

European Business in Korea

Business Confidence Survey 2016



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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. The survey, in which 131 companies took part, comprised of 25 questions. However, as not all the participants answered all of the questions, the total number of respondents is 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 five European chambers in Korea; the European Chamber of Commerce in Korea as the initiator, the British Chamber of Commerce in Korea, the French-Korea Chamber of Commerce and Industry, the Italian Chamber of Commerce in Korea and the 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 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.

The results of this year's survey have been analysed and presented in three ways:

- Overview and presentation of the 2016 collective response
- Year-on-year comparison of the 2016 collective response
- Overview and presentation of the 2016 response breakdown by industry

EXECUTIVE SUMMARY

In 2016 the Korean economy grew by 2.7%, compared to a growth rate of 2.6% in 2015. Korean officials still describe the state of the Korean economy being in a crisis mode. It is true that exports were substantially down and that the massive problems in the shipbuilding and shipping industry had a negative impact not only on the GDP but also on the general sentiment.

For European businesses, however, Korea is and will continue to be, an important market. Yet, it is still not always easy to conduct business here. Initiatives to support business such as deregulation seemed to have phased out as there was not much progress made during the year. It appears that industry would like to see bolder progress in the reviews of rules and regulations leading to more operational freedom as well as less complexity in doing business in Korea. It also seemed that policy to a certain extent became more nationalistic. It is of huge concern that about 30% of the responding companies feel that they are somehow discriminated or not treated in a fair way – either retrospectively for the last two years or future oriented for the coming two years.

131 company executives, representing a combined workforce exceeding 60,000 employees and a total turnover of EUR 50 billion, answered the survey. The respondents confirmed that the Korean market is either of increasing, 37%, or unchanged, 47%, strategic importance. However, more than half, 60%, of the respondents indicated that doing business has become more difficult than in previous years.

Overall, the European business community believes in the Korean market and plans to further expand their operations within it. Solutions need to be found, especially to reduce ambiguous rules and regulations. Company executives identified discretionary enforcement of regulations and the unpredictable legislative environment as obstacles to successfully conduct business in Korea. Since the launch of the survey, rising labor costs have been constantly mentioned as one of the most important business challenges. However, due to the still pending labor market reform, no progress was made in 2016.

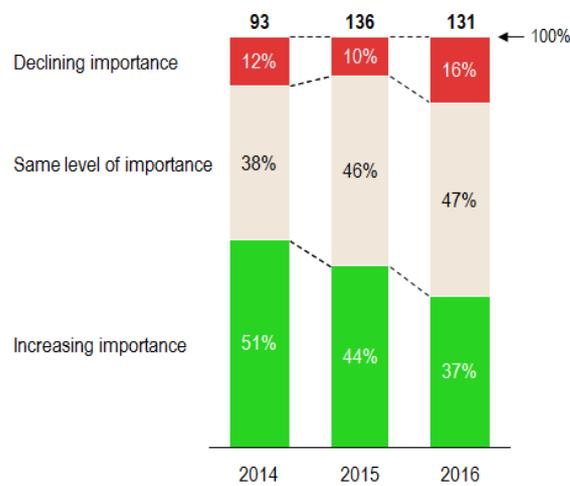
The challenges ahead for Korea, and all industry players both domestic and foreign, are considerable. We sincerely hope that the Business Confidence Survey will be a useful tool for business people and policy makers to make future-forward decisions for the mutual benefit of the Korean society, the Korean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



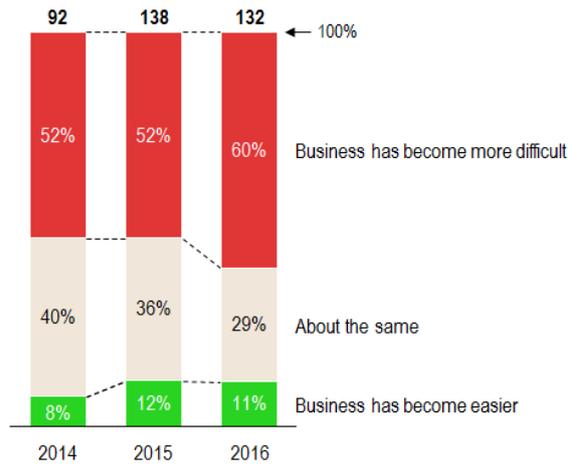
Korea is and remains an important market for European companies. 37% of responding companies see an increasing importance of Korea for their company's overall global strategy, and as for 47% it is the same level of importance. 16% of the companies indicate that the importance of Korea is declining instead.

The results overall confirm the importance of Korea for European companies although the number of companies evaluating Korea as a market of increasing importance is further declining. In 2014, more than half – namely 51% – were the opinions that the Korean market has increasing importance; it decreased in 2015 to 44% and in 2016 it further dropped to 37%. Instead, more and more companies see Korea maintaining the same level of importance. In 2014, 38% of the responding companies shared this view as in 2015 it was 46% and in 2016 47%. The number of companies evaluating the Korean market with a declining importance grew from 12% in 2014 to 16% in 2016.

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?



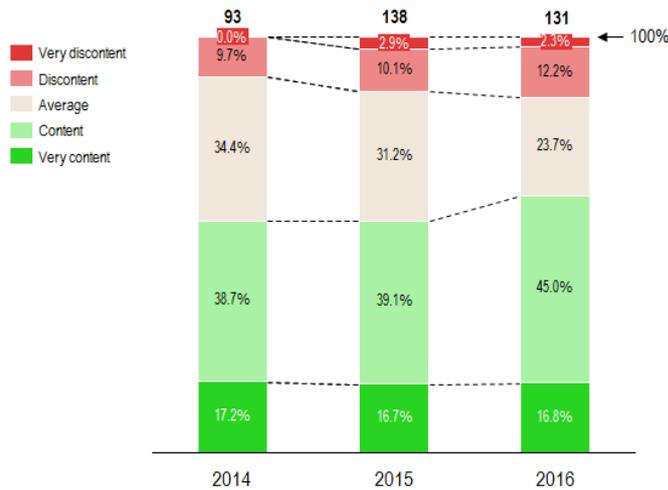
Doing business in Korea has been and continued to be challenging. In 2016, 60% of the European companies felt that business has become more difficult as for 29% it remained about the same; only 11% responded that business has become easier.

Business has become even more difficult compared to 2014 and 2015 where 52% of companies responded in this way. Replies from corporations who felt that the business environment was about the same have declined from 40% in 2014 to 36% in 2015 to 29% in 2016. Lastly, only a small number of firms have fed-back that business has become easier; the respective number was 8% in 2014, 12% in 2015 and 11% in 2016.

