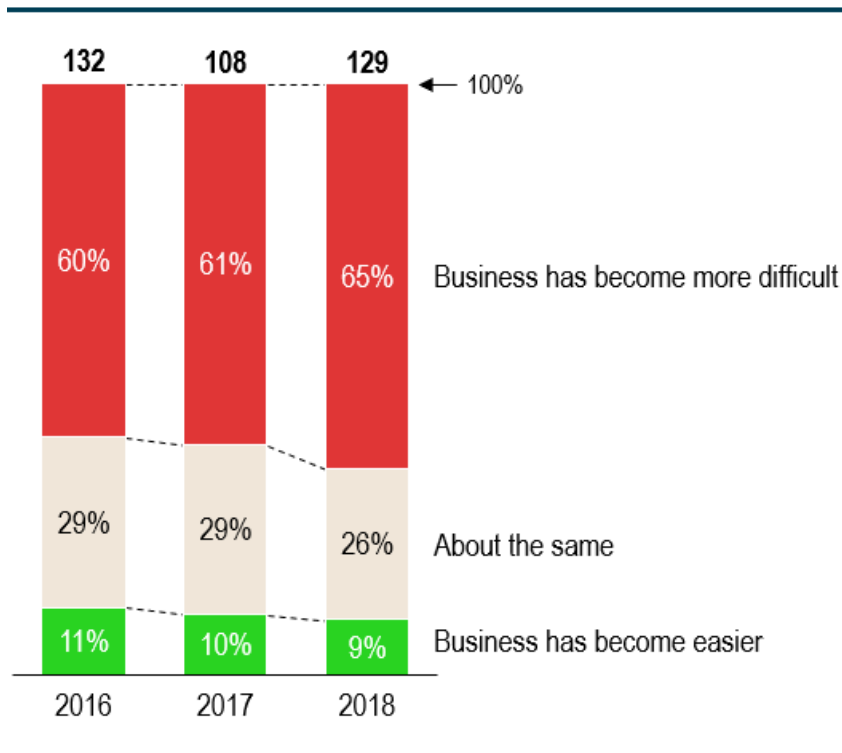
Korea is and remains an important market for European companies. 36% of responding companies see an increasing importance of Korea in their company's overall global strategy as for 48% it is the same level of importance. 16% of companies indicate that the importance of Korea instead is declining.

The results overall confirm the importance of Korea for European companies. In 2016, 37% of the responding companies were of the opinion that Korea has an increasing importance; it increased in 2017 to 44% but decreased in 2018 to 36%. 47% of company representatives stated in 2016 and in 2017 that Korea has the same level of importance. In 2018, 48% of responding companies shared this view. The share of companies evaluating the Korean market with a declining importance was 16% in 2016, 8% in 2017 and 16% in 2018.

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?



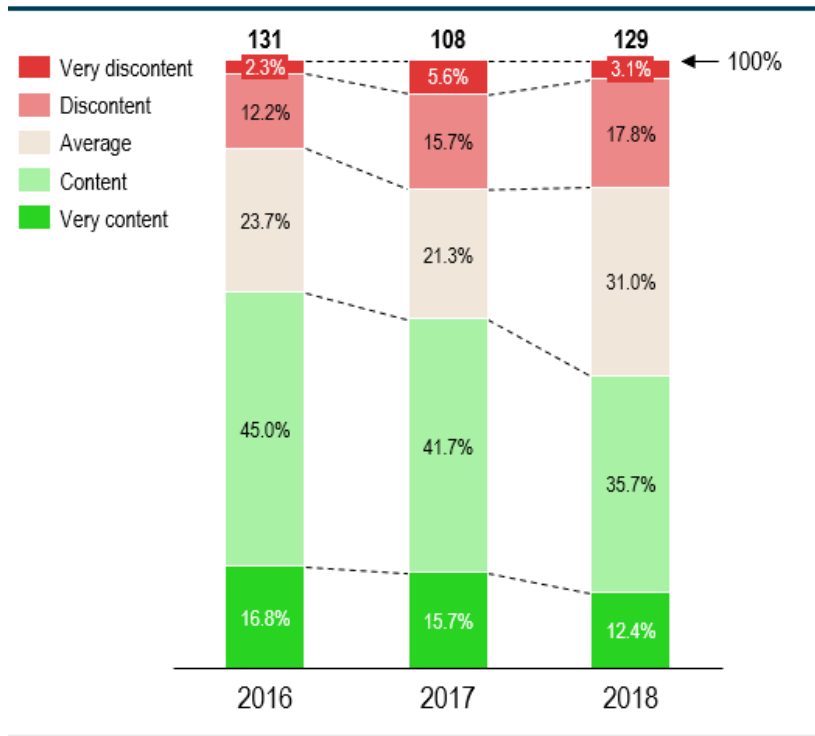
Doing business in Korea was and still is challenging. In 2018, 65% of European companies felt that the business environment has become more difficult, 26% of respondents stated it is about the same and 9% replied that it has become easier.

Replies from corporations who felt that the business environment has become more difficult reached 65% in 2018, up by 4 percentage points versus 2017 when the response rate stood at 61%. The replies indicating that situation is about the same were 29% in 2016 and in 2017 but decreased to 26% in 2018. Company representatives stating that the business has become easier accounted for 11% in 2016, 10% in 2017 and 9% in 2018.

1.3 Performance in Korea

Figure 3: Performance in Korea – YoY

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

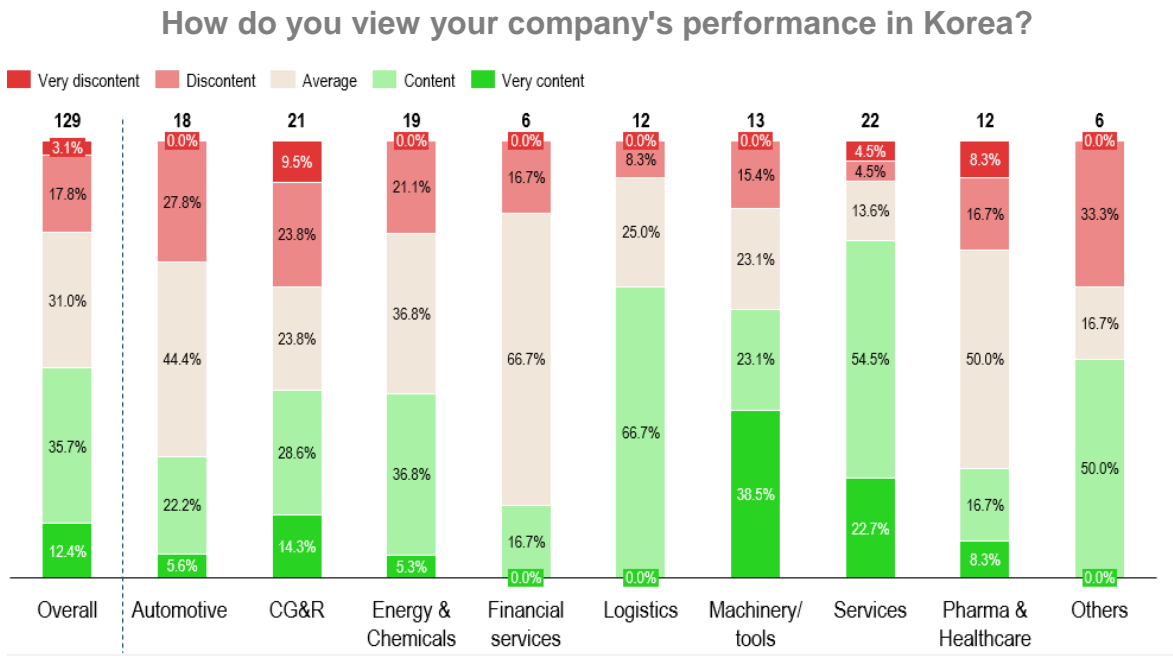


A substantial number of European companies see their company's performance positive; 12% were very content and 36% content with their performance. 31% evaluate their performance as adequate but 18% as discontent and 3% as very discontent.

Companies seeing their business performance positive (very content and content) accounted for 62% (17% being very content and 45% content) in 2016, 57% (16% being very content and 42% content) in 2017 and 48% (12% being very content and 36% content) in 2018. Corporations viewing their business performance in a more a neutral view accounted for 24% in 2016, 21% in 2017 and 31% in 2018.

The share of companies evaluating their business rather discontent increased from 12% in 2016 to 16% in 2017 and to 18% in 2018. 2% of companies in 2016 were very discontent; the dissatisfaction reached 6% in 2017 and 3% in 2018.

Figure 4: Performance in Korea – Industry breakdown



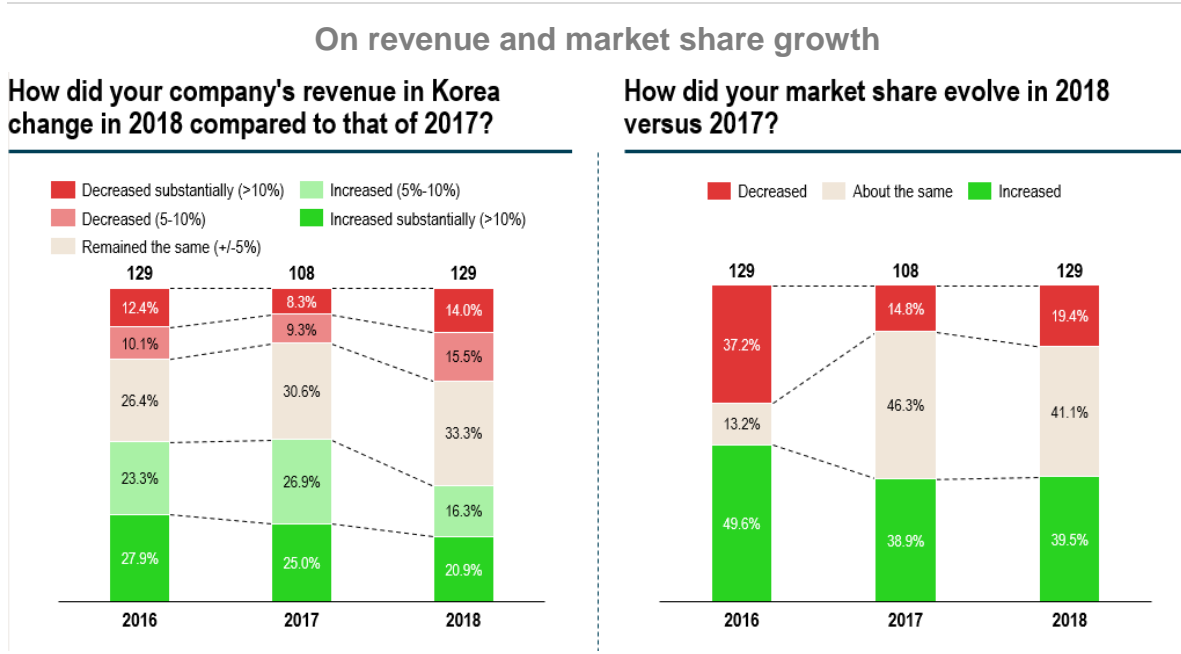
Business performance satisfaction varies considerably among industry sectors. The industries seeing business performance most positively (content or very content) were Services (77%), Logistics (67%) and Machinery & Tools (62%) while at Automotive (28%), Pharma & HealthCare (25%), Financial Services (17%) only a minority were content with their business performance.

Services in 2018 had 77% positive evaluations (content or very content) which represents an increase of 37 percentage-points versus 2017. The positive business evaluation continued for Logistics but with 67% remained considerably below previous years (85% in 2017). Business sectors with a positive view on their business performance in the preceding years such as Pharma HealthCare (70% in 2017), Automotive (65% in 2017), Consumer Goods & Retail (78% in 2017) were with 25%, 28% and 43% by far less content in 2018.

The number of businesses evaluating their business performance either discontent or very discontent are Consumer Goods & Retail (35%, 14% in 2017), Others (33%, 7% in 2017) and Automotive (28%, 6% in 2017).

1.4 Revenue and market share

Figure 5: Revenue and market share



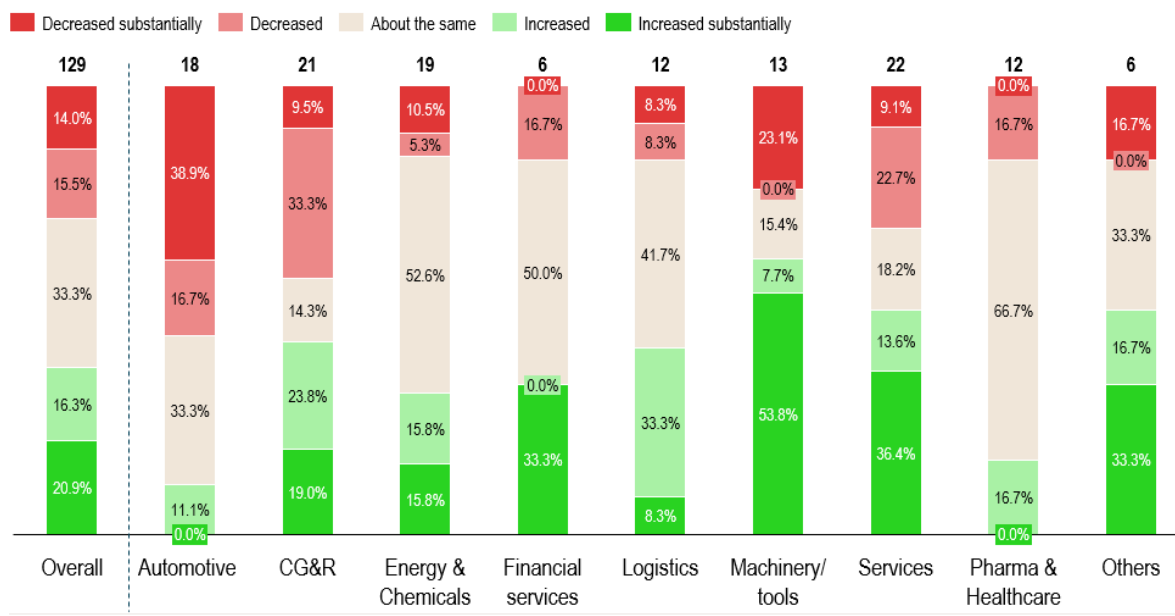
37% of the companies reported sales increases – thereof 21% substantially with 10% or more – and 33% reported about the same turnover. However, 30% of the responding companies experienced lower turnover, with 14% showing a substantial reduction in revenue by more than 10%.

In comparison to previous years, positive responses (increased and increased substantially revenue) of 37% were considerably lower versus 2016 (51%) and 2017 (52%). Negative responses in 2018 (decreased and decreased substantially) were at 30% versus 22% in 2016 and 18% in 2017. The number of companies feeding back that their sales remained the same did grow consistently from 26% in 2016 to 31% in 2017 and to 33% in 2018.

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

Figure 6: Revenue – Industry breakdown

How did your company's revenue in Korea change in 2018 compared to that of 2017?

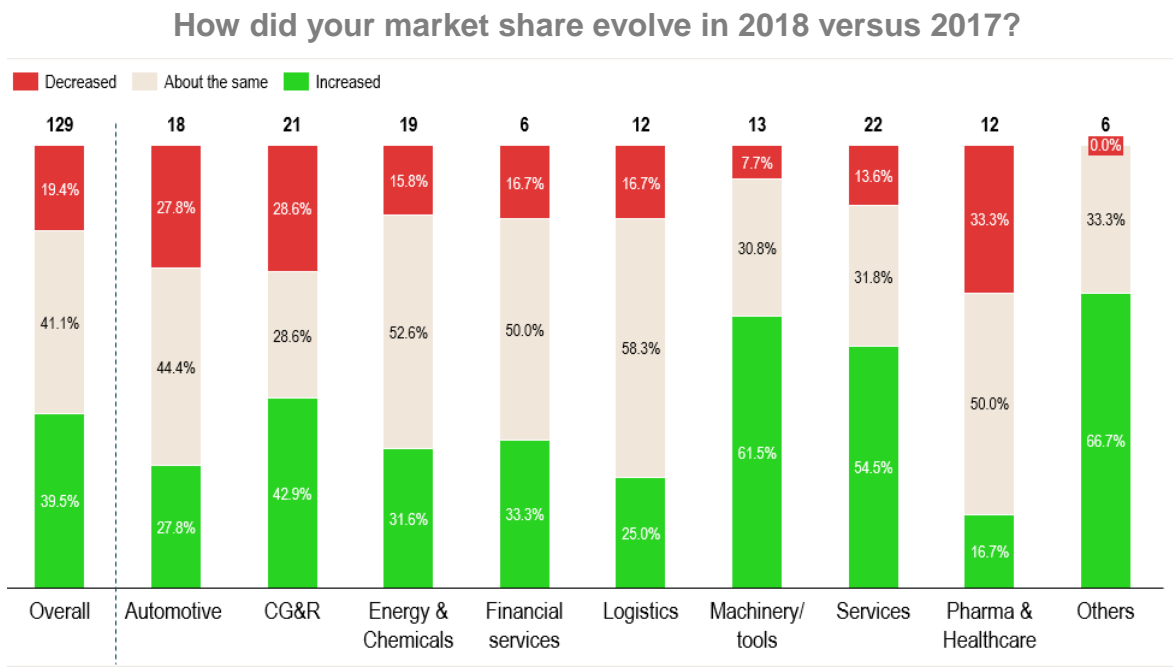


Revenue developed positively at Machinery & Tools, Services and Others. At Machinery & Tools 62% of responding companies experienced sales increases (increased [5 to 10%] or increased substantially increased [> 10%]). Services and Others followed with 50% each. The sales development was not that positive in Automotive were only 11% of companies could grow their sales.

In comparison to 2017, companies being active in Machinery & Tools with growing turnover increased from 45% to 62% as Services (50% in 2018, 50% in 2017) and Others (50% in 2018 and 47%) were rather on similar levels. In 2017, the industry sectors with the most favourable sales development (increased or substantially increased sales) were Logistics (69%), and Automotive (53%); in 2018 at Automotive only 11% of companies experienced sales increases and at Logistics 42%, thereof 8% with substantially increased sales.

The picture looked not so positive in Automotive were 55% (24% in 2017) of companies reported lower sales (decreased and substantially decreased) but also Consumer Goods & Retail were 43% (7% in 2017) of the responding companies failed reach a positive sales development.

Figure 7: Market share – Industry breakdown

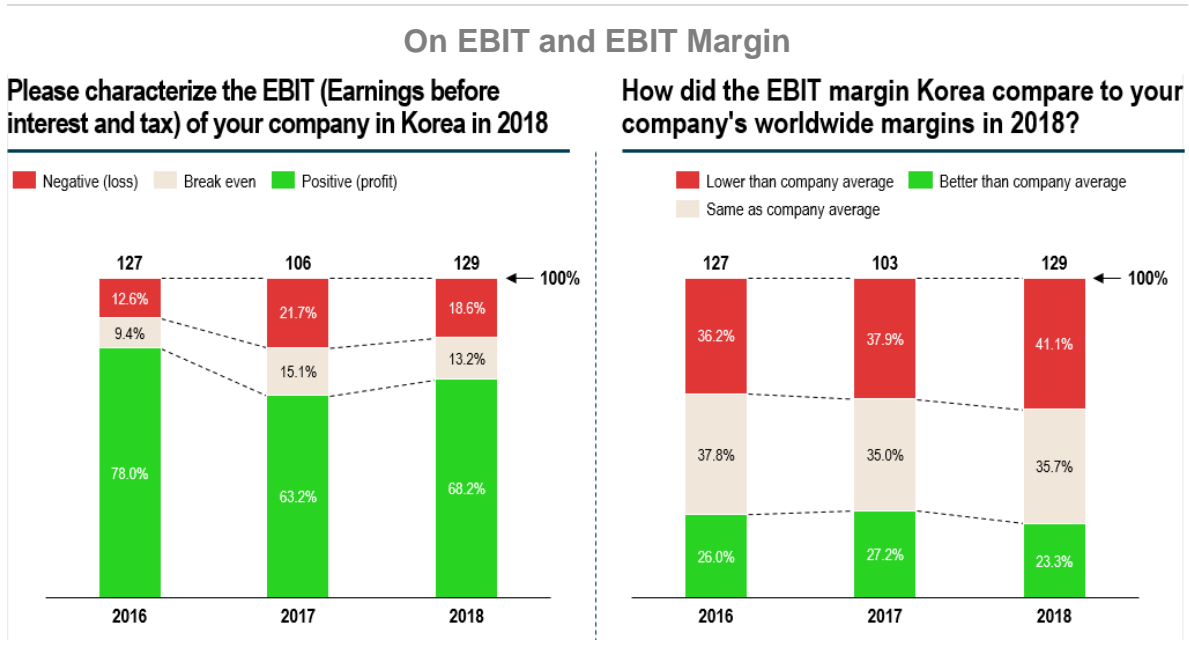


Companies being active in Others, Machinery & Tools and Services could extent their market share; at Others 67% of companies saw their market share growing as it was the case at 62% of Machinery & Tools firms and 55% Services entities.

At Machinery & Tools, the number of companies with an increasing market share grew from 27% in 2017 to 62%. The adverse development could be seen at Automotive were only 28% of companies reached a higher market share as in 2017 (47% of responding companies in 2017), Logistics with 25% (39% in 2017) and Pharma & Healthcare with 17% (50% in 2017). Companies losing market share were primarily at Pharma & Healthcare (33% in 2018, 20% in 2017), Consumer Goods & Retail (29% in 2018, 0% in 2018), and Automotive (28% in 2018, 29% in 2017).

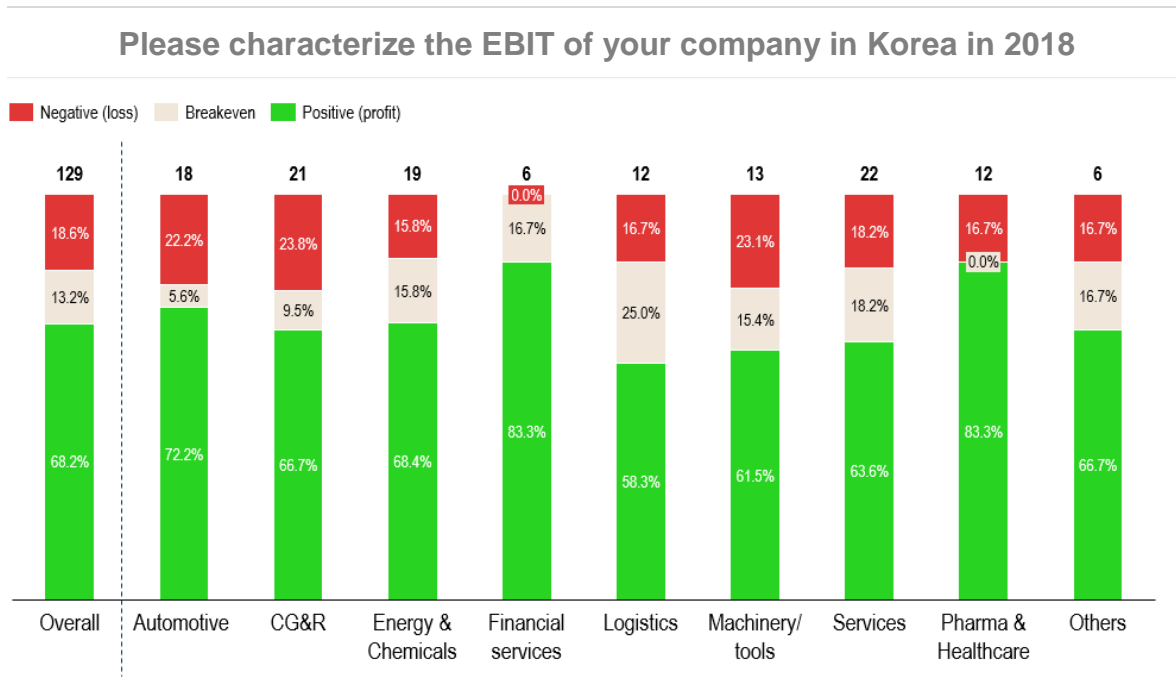
1.5 EBIT and EBIT margin

Figure 8: EBIT and EBIT margin



In 2018, 68% (63% in 2017) of European companies reached positive earnings before interest and tax (EBIT); 13% (15% in 2017) broke even but 19% (22% in 2017) reported a negative EBIT. 23% (27% in 2017) of participating companies reported an EBIT margin better than their company-group's average, 36% (35% in 2017) had an EBIT margin which was in line with the group, and 41% (38% in 2017) of corporations remained below their group's average.

Figure 9: EBIT- Industry breakdown

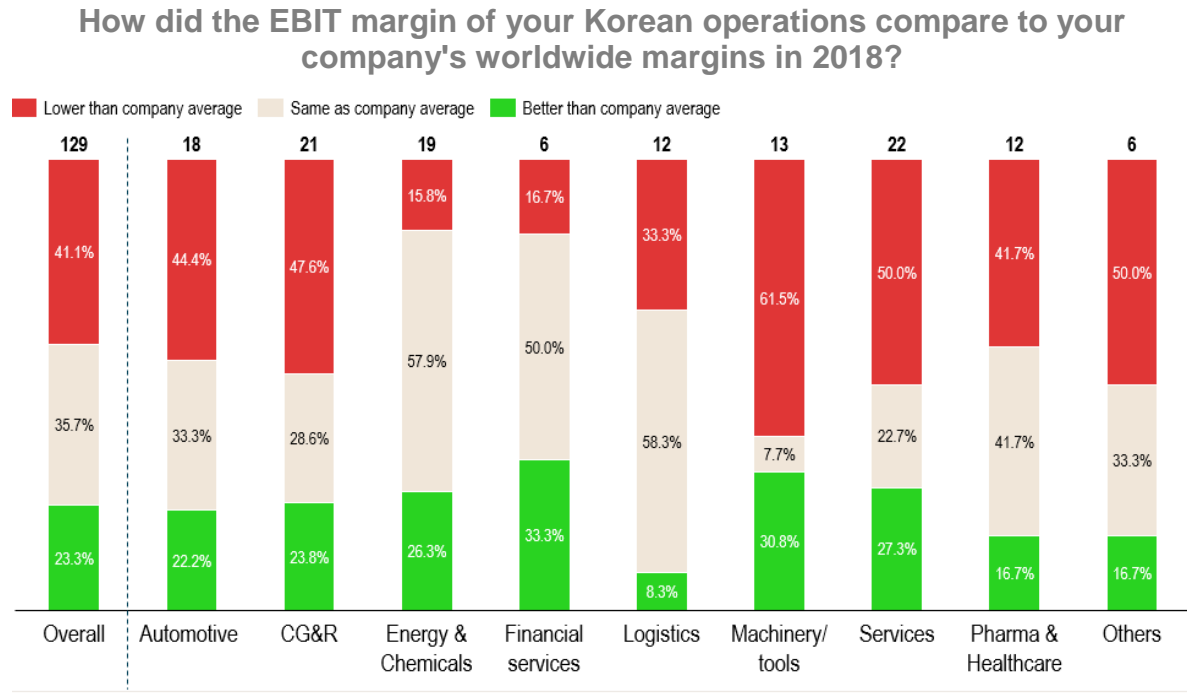


Companies being active in Financial Services as well as Pharma & Healthcare did well in 2018. 83% (33% in 2017) of corporations in Financial Services reported a positive EBIT as 83% (80% in 2017) in Pharma & Healthcare did. In Machinery & Tools 62% managed to reach a positive EBIT in 2018 versus only 30% in 2017.

In comparison to 2017, Energy & Chemicals and Logistics experienced a certain downturn. In 2018, 68% of companies being active in Energy & Chemicals reported positive EBITs, down from 92% in 2017; at Logistics, companies experienced a similar decrease, in 2018 58% of companies reached a positive EBIT which was 85% in 2017.

Companies failing to generate a positive EBIT could be found primarily in Consumer Goods & Retail (24% in 2018, 29% in 2017), Machinery & Tools (23% in 2018, 40% in 2017), and Automotive (22% in 2018, 29% in 2017).

Figure 10: EBIT margin – Industry breakdown



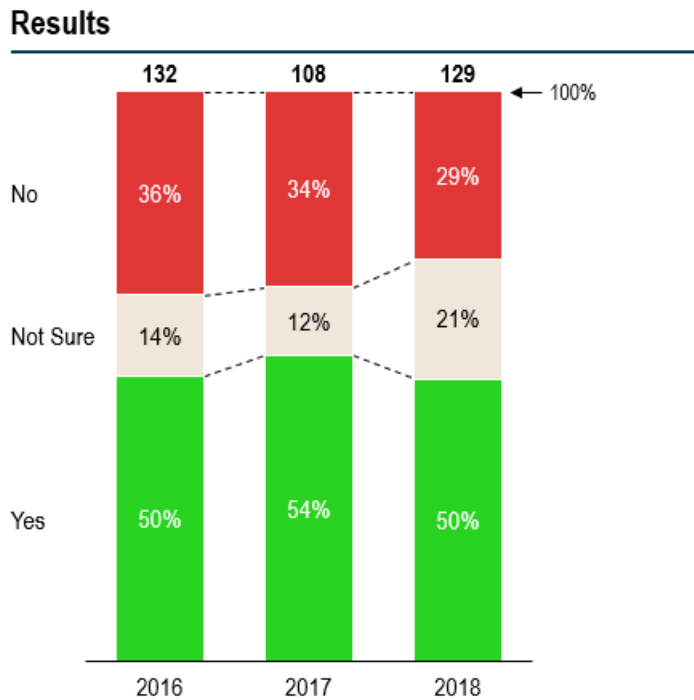
The EBIT margin generated in Korea was at 33% (0% in 2017) of legal entities active in Financial Services and 31% (18% in 2017) of legal entities active in Machinery & Tools better than the company's worldwide margin.

Local profitability primarily is in line with global at 58% of companies in Logistics (39% in 2017) and 58% at Energy & Chemicals (30% in 2017) followed by Financial Services (50% in 2018, 50% in 2017). Local profitability is considerably lower at Machinery & Tools (62% in 2018, 55% in 2017), Services (50% in 2018, 44% in 2017) as well as Others (50% in 2018, 42% in 2017).