1.3 Performance in Korea

Figure 3: Performance in Korea – YoY

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

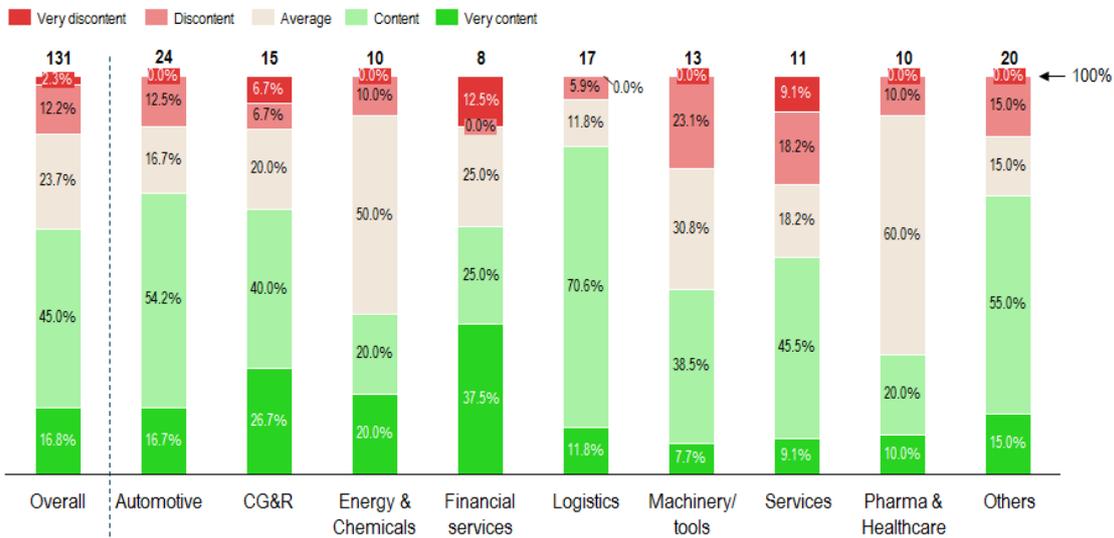


The majority of the respondents viewed their business performance positively as 17% were very content and 45% being content. 24% of the companies evaluated their performance as adequate as 14% – namely 12% being discontent and 2% very discontent – were not satisfied with their business' performance.

The responses in 2014 and 2015 were not much different but in 2016 more companies are content with their business operations. The value increased from 56% in 2015 (17% being very content and 39% content) to 62% (17% being very content and 45% content). The companies viewing their performance as adequate instead decreased from 34% in 2014 to 31% in 2015 to reach only 24% in 2016. About 10% of the companies in 2014 were either discontent or very discontent; the dissatisfaction reached 13% in 2015 and 14% in 2016.

Figure 4: Performance in Korea – Industry breakdown

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



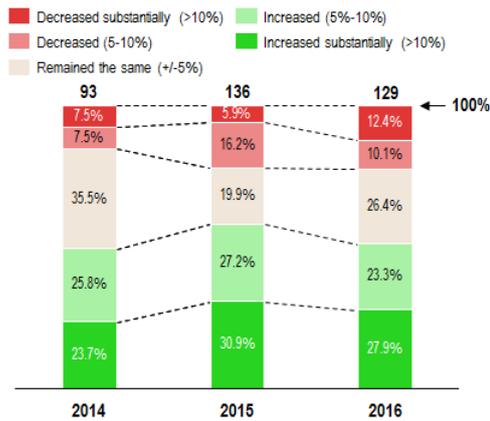
Business performance satisfaction varies considerably among industry sectors. The industries seeing business performance most positively are Logistics (82% content or very content), Automotive (71%), Consumer Goods & Retail (67%), and Financial Services (63%) while Machinery & Tools (46%), Energy & Chemicals (40%), Pharma & Healthcare (30%) reported relatively low content. The industry sectors with the highest discontent ratio (very discontent and discontent) were Services (27%) and Machinery & Tools (23%) as at Logistics only 6% of the respondents were discontent with their business performance.

1.4 Revenue and market share

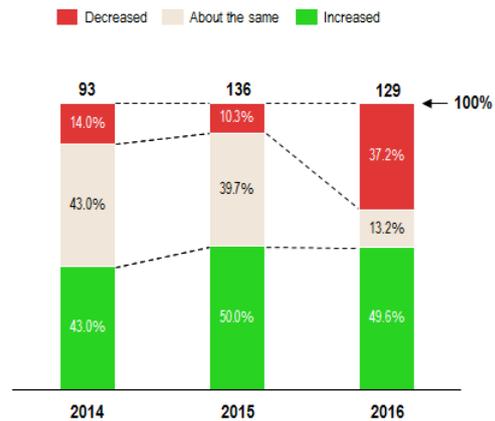
Figure 5: Revenue and market share

On revenue and market share growth

How did your company's revenue in Korea change in 2016 compared to that of 2014?



How did your market share evolve in 2016 versus 2014?



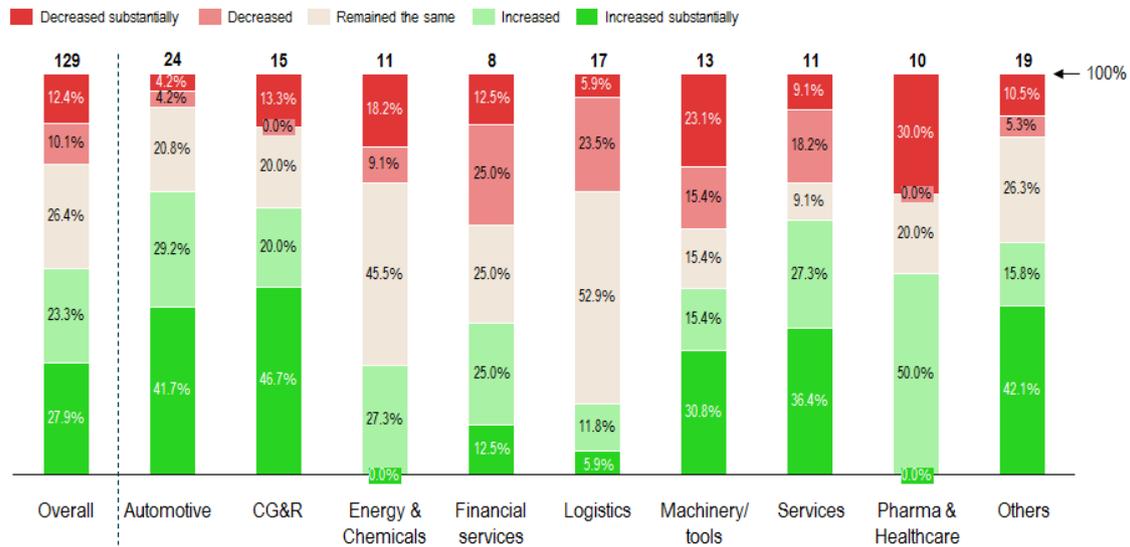
51% of the companies saw their sales increasing – thereof 28% substantially with 10% or more – and 26% reporting about the same revenue. However, 22% of the responding companies experienced lower turnover, with 12% showing a substantial reduction in revenue of more than 10%.

Comparison to the previous year shows that positive responses (increased and increased substantially) grew from 49% in 2014 to 58% in 2015 but decreased to 51% in 2016. Negative responses in 2016 (decreased and decreased substantially) were at 22% versus 22% in 2015 and 15% in 2014.

The revenue changes were also visible in the market share changes: 50% of the respondents saw their market share increasing from 2015, 13% reported about the same market share, and 37% experienced a smaller market share. The number of companies with a growing market share remained with 50% even as in 2015, but corporations with declining market share grew from 10% in 2015 to 37% in 2016.

Figure 6: Revenue – Industry breakdown

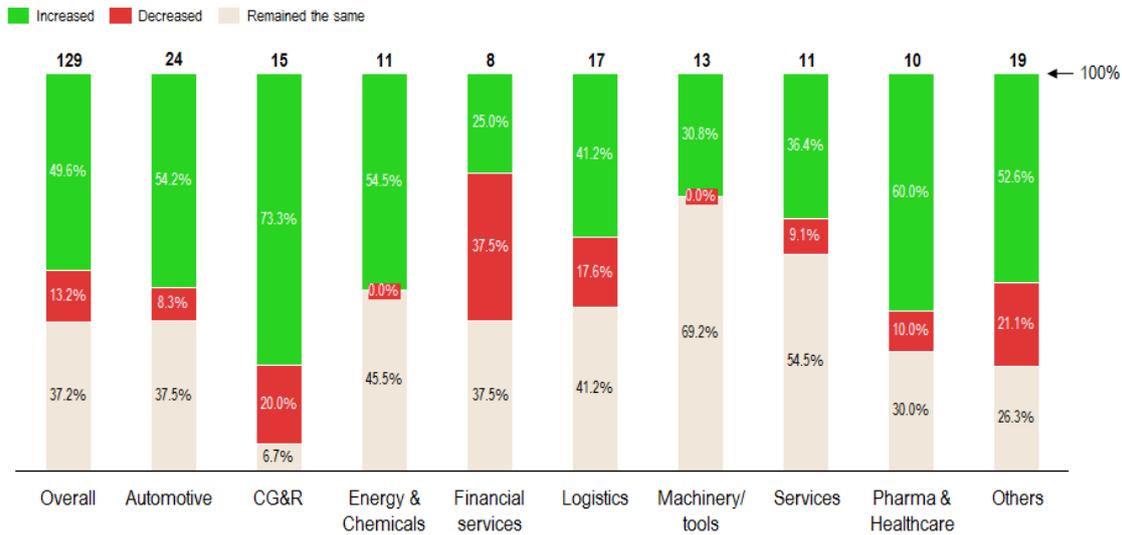
How did your company's revenue in Korea change in 2016 compared to that of 2015?



Sales development in 2016 was very positive for the companies active in Consumer Goods & Retail, Others and Automotive where 47%, 42% and 42% of the respondents reported double-digit growth; only modest business growth could be seen at Energy & Chemicals and Pharma & Healthcare as none of the respondent experienced a growth of more than 10%. Overall revenue growth (increased substantially and increased) is led by Automotive (71%), Consumer Goods & Retail (67%) and Services (63%). The picture looked not so positive in Machinery & Tools and Financial Services were 38% each of companies reported lower sales (decreased and substantially decreased). Although the percentage with 30% is slightly better at Pharmaceuticals and Healthcare, it must be stated that those 30% have been provided all by companies with a substantial sales decrease of 10% or more.

Figure 7: Market share – Industry breakdown

How did your market share evolve in 2016 versus 2015?



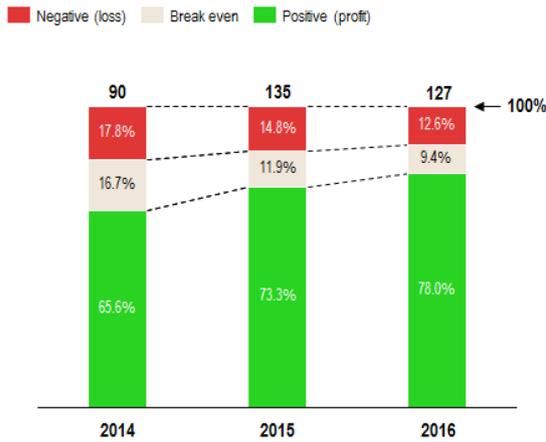
About half of the European companies grew their market shares in Korea. This was especially true for Consumer Goods & Retail where 73% of the respondents reported growing market share but as well for Pharmaceuticals & Healthcare (60%), Automotive (54%), Energy & Chemicals (54%), and Others (53%). At Machinery & Tools (69%) as well as at Services (55%), the majority of the companies had unchanged market shares. Almost 40% of the companies from the Financial Services reported decreased market shares.

1.5 EBIT and EBIT margin

Figure 8: EBIT and EBIT margin

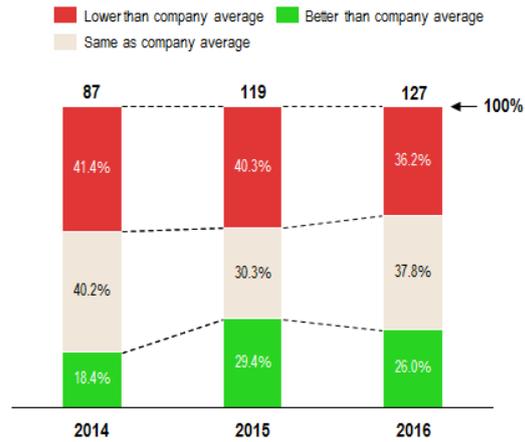
On EBIT and EBIT Margin

Please characterize the EBIT (Earnings before interest and tax) of your company in Korea in 2016



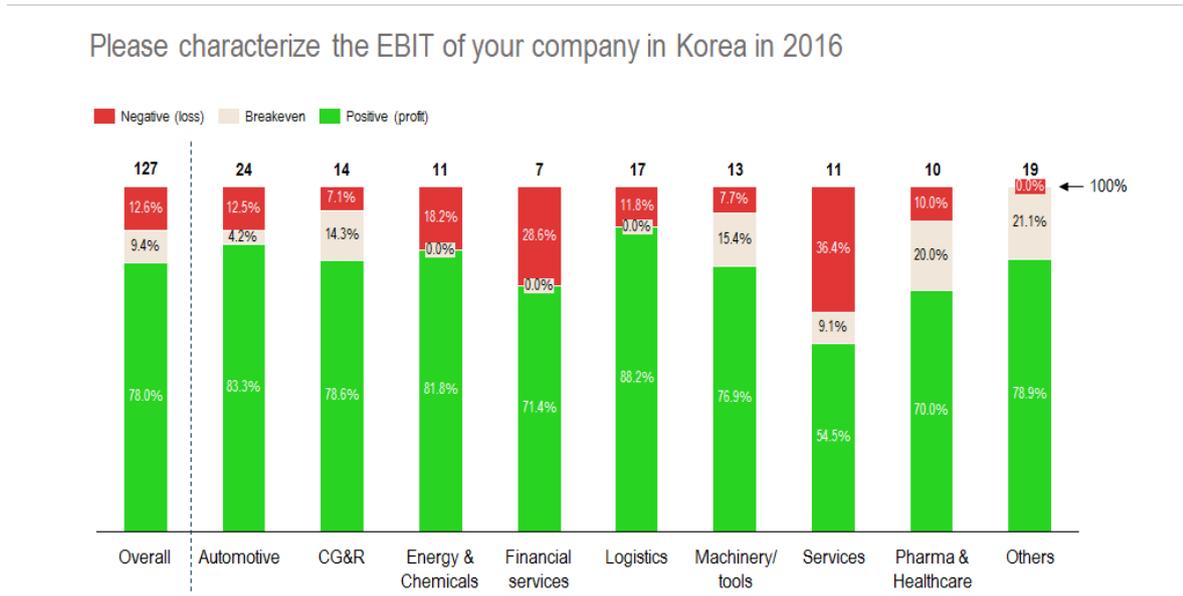
1) Optional question

How did the EBIT margin Korea compare to your company's worldwide margins in 2016?¹⁾