1.6 Operation expansions

Figure 11: Plans for expansion in Korea

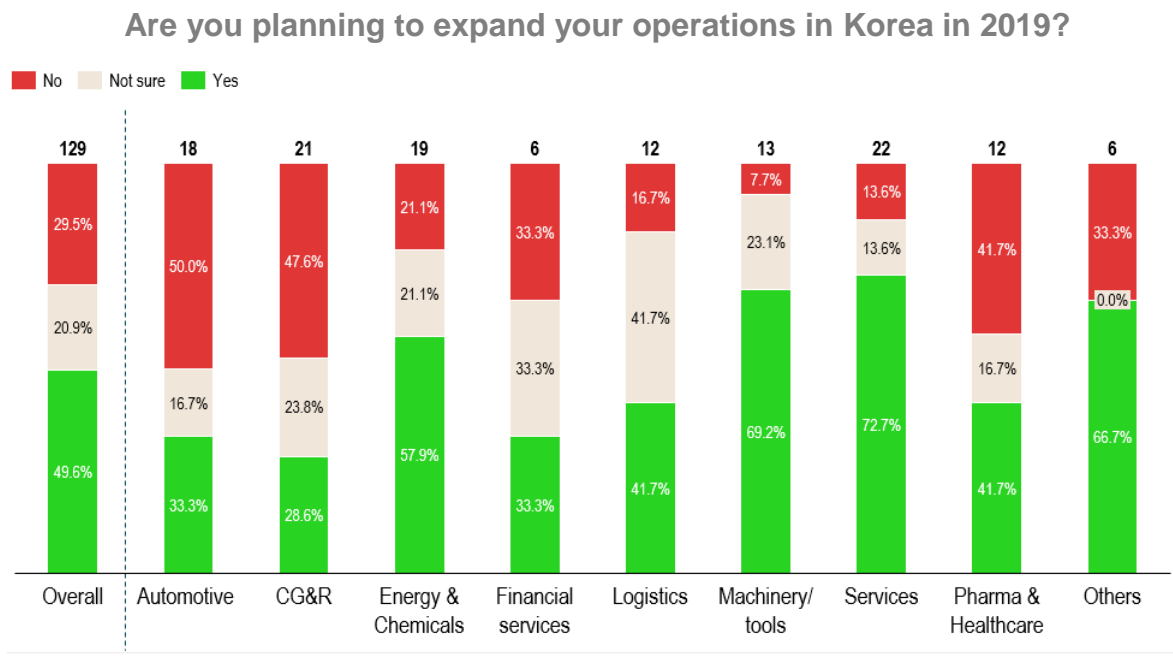
Are you planning to expand your operations in Korea in 2019?



50% of European companies are planning to expand their operations in 2018 which is slightly below 2017 where 54% of companies confirmed their investment intention. 21% of responding companies were not yet sure about their expansion compared to 12% in 2017. Instead, 29% of corporations stated that they have no intention to expand their operations in 2019 comparing to 34% of replies in 2017.

The favoured business expansion is organic growth (67% of responses having confirmed expansion in 2018), followed by partnership with local partner (19%) and Merger & Acquisition (12%). Those responses are more or less in line with those received in 2017.

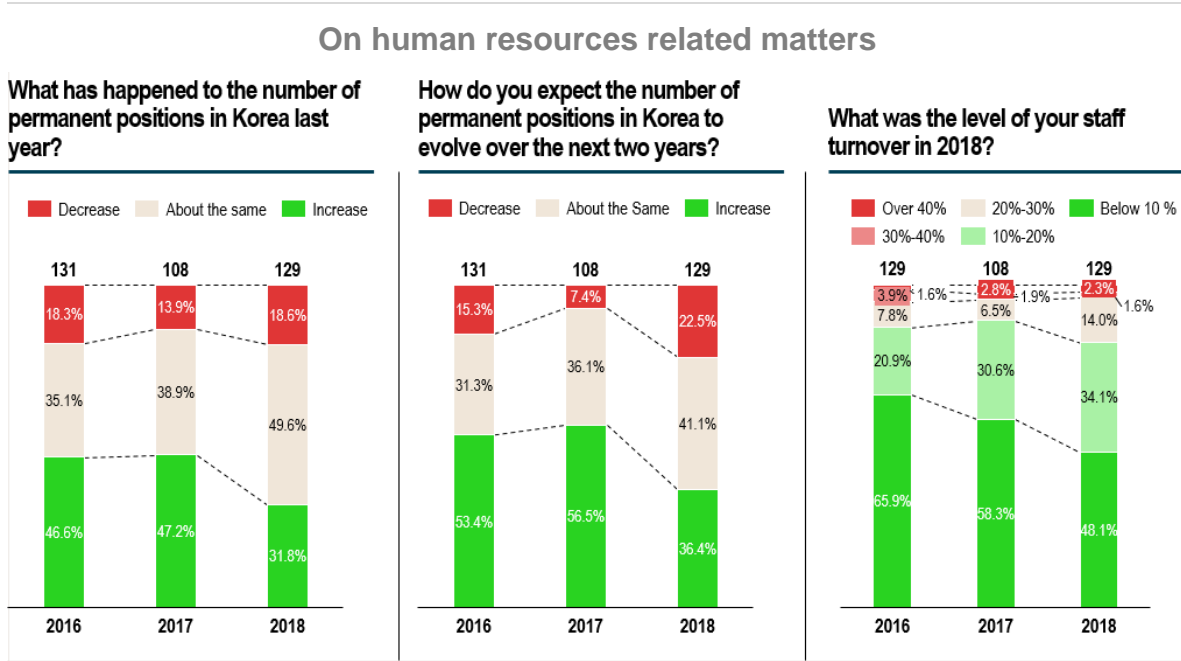
Figure 12: Plans for expansion in Korea – Industry breakdown



Plans for business expansion do exist at all business segments but especially at Services and Machinery & Tools where 73% (50% in 2017) respectively 69% (27% in 2017) of respondents replied in that way. A positive attitude towards further extension of operations was also stated by representatives from Others with 67% (60% in 2017), Energy & Chemicals with 58% (50% in 2017). Instead, at Consumer Goods & Retail, only 29% (64% in 2017) of companies targeting an expansion of their business operations but 48% (36% in 2017) not pursuing this. Plans for the expansion of business operation do not exist at 50% of Automotive companies (24% in 2017).

1.7 Human resources/hiring

Figure 13: Responses for human resources/hiring



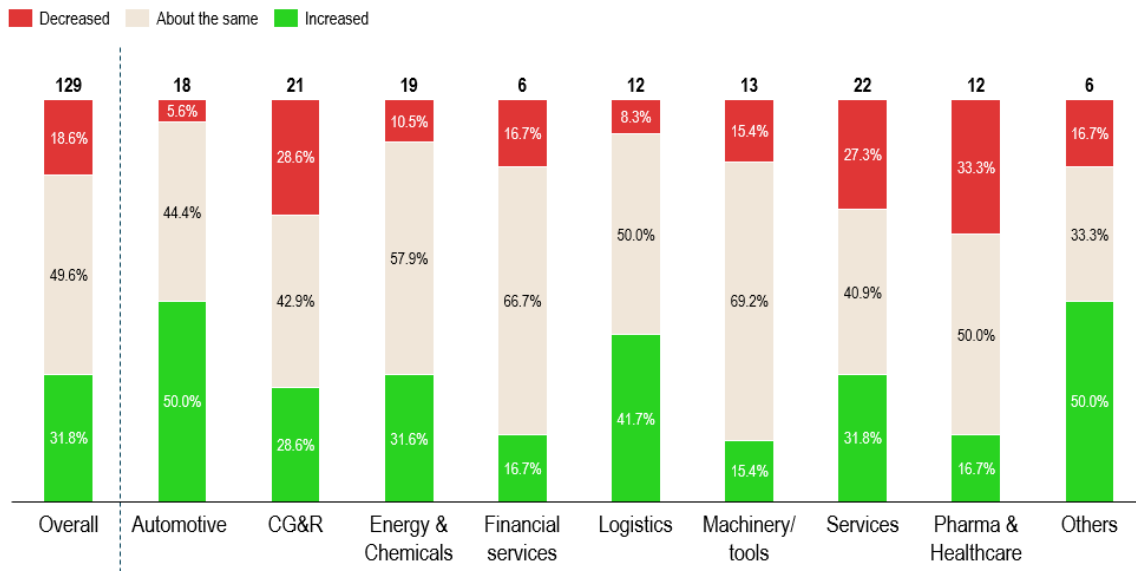
32% of companies increased their permanent positions in 2018 which is considerably lower than in 2017 where 47% of companies hired additional head count. 50% of companies replied that they employed the same number of permanent employees therewith exceeding previous year's level by 11 percentage points. 19% of enterprises instead reduced their workforce compared to 14% of companies in 2017.

36% of legal entities expect to create additional permanent positions compared to 57% in 2017. 41% of companies do not foresee adding people to their existing workforce (36% in 2017) and 23% (7% in 2017) rather expect a decrease in people employed.

The ratio for staff turnover of below 20% (staff turnover of below 10% plus staff turnover between 10% and 20%) stood at 82% (88% in 2017). It is notable to see that the staff turnover of less than 10% is declining from 66% in 2016 to 58% in 2017 to 48% in 2018. The staff turnover between 20 and 30% increased from 7% in 2017 to 14% in 2018. 4% of companies replied that they had a staff turnover of more than 30% (3% in 2017).

Figure 14: Changes in permanent positions – Industry breakdown

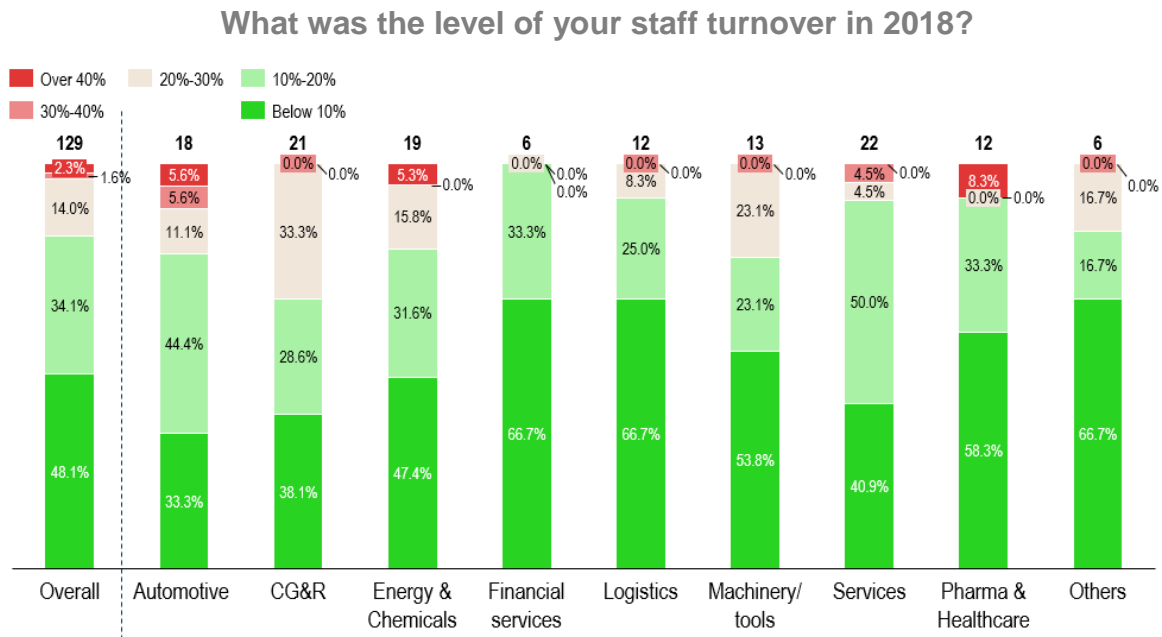
What has happened to the number of permanent positions in Korea in 2018?



The industry sectors with the highest responses concerning an increase in permanent positions in 2018 were Automotive with 50% (59% in 2017), Others with 50% (53% in 2017) and Logistics with 42% (62% in 2017). Hiring additional permanent employees were rather on the lower side at Pharma & Healthcare with 17% (20% in 2017), Financial Services with 17% (38% in 2017) and Machinery & Tools with 15% (18% in 2017).

Companies operating in 2018 with the same workforce primarily could be found in Machinery & Tools with 69% (27% in 2017), Financial Services with 67% (63% in 2017) and Energy & Chemicals with 58% (50% in 2017). Headcount reduction was experienced primarily at Pharma & Healthcare (33%, 10% in 2017), Consumer Goods & Retail (29%, 0% in 2017) and Services (27%, 50% in 2017).

Figure 15: Turnover rate – Industry breakdown



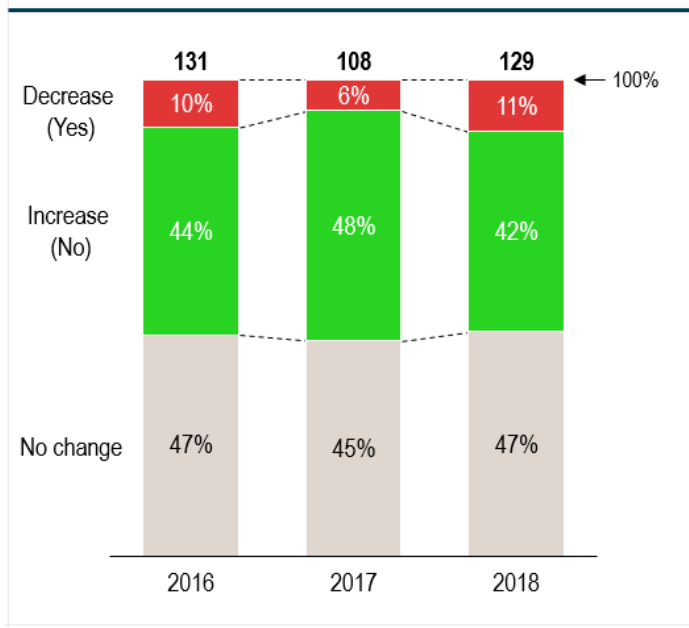
Staff turnover in Financial Services was 100% (100% in 2017) in the healthy range from 0% to 20%. Other industry segments also had non-critical staff turnover ratios such as Logistics (92%, 85% in 2017), Pharma & Healthcare (92%, 90% in 2017), and Services (91%, 80% in 2017).

A relatively high staff turnover of over 30% could be observed at Automotive (11%, 0% in 2017) as a staff turnover of 20% to 30% primarily happened at 33% of Consumer Goods & Retail companies, followed by 23% of Machinery & Tools companies.

1.8 Cost saving initiatives

Figure 16: Planned cost saving this year

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

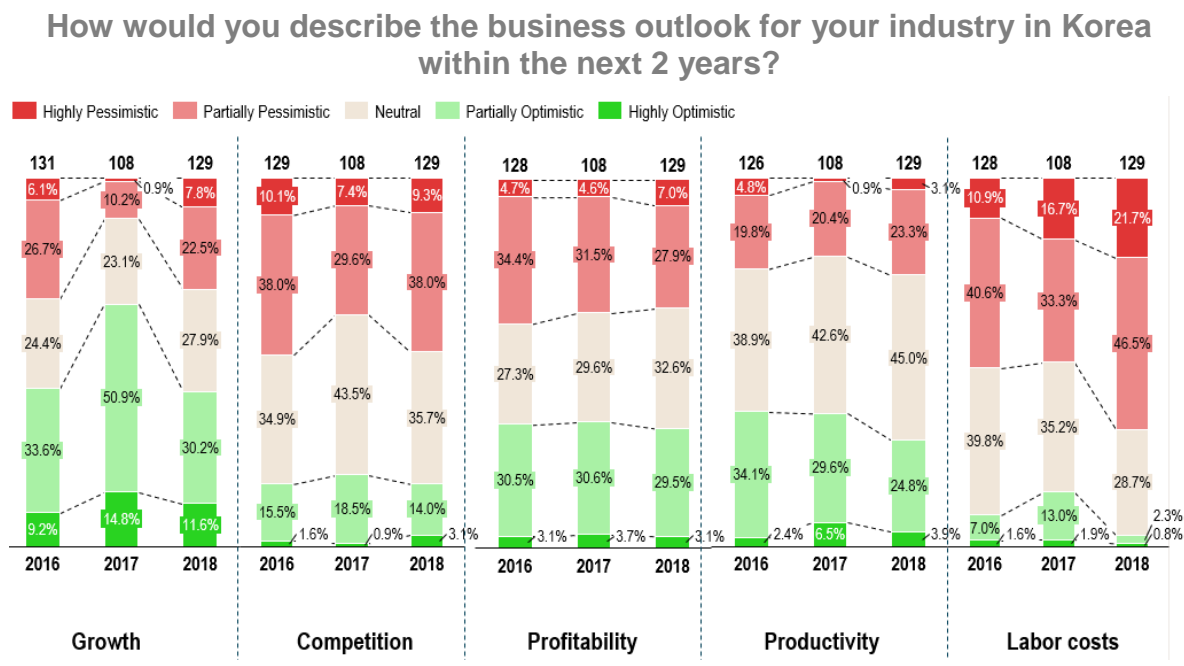


In 2018, 11% of companies replied that they will decrease investment respectively operational expenses compared to 6% in 2017. 42% of legal entities rather intend to increase spending in business compared to 48% in 2017. At 47% of companies there is no change in financial spending foreseen (45% in 2017).

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 17: Business outlook – Overview



42% of company representatives are either partially or highly optimistic about Growth for the next two years, 28% are neutral and 30% either partially or highly pessimistic. In comparison to 2017, optimism decreased from 66% by 24 percentage points to 42% and pessimism increased from 11% by 19 percentage points to 30%.

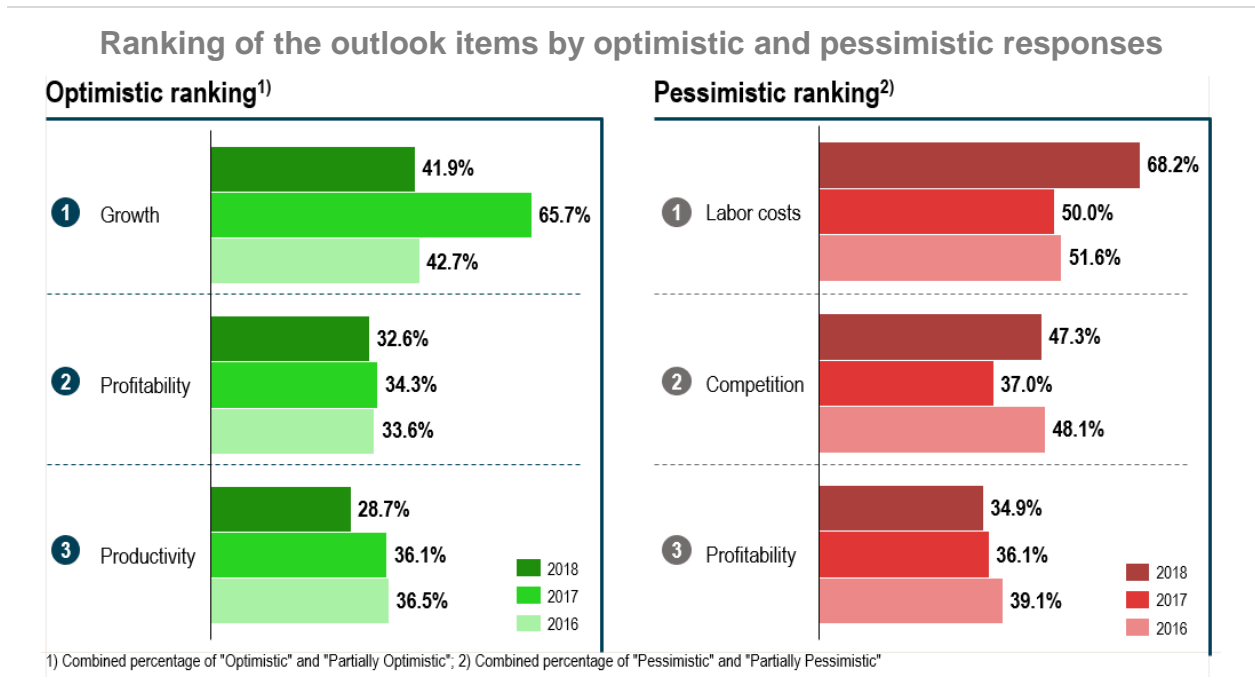
Asked about Competition, 17% (19% in 2017) of business leaders are either partially or highly optimistic, 36% (44% in 2017) are rather neutral and 47% (37% in 2017) sees this either partially or highly pessimistic.

The outlook for Profitability is rather stable; 33% (34% in 2017) of corporations are either partially or highly optimistic, 33% (30% in 2017) neutral and 35% (36% in 2017) either partially or highly pessimistic.

In 2018, 29% (36% in 2017) of company representatives are either partially or highly optimistic concerning Productivity as 45% (43% in 2017) have a neutral view but 26% (21% in 2017) are either partially or highly pessimistic.

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

Figure 18: Ranking of the business outlook items



European companies in their business outlook for the next two years are mostly optimistic regarding growth. In 2017, 42% of business leaders were either partially optimistic or optimistic on growth. This represents a decrease versus 2017 of 24 percentage points when the response ratio stood at 66%.

Profitability is the second area where business leaders feel most optimistic about. The response ratio came up to 33% which is slightly lower than in 2017 when the ratio stood at 34%.

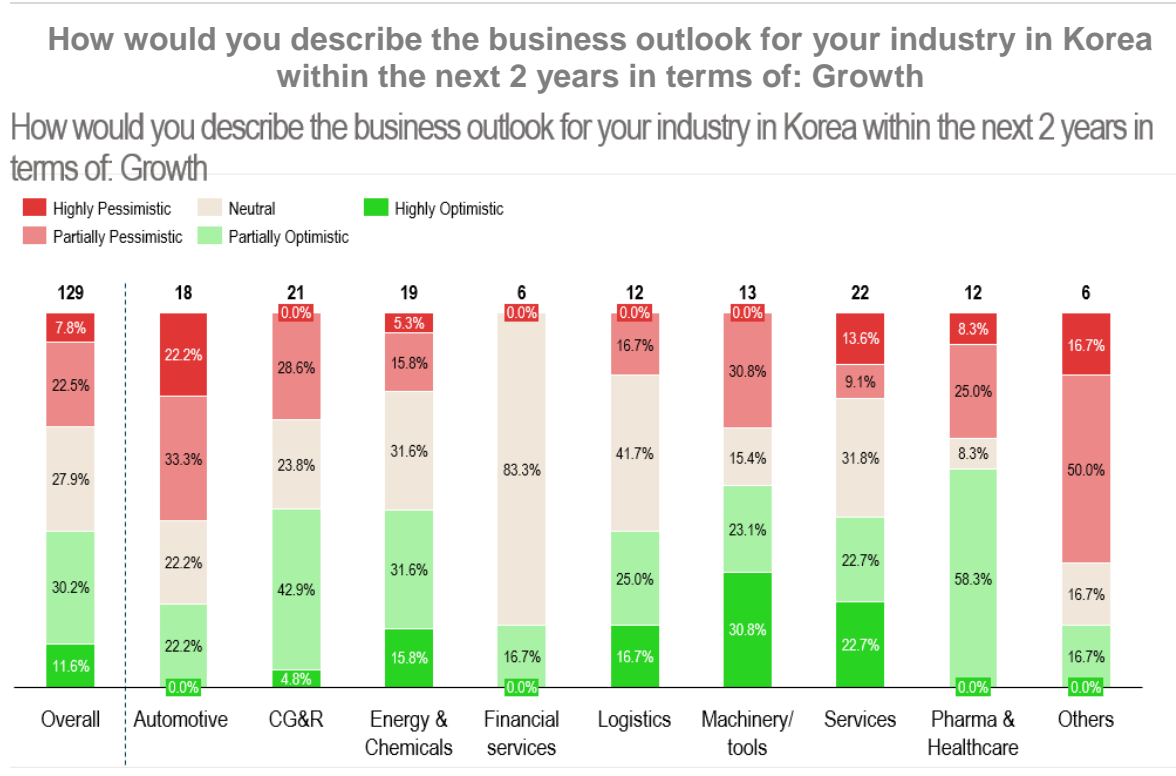
Productivity comes in third as 29% of business leaders were either partially optimistic or optimistic. This represents a decrease of 7% percentage points versus 2017 when the value was 36%.

Labour costs remains the main concern for European companies. 68% (50% in 2017) of business leaders are either partially or highly pessimistic which is considerably higher than 2017 when the rate reached 50%.

Lastly, profitability was seen pessimistically by 35% of industry representatives – a slight decrease compared to 2017 when the response rate stood at 36%.

2.1 Growth

Figure 19: Growth – by industry



Optimism (partially and highly optimistic) on growth is strongest in Pharma & Healthcare with 58% (60% in 2017), Machinery & Tools with 54% (55% in 2017) followed by Energy & Chemicals with 47% (50% in 2017).

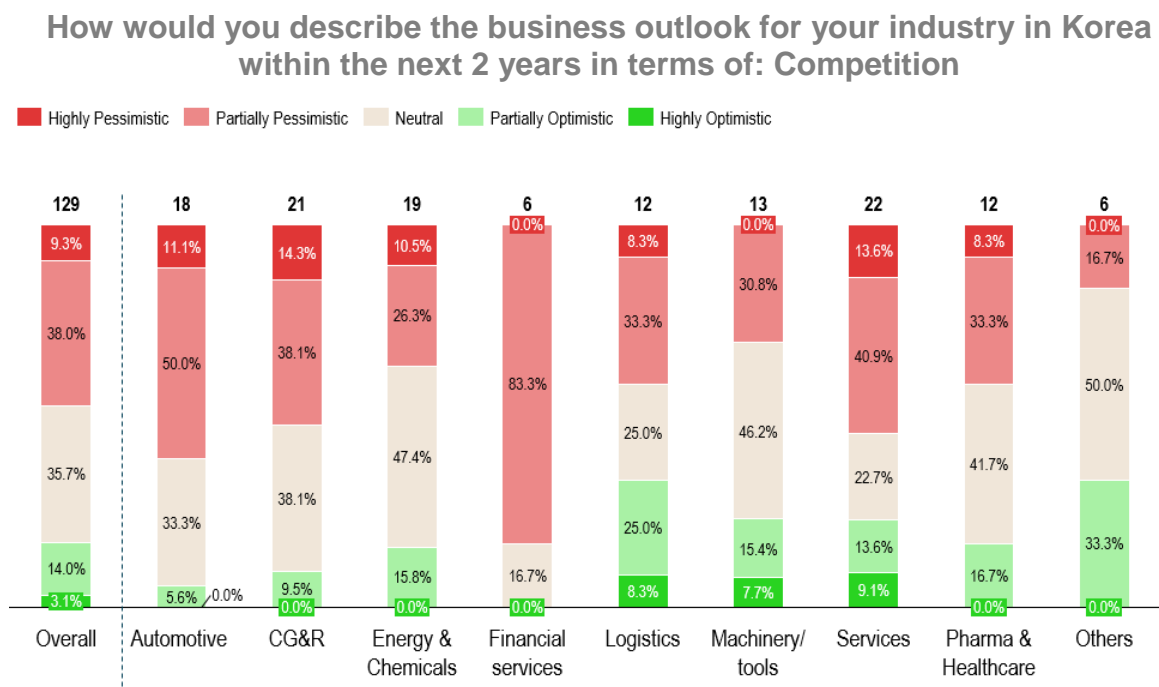
Companies being active in Others and Automotive are rather pessimistic (partially and highly pessimistic) about their growth outlook; at Others this view was shared by 67% (7% in 2017) and at Automotive by 55% (18% in 2017) of companies.

In Financial Services, the majority of companies (83%, 33% in 2017) evaluate the growth outlook rather neutral.

In comparison to the previous year all business segments are by far less optimistic on reaching their growth targets within the next two years. Optimistic replies at Logistics companies decreased from 85% in 2017 to 42%, at Services from 80% in 2017 to 45%, at Others from 74% to 17%, Consumer Goods & Retail from 64% to 48% and at Automotive from 59% to 22%.

2.2 Competition

Figure 20: Competition – by industry

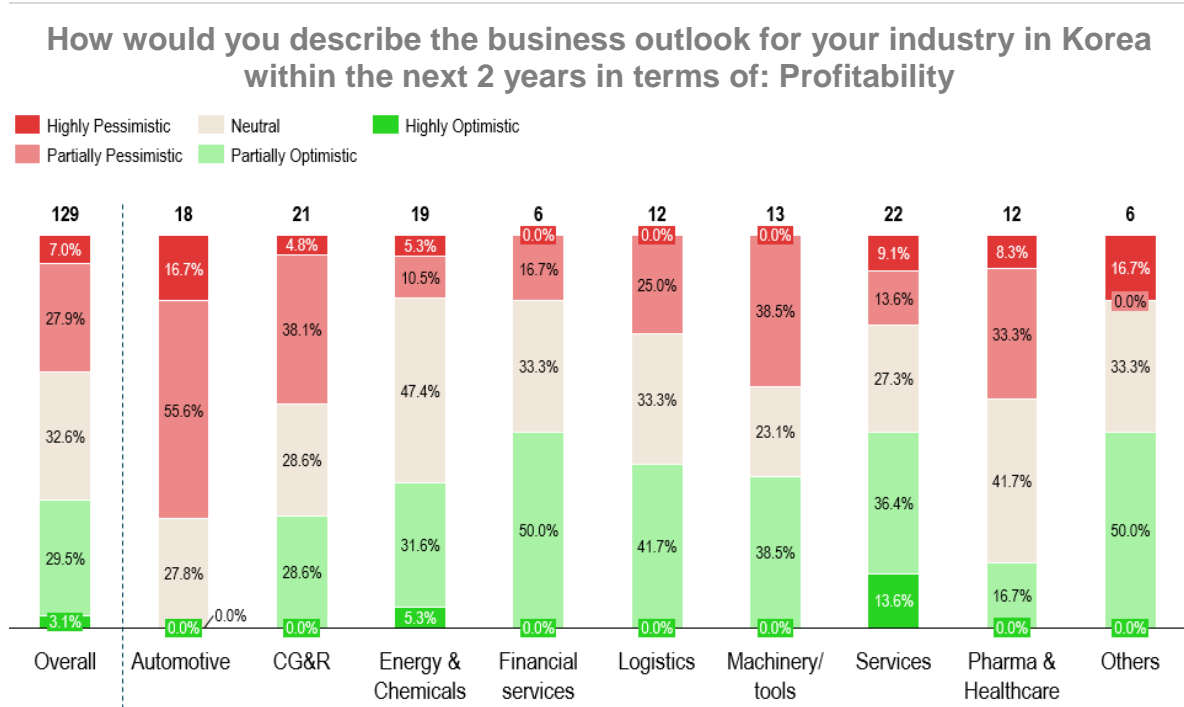


The expectation how competition will develop within the next two years is overall more pessimistic than optimistic. The most optimistic (partially optimistic and highly optimistic) industry segments in respect to how competition will develop are Others (33%, 33% in 2017) and Logistics (33%, 15% in 2017)). The less optimistic replies have been received from Financial Services (0%, 17% in 2017), Automotive (6%, 6% in 2017), and Consumer Goods & Retail (10%, 29% in 2017).

The most pessimistic views (partially pessimistic and highly pessimistic) have been received from companies being active in Financial Services (83%), Automotive (61%) and Services (54%). A major part of companies in Others (50%), Energy & Chemicals (47%) and Machinery & Tools (46%) evaluate the outlook on competition in a neutral way.