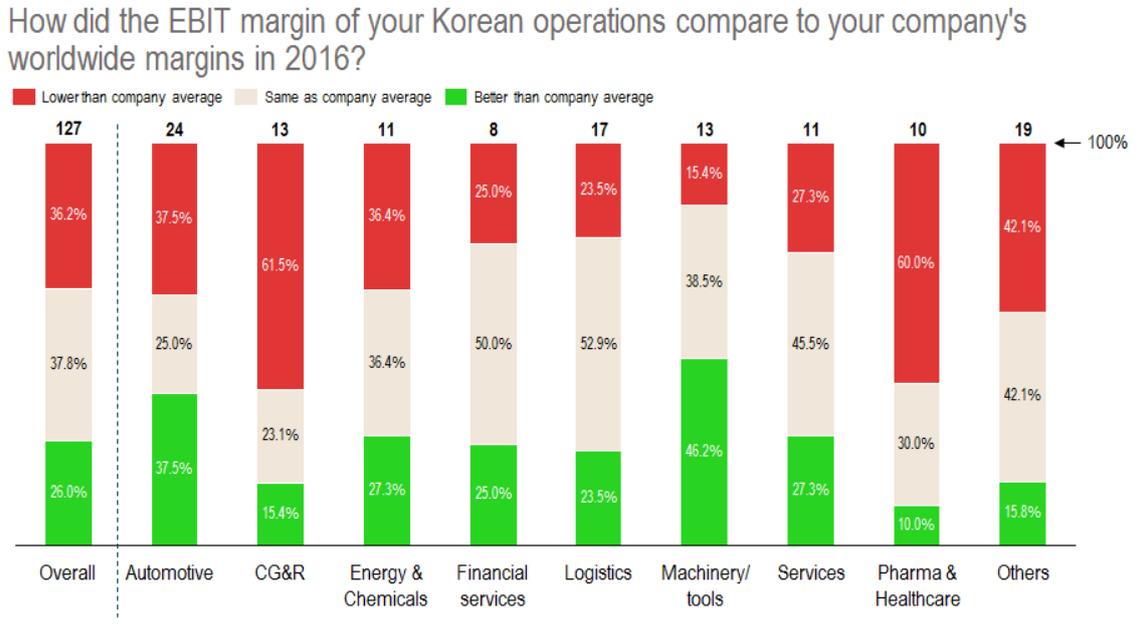
In 2016, 73% of the European companies achieved positive earnings before interest and tax (EBIT); 10% for broke even but 13% recorded a negative EBIT. 26% of the participating companies reported an EBIT margin which was better than their group's average, 38% had an EBIT margin which was in line with the group's average, and 36% of corporations remained below their group's profitability benchmark.

Figure 9: EBIT– Industry breakdown



Logistics did quite well in 2016 with 88% reporting a positive EBIT; other industry sectors with positive developments were Automotive with 83%, and Energy & Chemicals with 82%. Profitability remained a challenge for some respondents, especially in the area of Services, Financial Services and Energy & Chemicals. 36% of the companies being active in the Service sector remained below break-even. At Financial Services 29% of the participating companies reported a negative EBIT. This nevertheless was an improvement compared to 2015 where 40% of the participating companies posted a negative EBIT. 18% of businesses in Energy & Chemicals also did not make to break-even.

Figure 10: EBIT margin – Industry breakdown

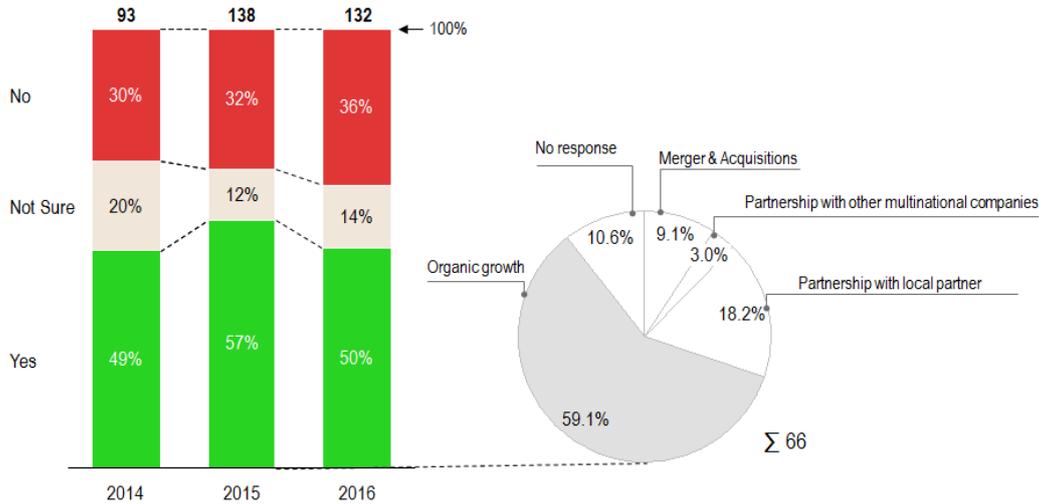


The EBIT margin achieved locally varies substantially across industries. At Machinery & Tools and Automotive a substantial portion of the companies outperformed their group's EBIT margin; namely at 46% respectively 38% of the responding companies. The situation was different at Consumer Goods & Retail as well as at Pharmaceutical & Healthcare where only 15% respectively 10% could exceed their group's average but 62% and 60% of companies achieved lower margins.

1.6 Operation expansions

Figure 11: Plans for expansion in Korea

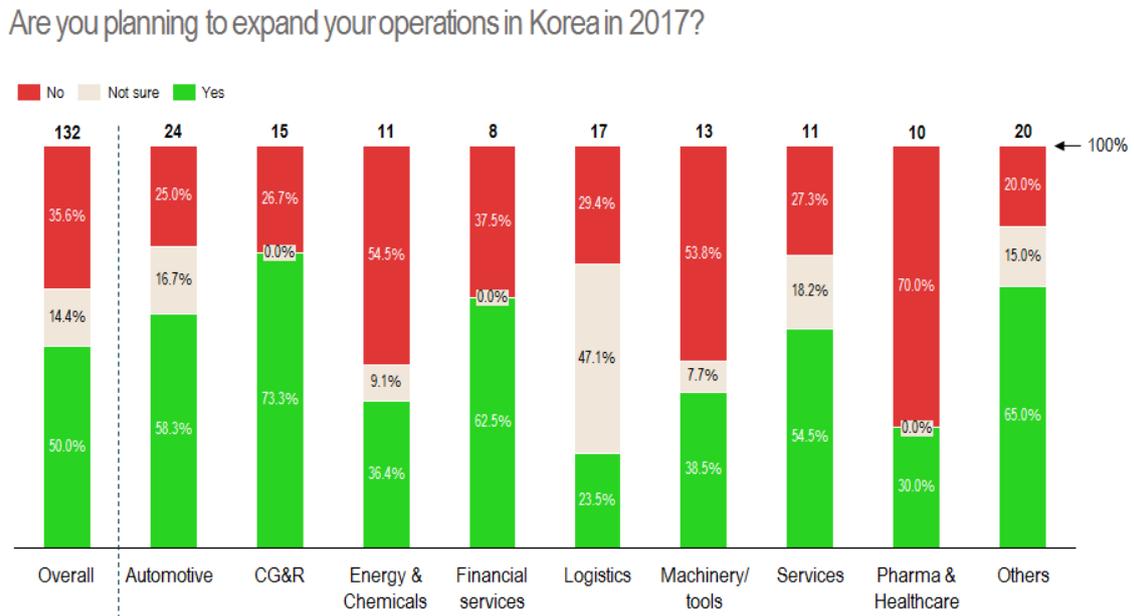
Are you planning to expand your operations in Korea in 2017? If yes, by which means?



50% of the European companies planned to expand their operations in Korea as 14% were not sure about it and 36% had no plans to enlarge their operations. Those companies planning to invest into their operations primarily prefer organic growth (59%) as other business options such as partnership with a local partner (18%) or merger & acquisition (9%) follow within a solid distance.

The intention by 50% of the companies to expand operations has decreased compared to 2015 (57%) but is more or less on the same level reached in 2014 (49%). On the other hand, more and more companies do not have any plan for increasing their operations: In 2014 companies with no intention to invest accounted for 30% of the respondents which further increased to 32% in 2015 and ended up in 2016 with 36%. The companies uncertain about their plans decreased from 20% in 2014 to 14% in 2016.