2.3 Profitability

Figure 21: Profitability – by industry

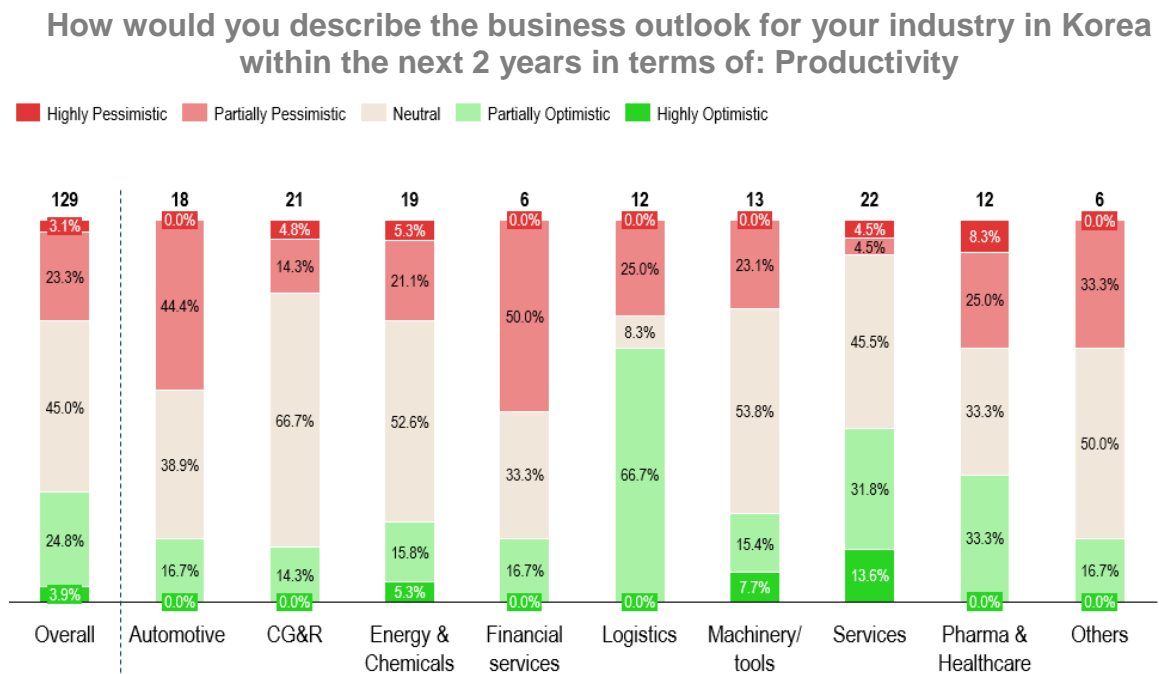


The most optimistic industry sectors in respect to profitability development over the next two years are Financial Services (50% either partially or highly optimistic, 67% in 2017), Services (50%, 60% in 2017), and Others (50%, 13% in 2017). Responses from the Energy & Chemicals sector were dominantly neutral (47%, 42% in 2017). Pessimism is strong in the Automotive Industry where 72% (35% in 2017) of respondent are either partially or highly pessimistic.

In comparison to 2017, optimism declined considerably in the Automotive industry from 41% in 2017 to 0% in 2018 and in Pharma & Healthcare from 40% in 2017 to 17% in 2018. Business segments with a more optimistic outlook on profitability are Energy & Chemicals where optimistic views increased from 17% in 2017 to 37% in 2018, Machinery & Tools with 18% in 2017 and 39% in 2018 and finally Others (13% in 2017, 59% in 2018).

2.4 Productivity

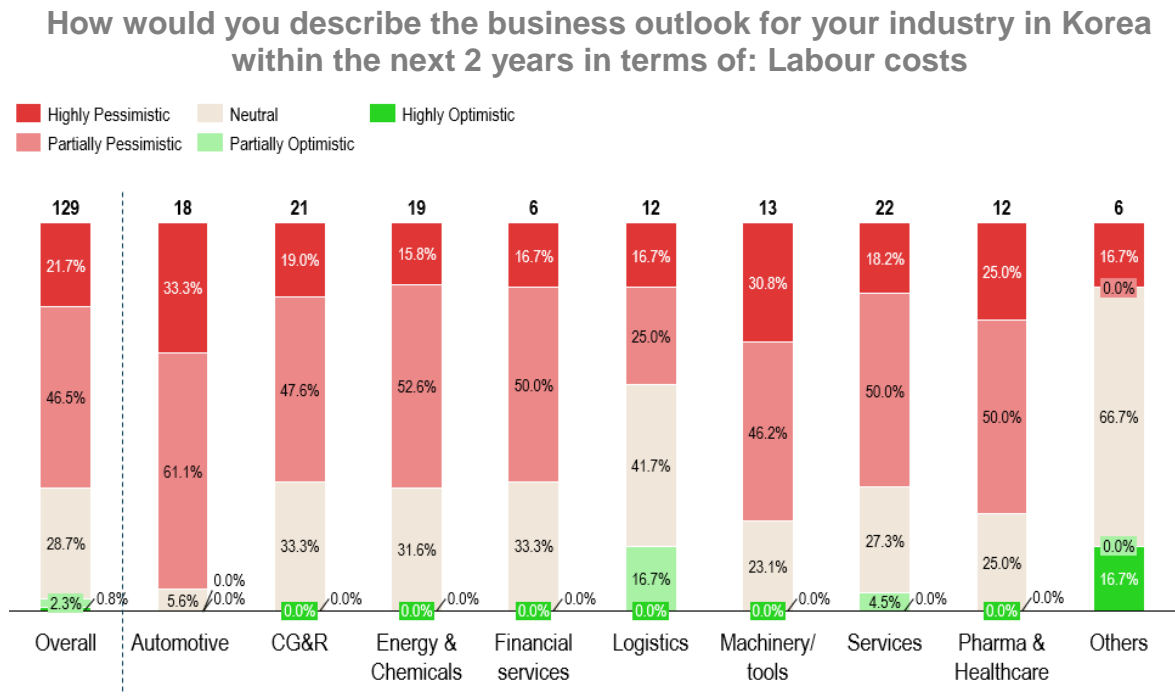
Figure 22: Productivity – by industry



Productivity is expected to increase especially in Logistics where close to 70% (62% in 2017) of respondents are either partially or highly optimistic followed by Services (45%, 70% in 2017). Company representatives from Consumer Goods & Retail (67%, 50% in 2017), Machinery & Tools (54%, 46% in 2017), Energy & Chemicals (53%, 83% in 2017), and Others (50%, 60% in 2017) all rather have a neutral view. A pessimistic view is dominant in Financial Services and Automotive where 50% (33% in 2017) and 44% (24% in 2017) of respondents have a pessimistic view on productivity development in the next two years.

2.5 Labour costs

Figure 23: Labour costs – by industry



The development of labour cost over the next two-year-period is the area companies are most concerned. Highly optimistic company representatives are almost absent except at Others where 17% of industry leaders replied in that way. At Logistics (17%) and Services (5%) there are a few business leaders who view the outlook on labour costs partially optimistic. At Others and Logistics the opinion on labour cost development is rather neutral as stated by 67% respectively 42% of business leaders.

The majority of industry segments instead express their partial or high pessimism such as at Automotive (94%, 53% in 2017), Machinery & Tools (77%, 27% in 2017), Pharma & Healthcare (75%, 53% in 2017), Energy & Chemicals (68%, 58% in 2017), Services (68%, 60% in 2017), Financial Services (67%, 33% in 2017), and Consumer Goods & Retail (67%, 57% in 2017).

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 24: Top 5 Business challenges – 2018, 2017, 2016

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

Top 5 business challenges by order of significance¹⁾ – Item comparison YoY

2018	2017	2016
1 Economic growth of Korea 72.9%	1 Economic growth of Korea 86.1%	1 Economic growth of Korea 73.5%
2 Rising labor costs 70.5%	2 Rising labor costs 73.1%	2 Ambiguous rules & regulations 67.2%
3 Ambiguous rules & regulations 60.5%	3 Ambiguous rules & regulations 68.5%	3 Global economy growth 66.7%
4 Global economy growth 58.9%	4 Market access barriers 65.7%	4 Rising labor costs 65.2%
5 Discretionary enforcement of regulations, Economic nationalism / anti foreign business sentiment 56.6%	5 Discretionary enforcement of regulations 64.8%	5 Local currency appreciation/ depreciation 64.3%

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

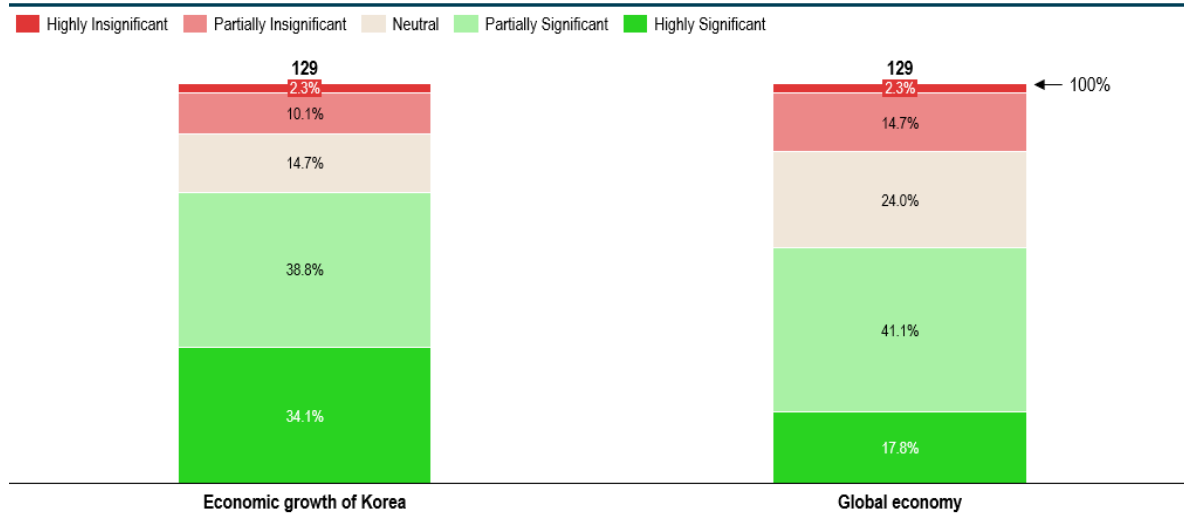
The growth of the Korean economy has been considered the main challenge since the beginning of the launch of the Business Confidence Survey in 2014; this year 73% (86% in 2017) of executives have named this item as either partially or highly significant for their business. Rising Labour Costs was named by 71% (73% in 2017) of respondents as a key challenge followed by Ambiguous Rules & Regulations where 61% (69% in 2017) of executives are of the opinion that this represents a substantial business challenge as well. This year, Global Economy Growth is new in list of Top 5 Business Challenges replacing Market Access Barriers. Global Economy Growth was named by 59% of business representatives as a key business challenge. The second challenge being new in the Top 5 is Economic Nationalism / Anti-foreign Business Sentiment which was named by 57% of business leaders as a key challenge to overcome. Lastly, Discretionary Enforcement of Regulations remains a challenge as in 2017 as stated by 57% of company representatives.

3.1 Economy related & financing

Figure 25: Economy related challenges

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

Economy related

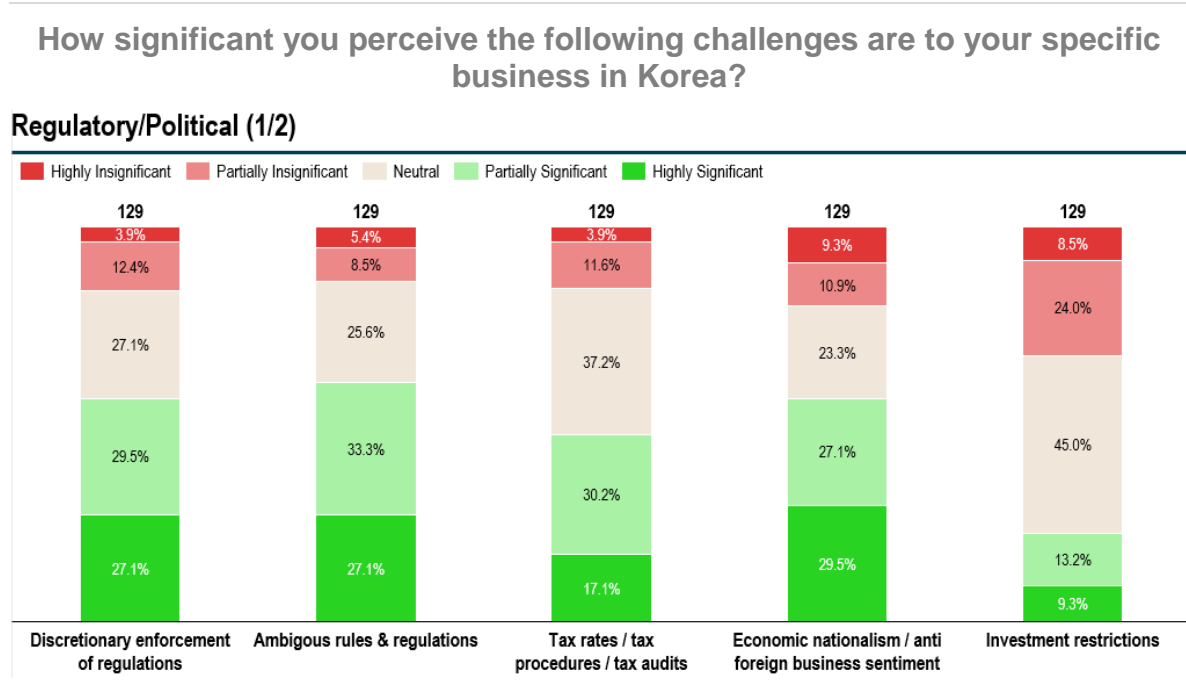


Business leaders, namely 73% (86% in 2017), see the growth of the Korean economy either as partially or highly significant for their business as 15% (10% in 2017) rather had a neutral view and 12% (4% in 2017) felt that this is rather insignificant (partially and highly insignificant).

Also, the development of the global economy continues to have a main impact on business conducted in Korea; 59% (63% in 2017) of executives do rate this as either partially or highly significant while 24% (27% in 2017) have rather a neutral view and 17% (9% in 2017) indicating that this is rather insignificant.