Figure 12: Plans for expansion in Korea – Industry breakdown



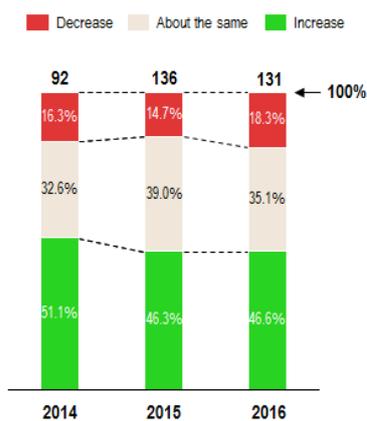
73% of the representatives being active in Consumer Goods & Retail intend to expand their business operations in Korea; Financial Services followed with 63% of the respondents intending to enlarge their operations as well. In 2015, 53% representatives of the financial firms clearly stated that they had no future plans for expansion. Plans for expansion also existed among all other industries. On the other hand, the majority of the companies from Pharmaceutical & Healthcare (70%), Energy & Chemicals (55%) and Machinery Tools (54%) reported not having any plans for extending their business operations.

1.7 Human resources/hiring

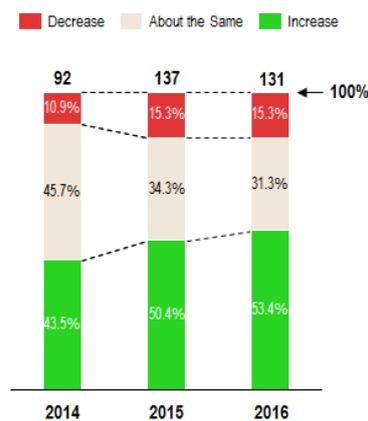
Figure 13: Responses for human resources/hiring

On human resources related matters

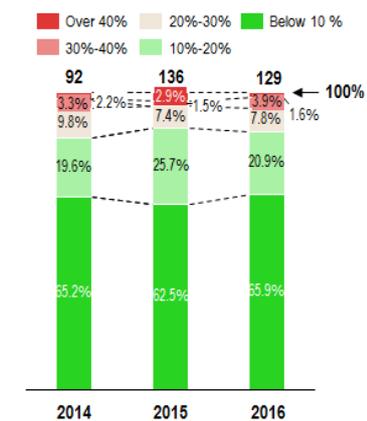
What has happened to the number of permanent positions in Korea last year?



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



What was the level of your staff turnover in 2016?



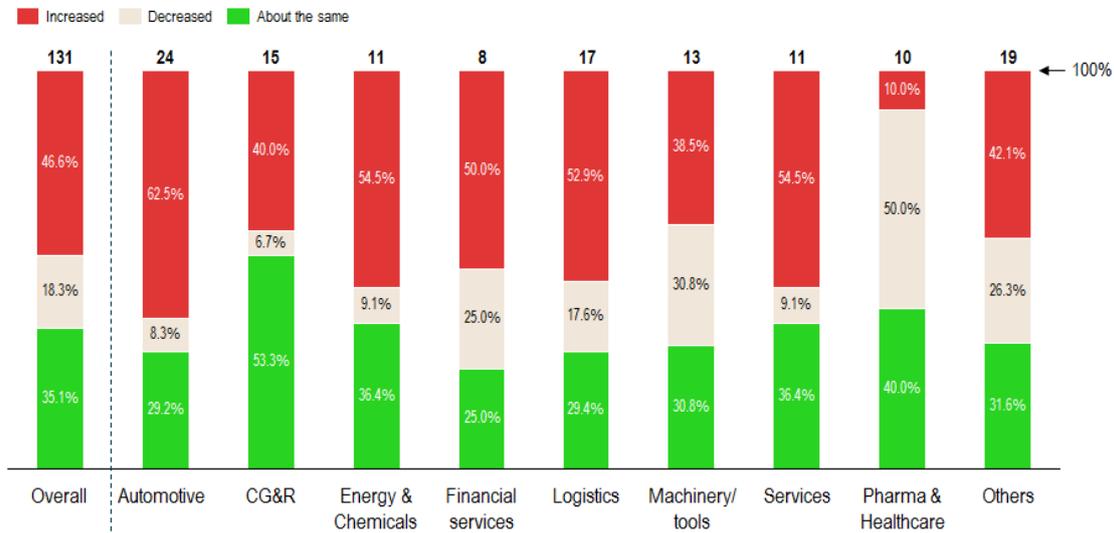
46% of the companies increased their permanent positions, 35% of the companies kept the same workforce and 18% of the responding companies reduced their workforce. Those numbers were in line with the workforce plans for the next two years. The turnover of staff was not critical at 87% of companies (66% with a staff turnover of below 10%, and 21% with a staff turnover between 10% and 20%).

Although permanent positions increased only at 46% of the companies in 2016 compared to 2014 (51%) and 2015 (46%), the intention to hire new employees increased from 44% (2014) to 50% in 2015 and finally to 53% in 2016.

This numbers in staff turnover are more or less in line with the preceding years where the ratio for staff turnover of below 20% (staff turnover of below 10% plus staff turnover between 10% and 20%) stood at 85% in 2014, 88% in 2015 and 87% in 2016.

Figure 14: Changes in permanent positions – Industry breakdown

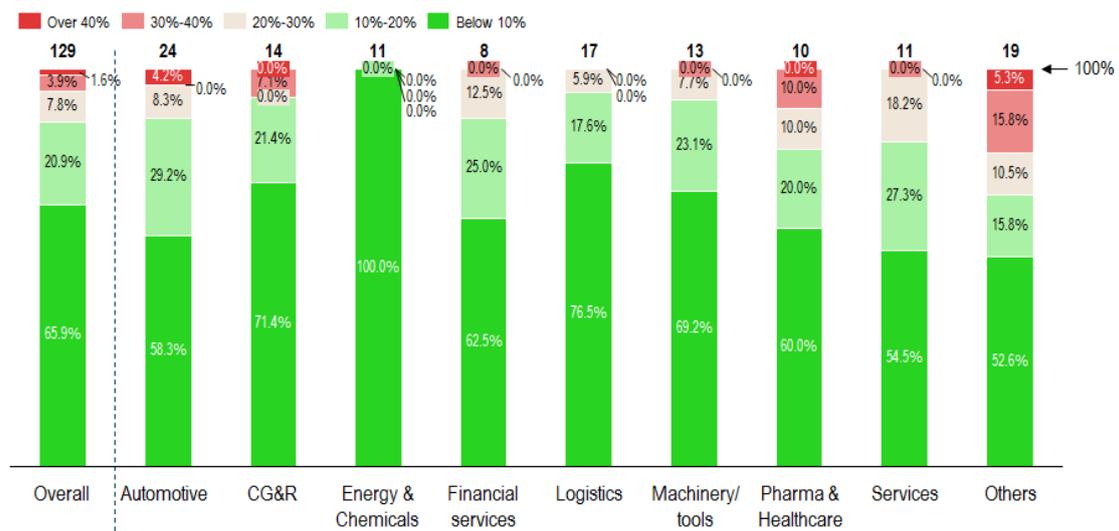
What has happened to the number of permanent positions in Korea last year?



European companies overall continued to build up the headcount. Industry sectors with more than half of the responding companies increasing the headcount included Automotive (63%), Energy & Chemicals (55%), Services (54%), Logistics (53%), and Financial Services (50%). However, companies in Consumer Goods & Retail at 53% and Pharmaceuticals & Healthcare at 40% considered reducing their workforces.