3.2 Regulations/political issues

Figure 26: Regulations/Political related challenges



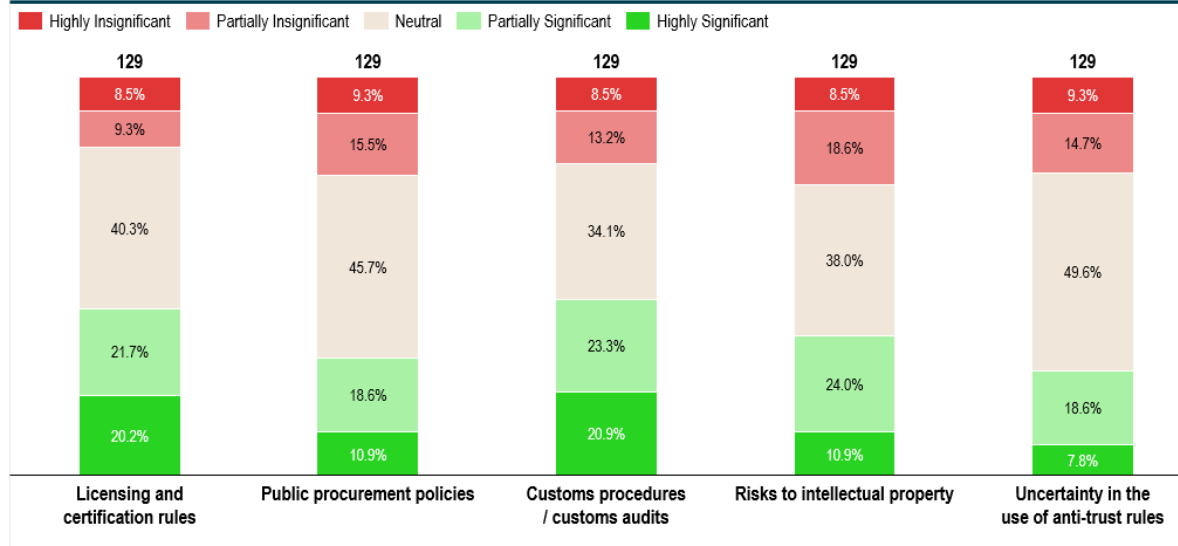
Ambiguous Rules and Regulations, Economic Nationalism / Anti-foreign Business Sentiment and Discretionary Enforcement of Regulations are the top challenges in the regulatory and political section.

Ambiguous Rules and Regulations is perceived by 60% of respondents as either a partially or highly significant business challenge – a decrease of 9 percentage points versus 2017 when the response ratio was 69%. Economic Nationalism / Anti-foreign Business Sentiment is seen by 57% (54% in 2017) of European business leaders as a key challenge. Discretionary Enforcement of Regulations was named by 57% (67% in 2017) of companies as a significant challenge to business.

Other considerable challenges are perceived by 47% of respondents in Tax Rates / Tax Procedures / Tax Audits. Investment restrictions instead is valued only by a minority (23%, 48% in 2017) of respondents as a significant challenge.

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

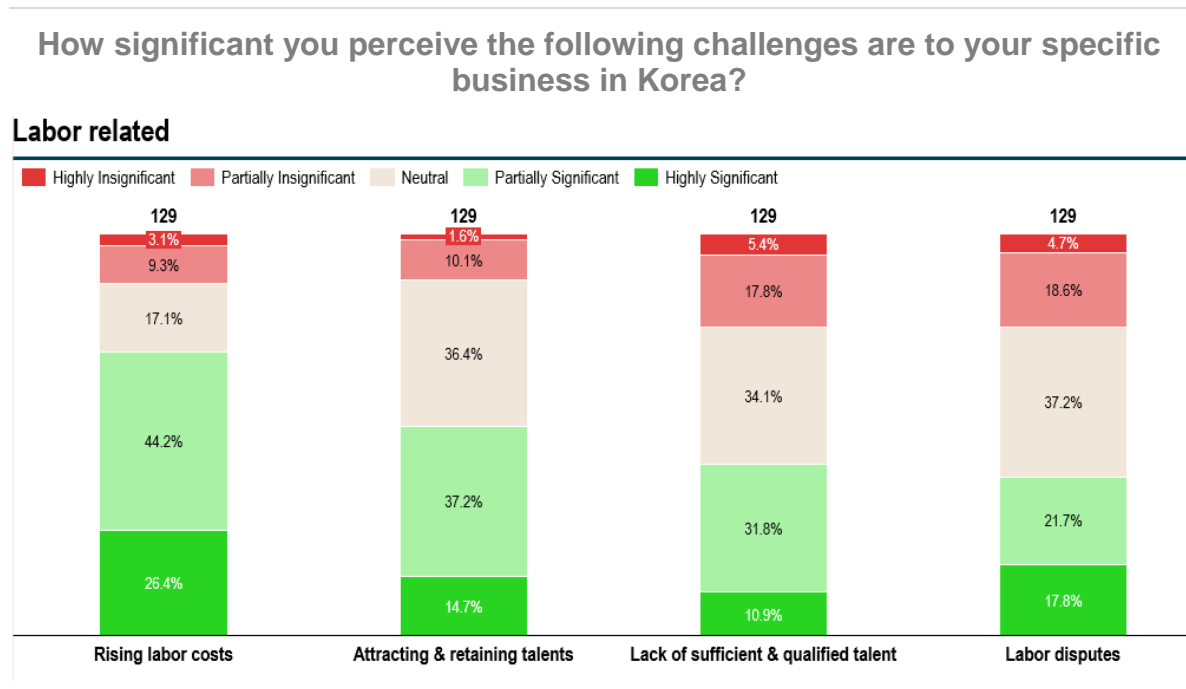
Regulatory/Political (2/2)



Customs Procedures have been named by 44% (53% in 2017) as a significant challenge (partially or highly significant). Licencing and Certification Rules where 42% (52% in 2017) of company representatives do rate this as either partially or highly significant. 30% (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. Finally, Risks to Intellectual Property 35% (36% in 2017) and Uncertainty in the Use of Anti-Trust Rules 26% (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

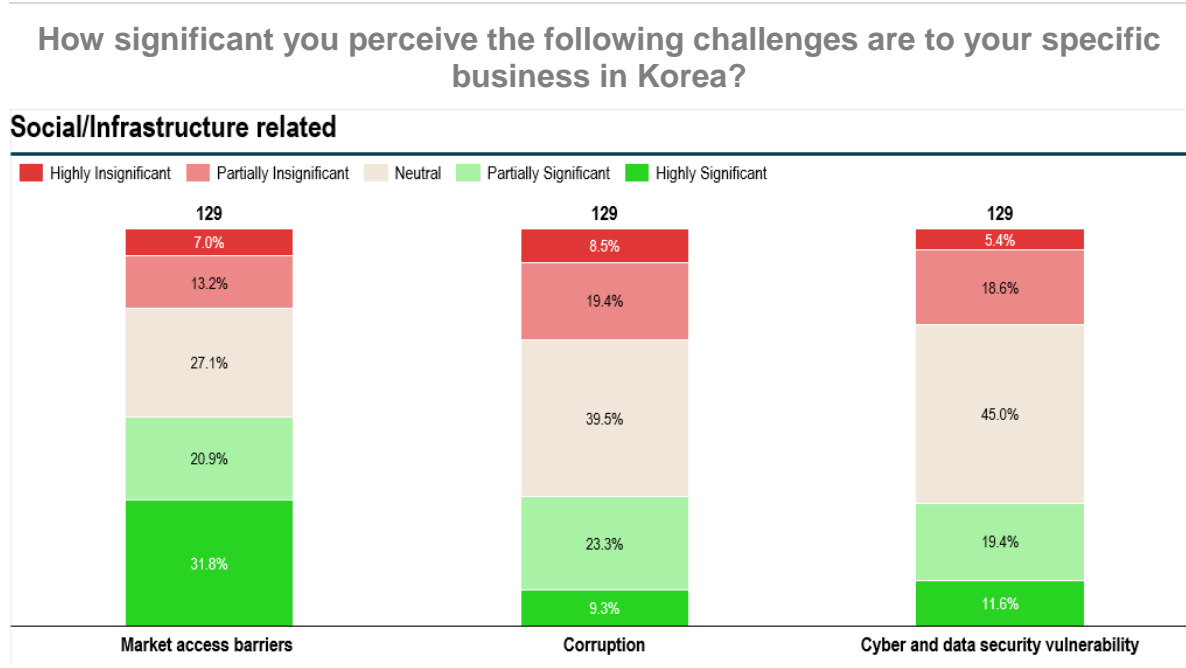
Figure 27: Labour related challenges



In the Labour related field, Rising Labour Costs is the main issue for European companies. 26% (32% in 2017) of company executives alone rate this as highly significant and additional 44% (25% in 2017) as partially significant. Although not seen that critical as the labour cost development, talent management also remains a key issue in 2018. Attracting and Retaining Talents and Lack of Sufficient and Qualified Talents are named by 52% (56% in 2017) respectively 43% (47% in 2017) of business leaders as significant issues (partially and highly). Finally, Labour Disputes also remains a significant impact area as stated by 40% of executives (44% in 2017).

3.4 Social/infrastructure

Figure 28: Social/infrastructure related challenges



In Social / Infrastructure the key challenge is Market Access Barriers. 32% (40% in 2017) of business leaders rate this as highly significant, 21% (26% in 2017) as partially significant, 27% (22% in 2017) as neutral and 20% (12% in 2017) as either partially or highly insignificant.

Corruption instead seems not to be an area of main concern anymore. In 2017 only 33% see this as a significant issue (34% in 2017), 40% (40% in 2017) of business people rate this as neutral and 28% (26% in 2017) as either partially or highly insignificant.

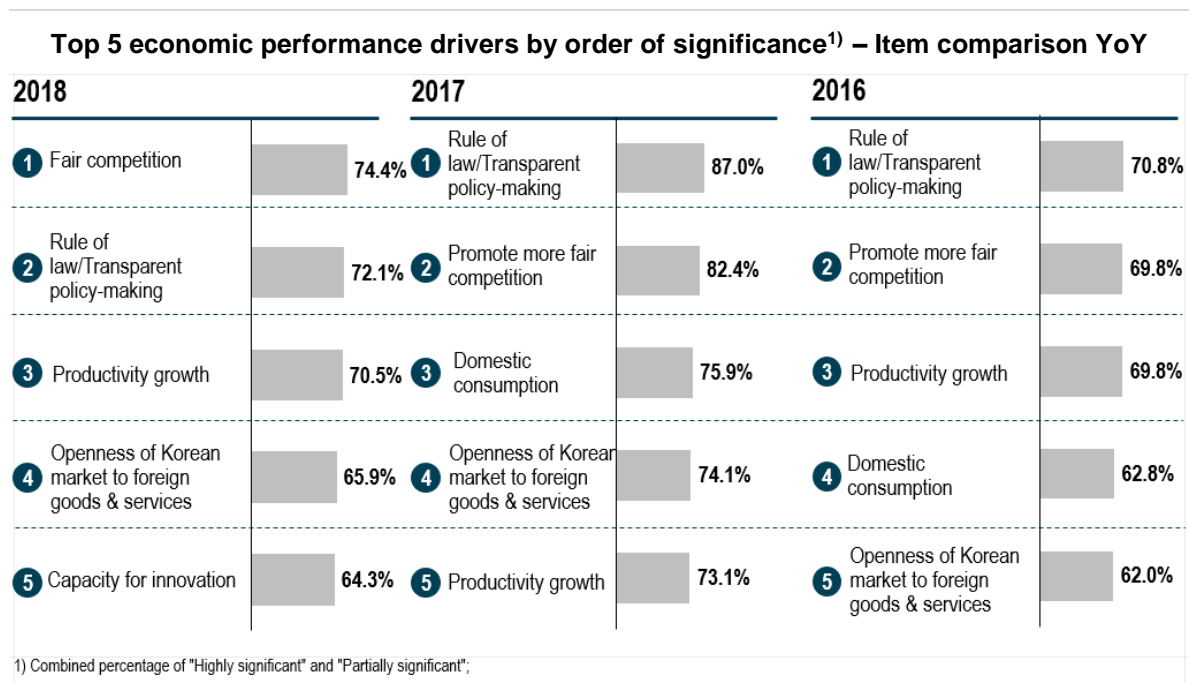
In 2018 Cyber and Data Security Vulnerability was seen as partially or highly significant by 30% (32% in 2017), neutral by 45% (51% in 2017) and as partially or highly insignificant by 24% (18% in 2017) of respondents.

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 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 29: Top 5 Economic performance drivers in 2018, 2017, 2016

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



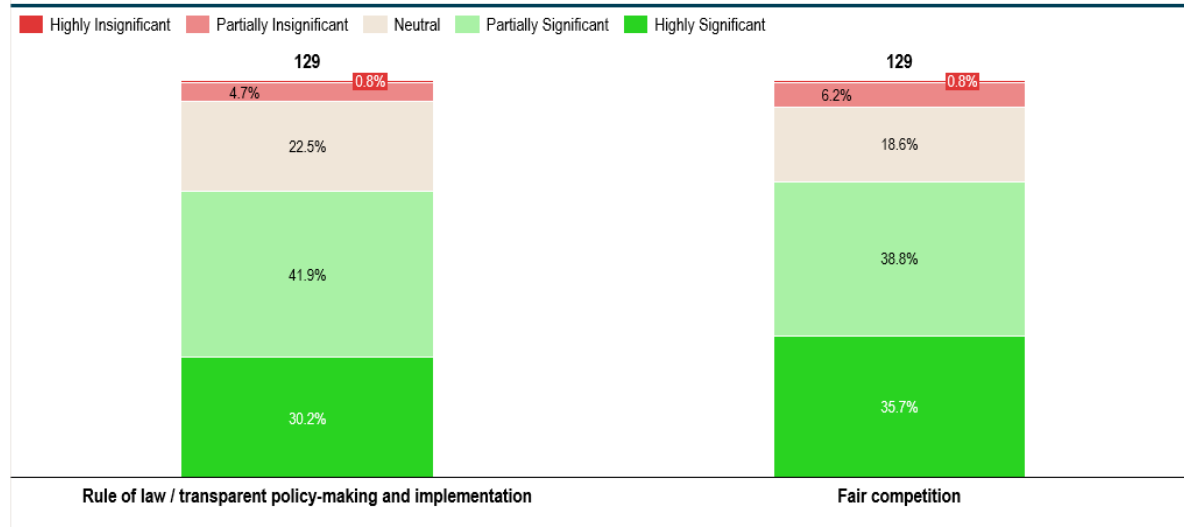
In 2018, 74% of business leaders replied the most significant economic performance driver is Fair competition followed by Rule of Law/Transparent Policy-Making named by 72% (87% in 2017) as significant. Productivity Growth is rated by 71% (73% in 2017) as significant and the Openness of Korean Market to Foreign Goods & Services comes up at 66% (74% in 2017). Capacity for Innovation (64%) ranked fifth important economic performance driver in 2018.

4.1 Regulation/policy

Figure 30: Performance drivers – Regulation/policy

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

Regulation/policy



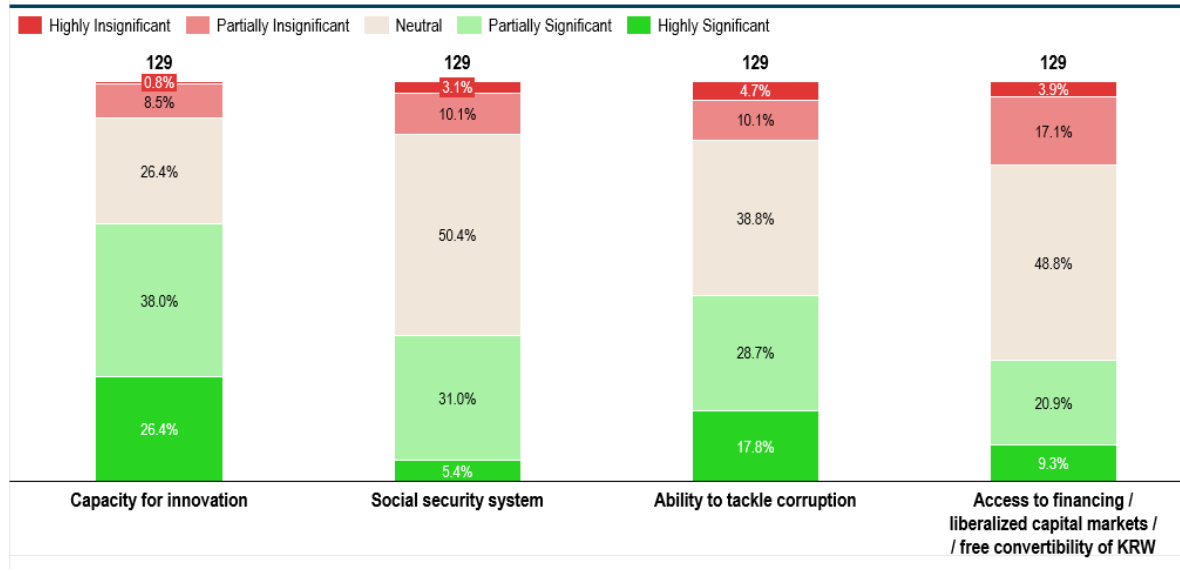
The Rule of Law / Transparent Policy Making and Implementation was named by 72% (87% in 2017) of business leaders being either partially or highly significant for the economic development of Korea closely followed by Fair Competition where 75% of executives consider this as crucial.