Figure 15: Turnover rate – Industry breakdown

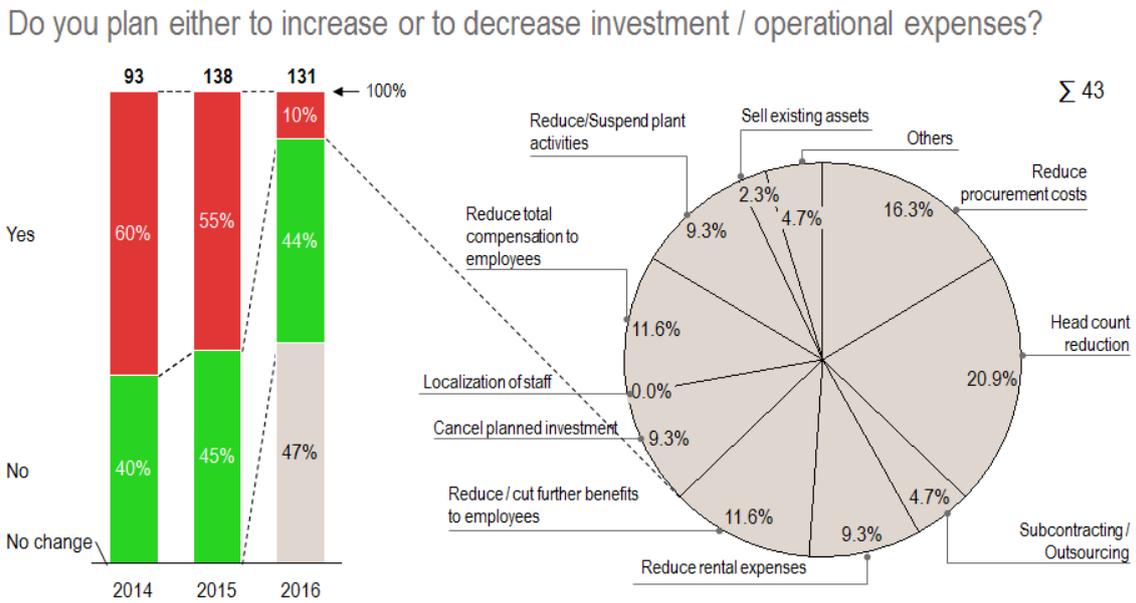
What was the level of your staff turnover in 2016?



Staff turnover was no issue for Energy & Chemicals as a turnover rate of less than 10% was reported by all companies. Including the bracket of 10% to 20%, it can be stated that the majority of the respondents had no issues. The situation looked a bit different for “Others” where in total 21% of companies experienced a staff turnover of more than 30%.

1.8 Cost saving initiatives

Figure 16: Planned cost saving this year



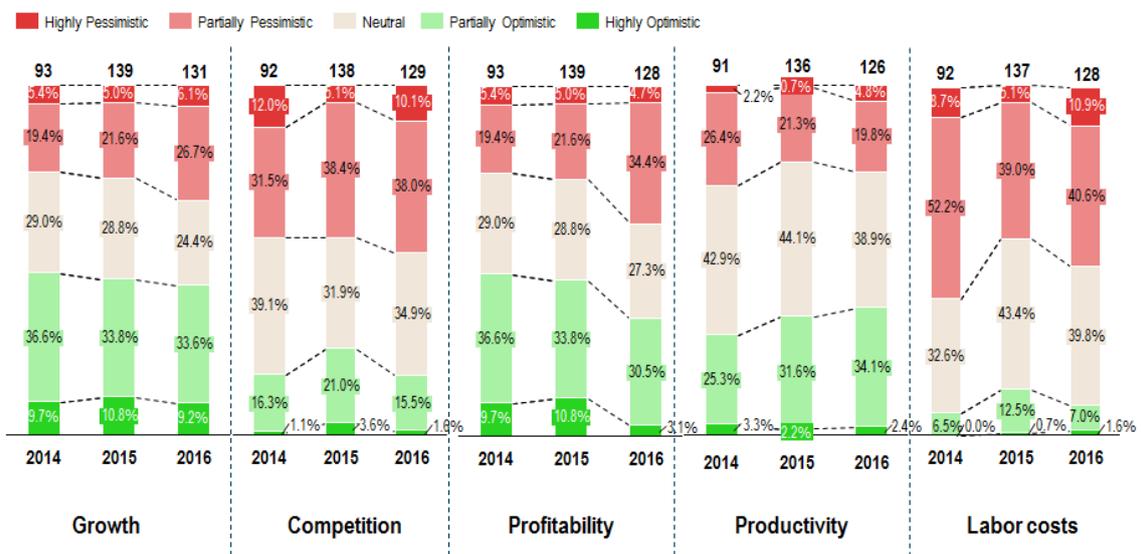
10% of the companies stated they were planning to conduct cost saving initiatives this year, which was considerably lower than the 55% stated in 2015 and the 60% stated in 2014. The majority of the companies – namely 47% of the responding companies – rather plan to enter 2017 with no changed investment as 44% of the companies plan to increase investment. In the area of cost saving initiatives, the most prominent areas were headcount reduction (21% equivalent to 9 companies) and the reduction of procurement costs (16% or equivalent to 7 companies).

2. Business outlook

The companies were asked to share their views on the business outlook for the next two years with specific references to five key areas: growth, competition, profitability, productivity, and Labor costs.

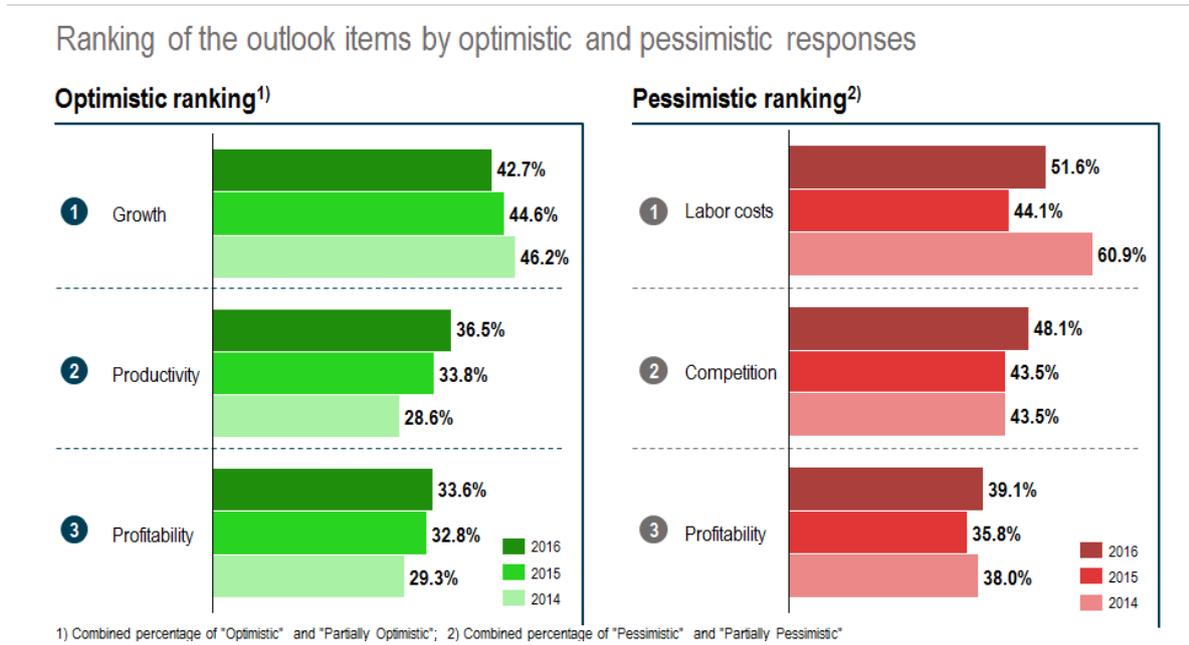
Figure 17: Business outlook – Overview

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



Overall, 43% of the companies viewed their growth potential optimistically, while 33% of them described it as highly or partially pessimistic. In the area of competition, optimism decreased from 24% in 2015 to 17% in 2016. The number of the companies who held a neutral outlook instead grew from 32% to 35%. In 2016, there were more companies expressing their concerns in respect to competition: 38% are partially pessimistic – same as in 2015 – and 10 % highly pessimistic representing an increase from 6% in 2015. The responses on profitability outlook showed that 34% of the respondents were optimistic, 27% neutral and 39% pessimistic. This means that in 2016 company representatives became more concerned about profitability as more and more evaluated the situation more critically compared to previous years. In 2016, 36% of the company representatives were either partially or highly optimistic regarding productivity which was slightly higher than in 2015 where the number stood at 34%. On the other hand, pessimistic responses also grew from 22% to 25%. Labor costs remained an area of concern: In 2014, the ordinary wage issue was making an impact leading to 61% of the company representatives responding in a pessimistic way. The pessimistic evaluation decreased to 45% in 2015 but has risen again in 2016 to 52%.