4.2 Social/infrastructure

Figure 31: Performance drivers – Social/infrastructure

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

Social/Infrastructure related

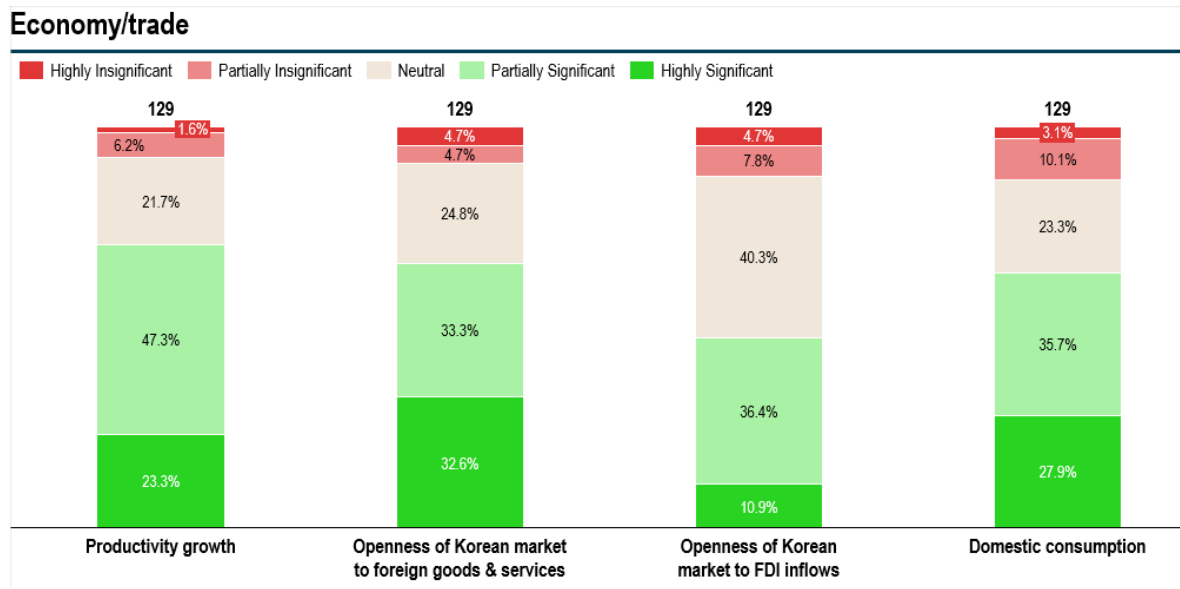


In respect to Social and Infrastructure related performance drivers, Capacity for Innovation as well as the Ability to Tackle Corruption are considered the most important drivers followed by the Social Security System and Access to Financing/Liberalized Capital Markets/Free Convertibility of KRW. The Capacity for Innovation is seen by 64% (partially and highly significant) of business leaders as crucial. The Ability to Tackle Corruption was named by 47% (65% in 2017) of business leaders as either partially or highly significant. The view by executives on Social Security System is more balanced as 36% (45% in 2017) consider this as significant but 50% as neutral. The situation is similar for Access to Financing / Liberalized Capital Markets where 30% (41% in 2017) of business leaders sees this as a significant area but 49% have a neutral view.

4.3 Economy/trade

Figure 32: Performance drivers – Economy/trade

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



In the area of economy and trade, Productivity Growth was seen by 71% (73% in 2017) of company representatives as an important factor. 66% (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. Domestic Consumption was rated by 64% (76% in 2017) of corporations as either partially or highly significant.

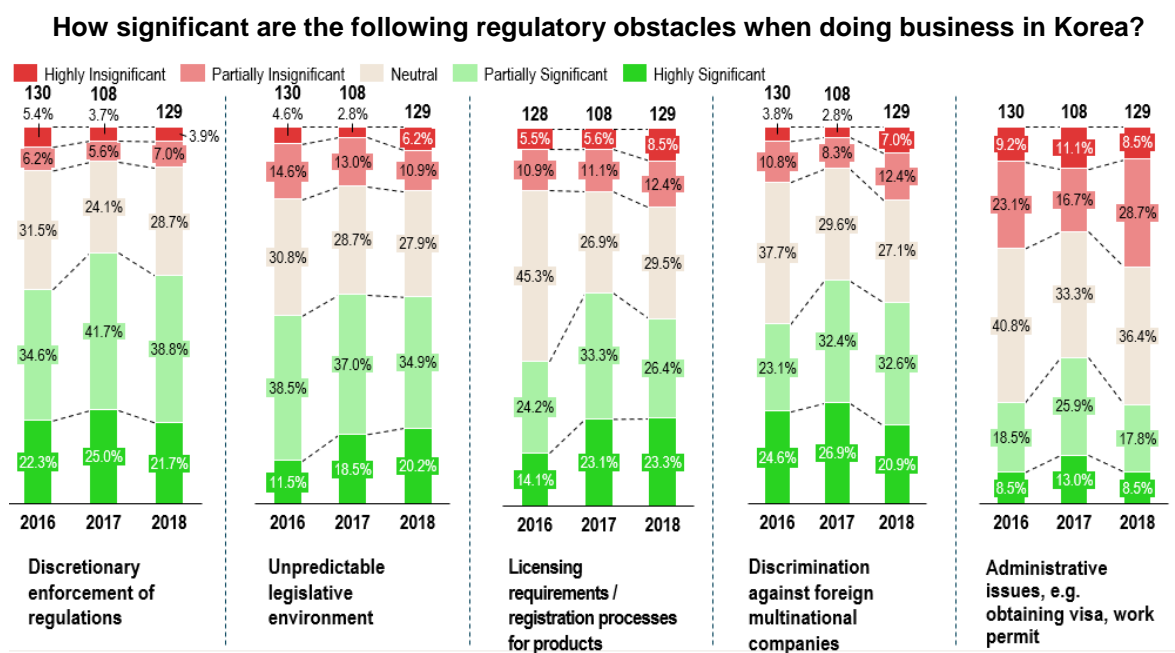
The majority of business leaders are rather of the opinion that Openness of Korean Market to FDI Inflows is not crucial for the economic development in the coming years – only 47% of respondents believe it is significant to the economic development.

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 33: Regulatory obstacles YoY



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

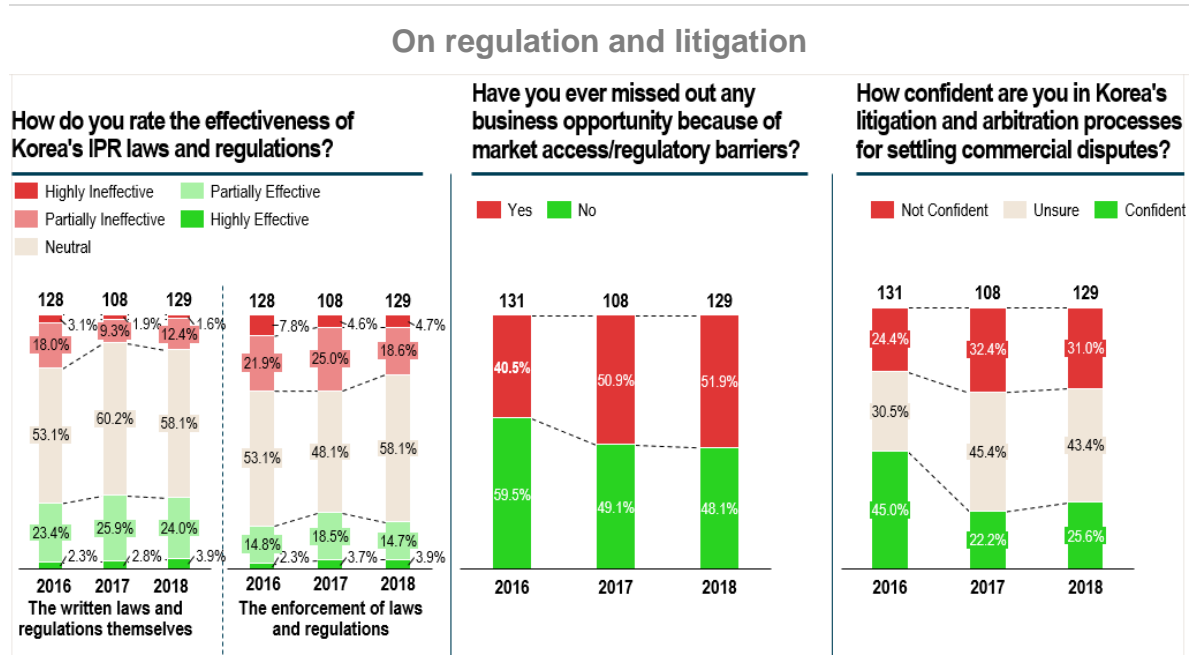
The Unpredictable Legislative Environment was considered by 55% (56% in 2017) of company representatives as partially or highly significant, by 28% (29% in 2017) as neutral and by 17% (16% in 2017) as partially or highly insignificant.

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

About 54% (59% in 2017) of companies seem to have discriminative issues in the area of Public Procurement. This value can be interpreted as critical as not all companies participating in the survey were involved in public procurement activities. Administrative Issues was considered by 26% (39% in 2017), as either partially or highly significant, a relatively low value.

5.2 Confidence and effectiveness of litigation and regulation

Figure 34: Responses for regulation and litigation



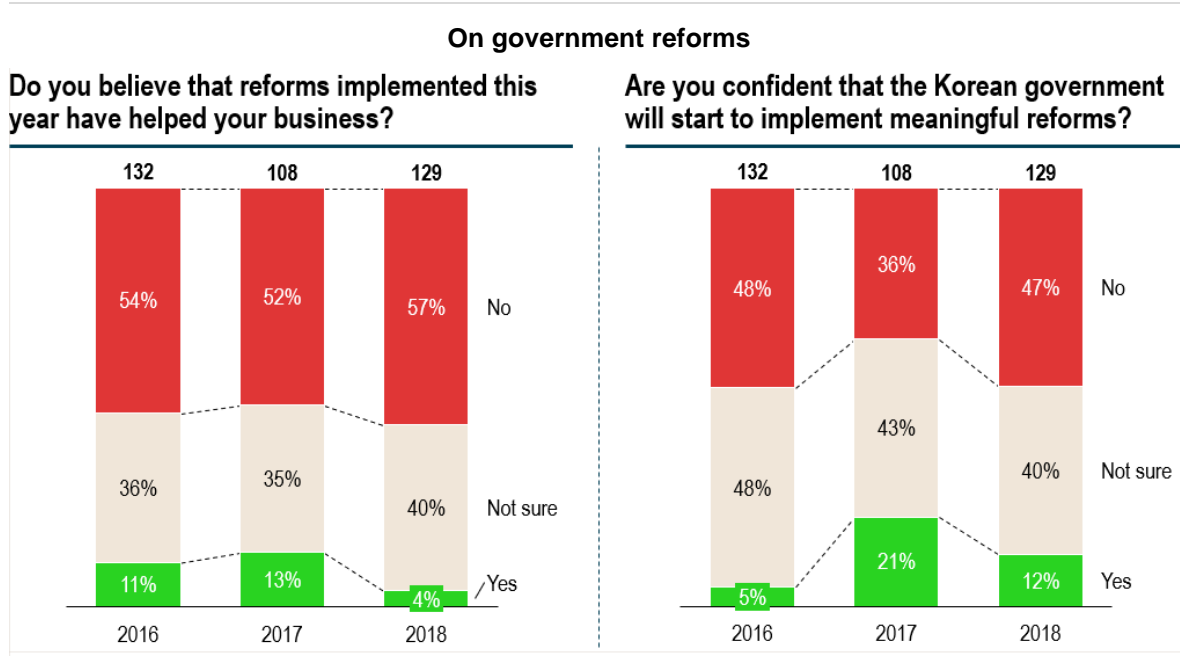
The effectiveness of Korea's legislative set-up and execution has been an issue for companies, especially those with intellectual properties, trademarks and copyrights. 28% (29% in 2017) of company representatives valued the Written Laws and Regulations as either partially or highly effective, 14% (11% in 2017) of respondents saw the laws and regulations as partially or highly ineffective. Enforcement of Laws and Regulation stood at 19% (22% in 2017) partially effective or highly effective. The combined value for partially and highly ineffective came up at 23% (30% in 2017).

48% (50% in 2017) of all companies experienced a loss of business opportunities, due to either market access or regulatory barriers.

In the area of Confidence in the Litigation and Arbitration Processes for Settling Commercial Disputes, 26% (22% in 2017) of respondents expressed confidence – down from 45% in 2016. 43% (45% in 2017) of company representatives were unsure and 31% (32% in 2017) were not confident.

5.3 Opinion on government reforms

Figure 35: Government reforms – YoY



A government’s mission is – among others – to provide a legal and legislative framework where the economy including businesses can further develop positively. The majority of business leaders, namely 57% (52% in 2017), are of the opinion that the reforms launched and implemented in 2018 have not been supportive for business operation. 40% (35% in 2017) of executives are not sure about the impact and only 4% (13% in 2017) evaluate those positively.

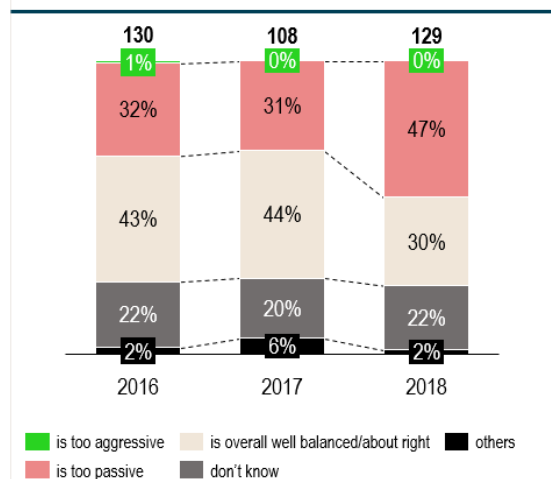
The outlook of the implementation of reforms for the coming years does not look brighter than the outcome for 2017. 12% (21% in 2017) of respondents replied that they are optimistic about the government implementing meaningful reforms, 40% (43% in 2017) are not sure and 47% (36% in 2017) are of the opinion that the government will not come up with meaningful initiatives in the coming years.

5.4 Opinion on European and Korean governments' actions

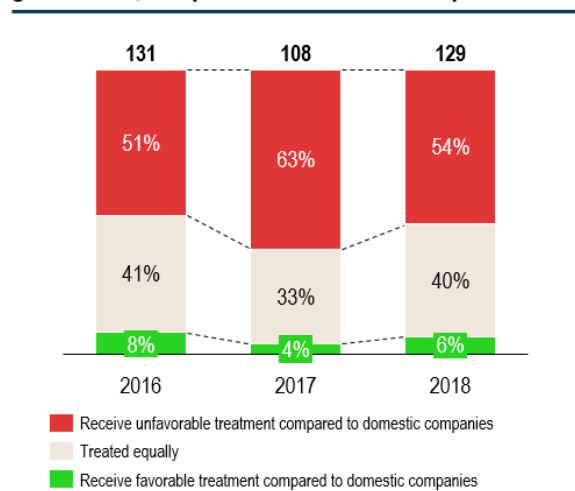
Figure 36: Legislative / regulatory environment YoY

On European and Korean governments' actions

On market access and trade related issues do you believe that the position of the European institutions...¹⁾



Do you perceive any unfair or unfavorable handling of foreign-invested companies in Korea by the Korean government, compared with domestic companies?



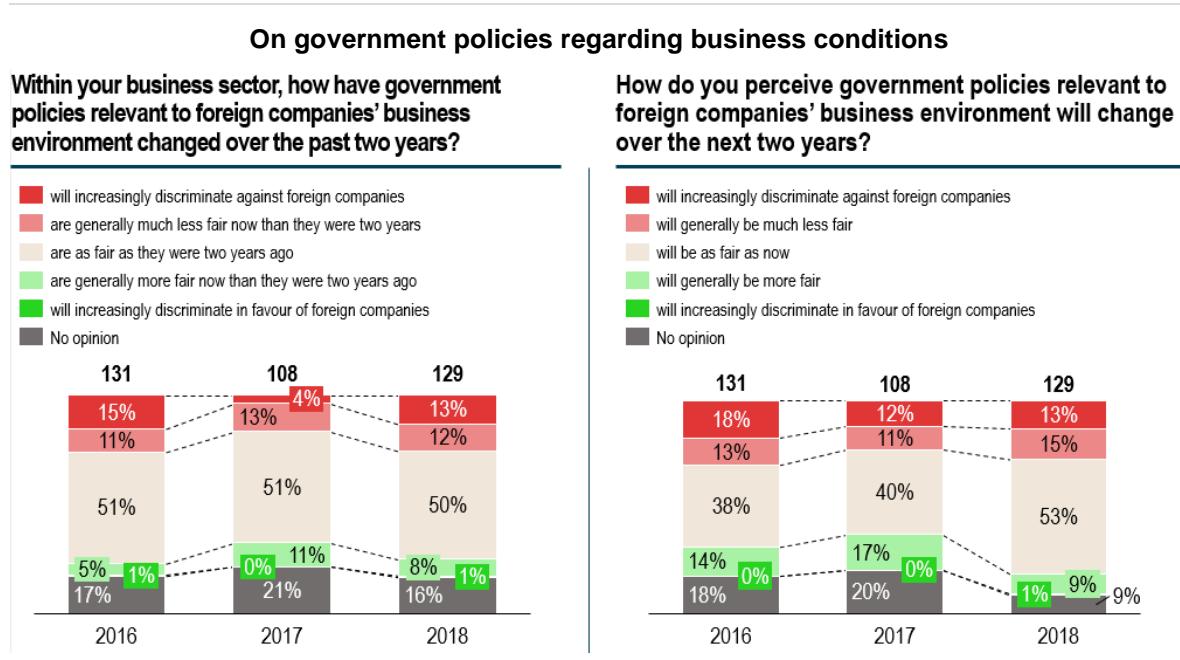
1) European Union or European Union Delegation (Korea), European states' ministries or embassies

The majority of respondents, namely 47% (31% in 2017) evaluate the activities related to market access and trade relations as not well balanced. 30% (44% in 2017) instead 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.

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

5.5 Government policies regarding business conditions

Figure 37: Government policies regarding business conditions YoY



25% (17% in 2017) believe policies either became less fair or increasingly discriminated. The majority of respondents, namely 50% (51% in 2017), believe policies towards foreign companies are as fair as they were two years ago. 9% (11% in 2017) state that government policies relevant to foreign companies, became fairer or even increasingly discriminated in favour of foreign companies. This question was unanswered by 16% (21% in 2017) of companies.

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

CONCLUSION

Korea is and remains an attractive market for European businesses. New companies are constantly entering the Korean market and 50% of participating companies intend to expand their business operation.

European business remains committed to their Korean operations despite the fact that business has become more difficult compared to two years ago. Majority of the respondents (84%) have replied that Korea holds least the same level of importance to the company's global strategy.

Business development in 2018 versus 2017 was mixed across the industry segments. 37% of companies accounted solid sales growth, 33% stable sales and 30% decreased sales. Turnover development was more favourable in Machinery & Tools and to also to a certain degree in Services; it was not in Automotive and Consumer Goods & Retail where 56% respectively 43% of responding companies reported sales decrease of more than 5%.

Of the respondents, 47% feel 'Optimistic' or 'Highly Optimistic' about the business outlook for the next two years. Business leaders in majority (68%) express concern about the development within the next two years of Labour Costs.

Income led growth policy – including job creation – has been a key pillar of the Korean economic policy. European companies do support this policy, but the number of companies having added permanent positions has decreased from 47% in 2017 to 32% in 2018; in respect to additional hiring in the next two years to come, also the number of companies have decreased from 57% in 2017 to 36%.

Key for economic success is a transparent and fair 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 respect to business policy making, the feedback received is not that positive. 57% of business leaders did not believe that reforms implemented in 2018 improved the business environment although 4% of participating company representatives believed that this was the case. The policy outlook looks a bit better with 47% of respondents not being convinced that governmental reforms will bring something positive within the next two years – this is believed by 12%.

The survey grasps the opinions, views and perception of business leaders representing European business operating in Korea. A change can only be reached 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 38: By industry

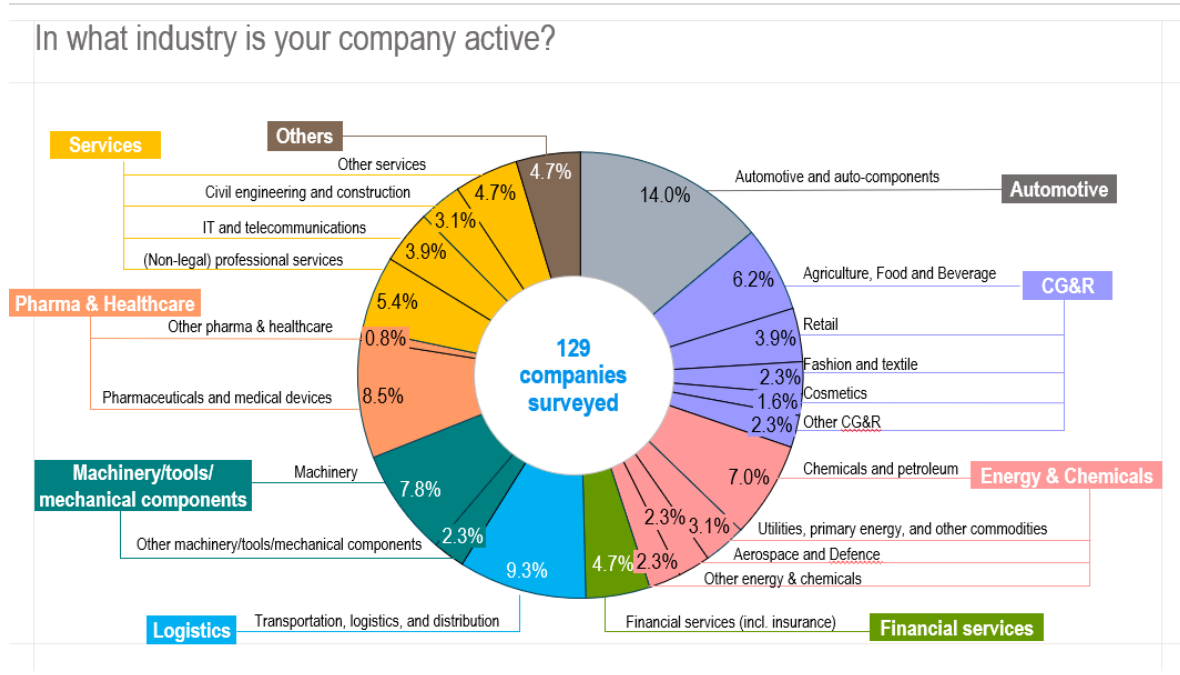
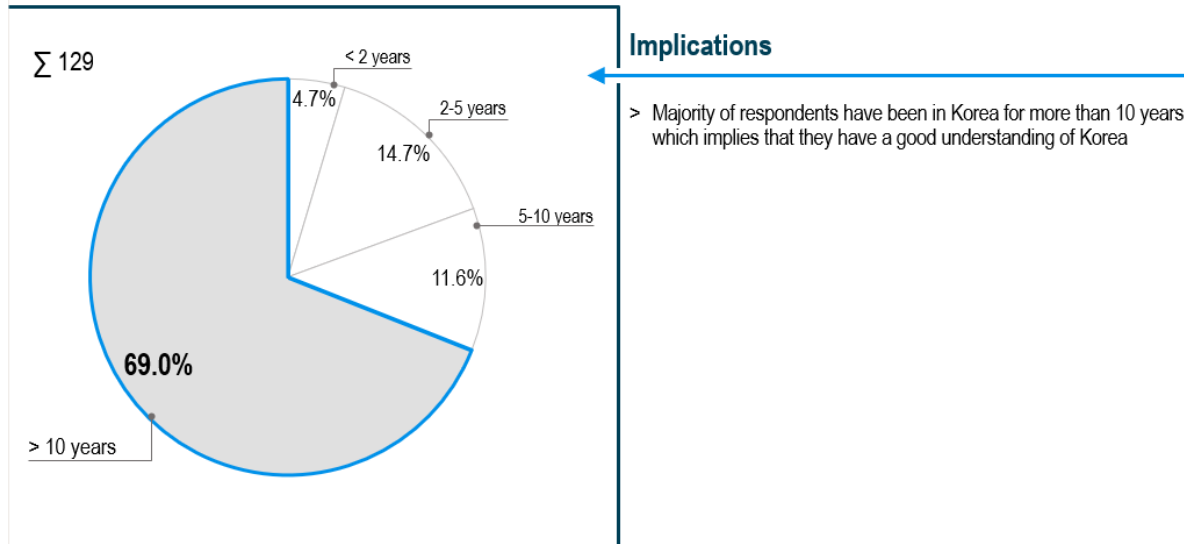


Figure 39: By number of years of operation in Korea

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 40: By ownership

Is your company fully owned by a European company?

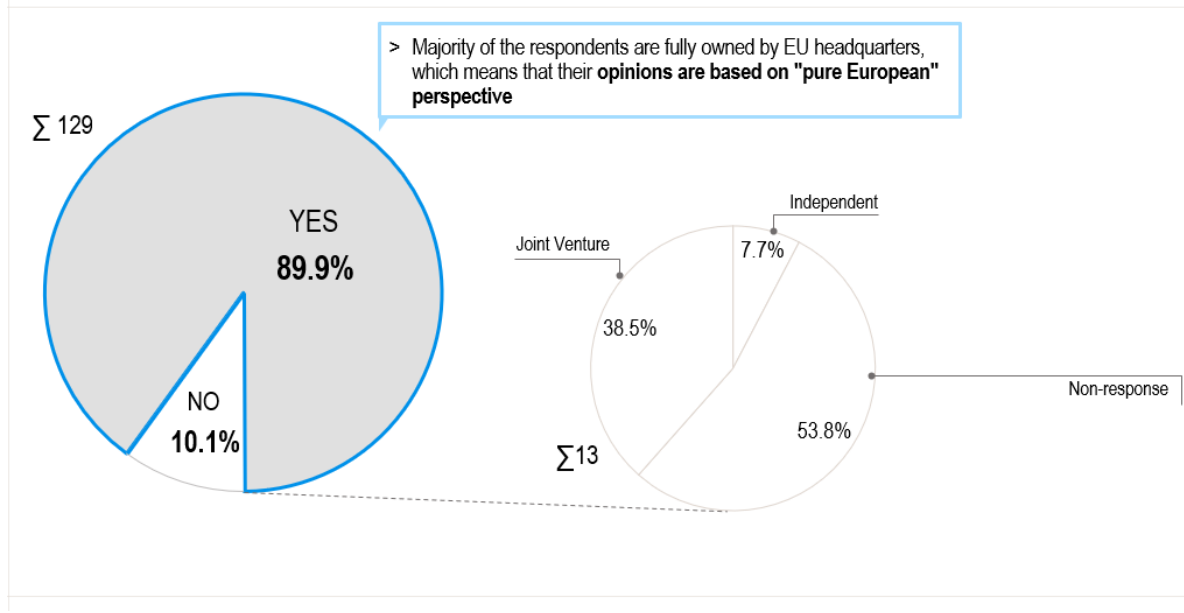
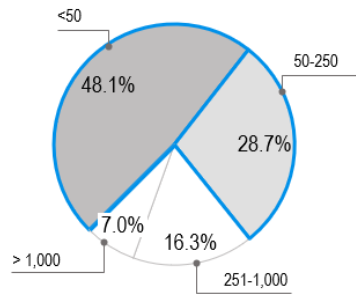


Figure 41: By size

Employee number, revenue size and proportion

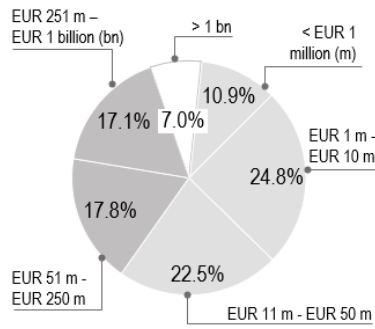
How many employees do you have in Korea?

Σ 129



What was the total revenue of your company in Korea in 2018?

Σ 129



What proportion of global revenues was generated in Korea?

Σ 129

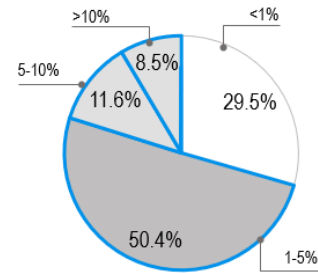
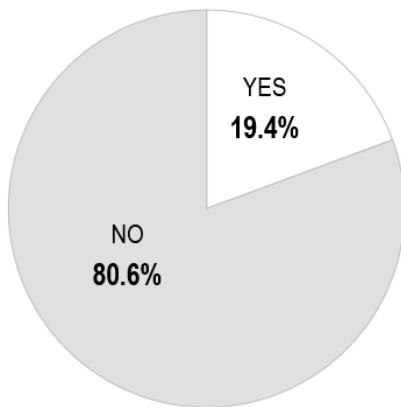


Figure 42: Ownership of R&D or production facilities

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

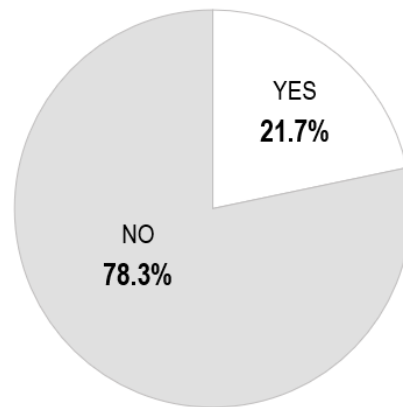
R&D facilities

Σ 129



Production facilities

Σ 129



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Tower 8 Bldg., 6F, 7 Jong-ro 5 gil, Jongno-gu
Seoul 03157
+82 (0)2 2288 0004
www.rolandberger.com

European Chamber of Commerce in Korea (ECCK)

5F, Seoul Square, 416 Hangang-daero, Jung-gu
Seoul 04637
+82 (0)2 6261 2700
www.ecck.eu

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