Figure 18: Ranking of the business outlook items



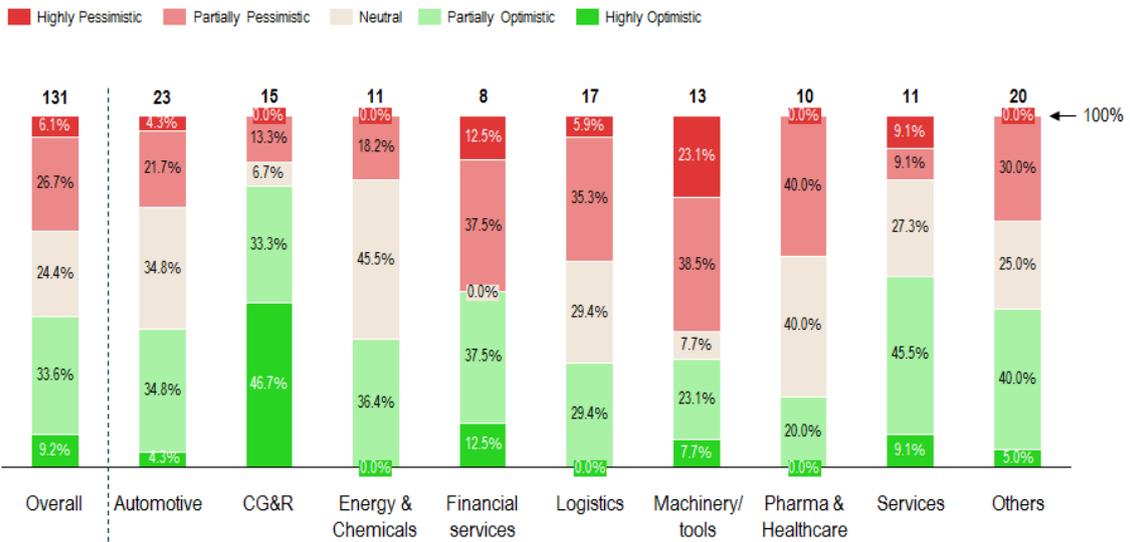
European companies are still mostly optimistic regarding growth although the level of optimism has decreased since the launch of the survey. The response rate for either being partially optimistic or optimistic on growth has decreased from 46% in 2014, to 45% in 2015 to 43% in 2016. Growth is followed by productivity and profitability where optimism was slightly growing; the respective values moved from 34% in 2015 to 37% in 2016 and from 33% in 2015 to 34% in 2016.

Labor costs remained the area of main concern for the European corporations. The response rate in 2014 was heavily impacted by so called ordinary wage issue which was at the time the survey was conducted in 2014 the reason for considerable uncertainty. The pessimistic responses in 2014 stood at 61%, in 2015 at 44% and in 2016 at 52%. The second area of concern is “competition” where in 2016 almost half – to be exact 48% – of the respondents have a pessimistic outlook; the corresponding figures in 2014 and 2015 were 44% each. Lastly, profitability was seen pessimistically by 39% of the industry representatives – a slight decrease compared to 2015 but more or less on a similar level as in 2014.

2.1 Growth

Figure 19: Growth – by industry

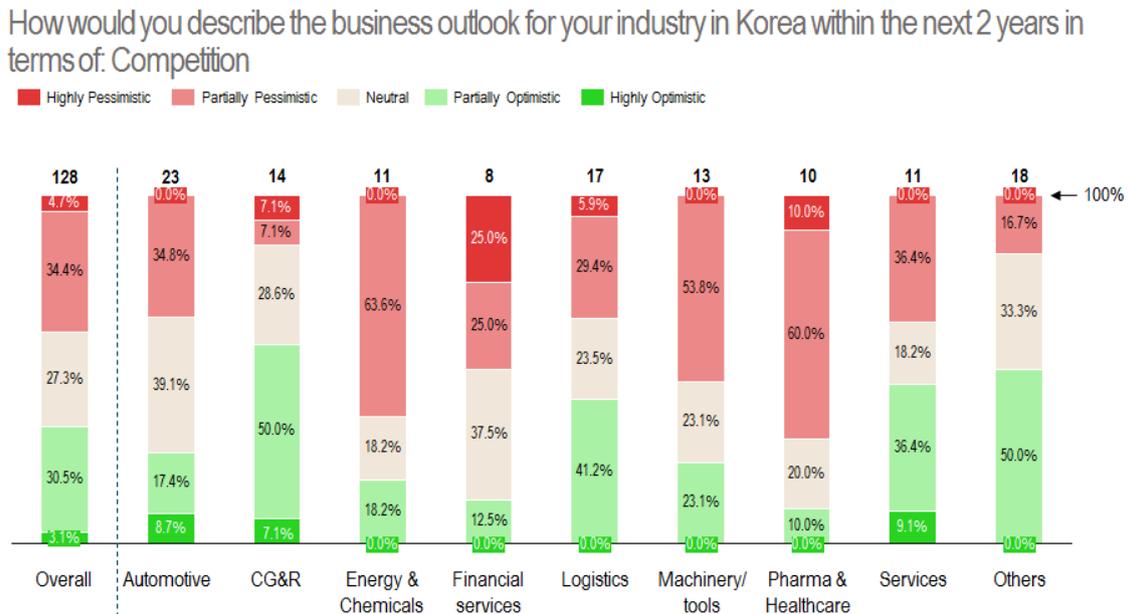
How would you describe the business outlook for your industry in Korea within the next 2 years in terms of: Growth



Consumer Goods & Retail turned out to be the most optimistic sector with 80% of the companies responding positively, 7% having rather a neutral view and only 13% having a pessimistic outlook. The most pessimistic responses have been received from Machinery & Tools, Financial Services, and Pharmaceuticals & Healthcare where 62%, 50% and 40% of the company representatives were pessimistic.

2.2 Competition

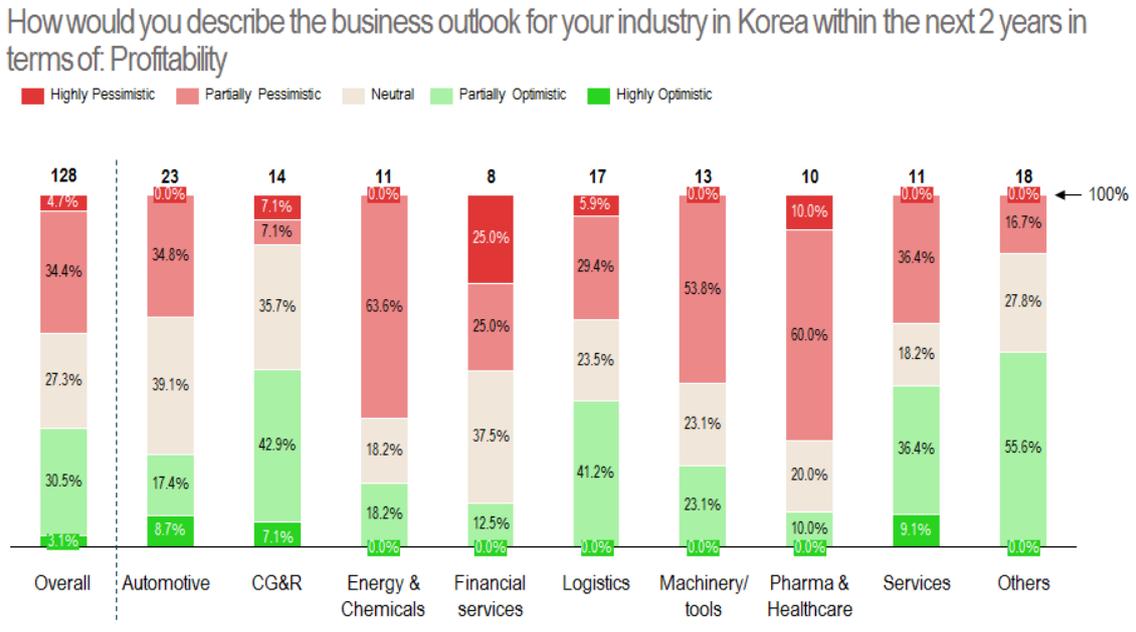
Figure 20: Competition – by industry



Companies being active in Pharmaceuticals & Healthcare and Energy & Chemicals stated their pessimism in regard to competition; at Pharmaceuticals & Healthcare 70% of respondents stated that they are either partially or highly pessimistic as at Energy & Chemicals almost 65% shared this negative view. In the Financial Services sector where companies in 2015 were particularly pessimistic about the competition outlook for the next two years with 73% of respondents answering either partially or highly pessimistic, the situation has slightly improved as in 2016 only 50% still shared the same view. The sector with the most positive view was Consumer Goods & Retail where 7% were highly optimistic and 50% optimistic followed by Others where 50% of respondents stated that they are optimistic.

2.3 Profitability

Figure 21: Profitability – by industry

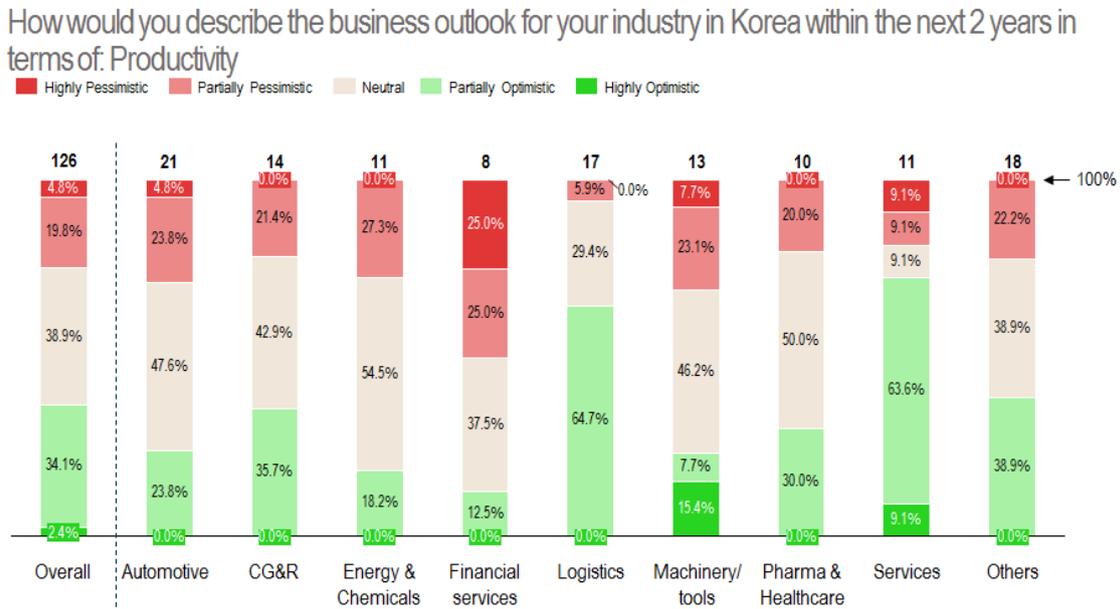


The most optimistic industry sector in respect to profitability is 'Others' followed by Consumer Goods & Retail. At 'Others', 56% of representatives stated that they are partially optimistic, 28% neutral, and 17% are partially pessimistic. 7% of the representatives of the Consumer Goods & Retail industry were highly optimistic, 43% partially optimistic, 36% neutral, and 7% each only partially or highly pessimistic.

The situation looks different at Pharmaceuticals & Healthcare, Energy & Chemicals, and Machinery & Tools where the majority of the responses were rather pessimistic. At Pharmaceuticals & Healthcare 10% of respondents were highly pessimistic and 60% partially pessimistic on the profitability outlook for the next 2 years. Energy & Chemicals fared a bit better with 64% of company representatives expressing their partial concern as at Machinery & Tools the respective value stood at 54%.

2.4 Productivity

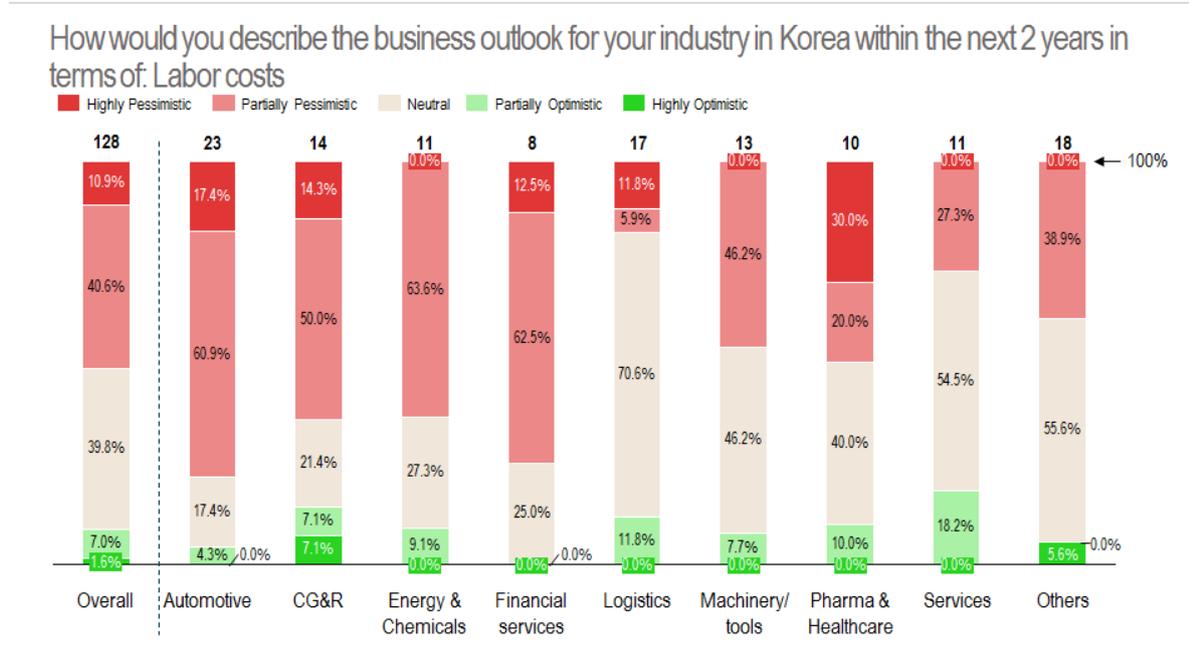
Figure 22: Productivity – by industry



The majority of the industries are rather neutral when it comes to productivity development over the next two years. Productivity improvements in the next 2 years, were expected especially by the respondents from Services (73% being highly or partially optimistic) and Logistics (65% partially optimistic). The productivity outlook was not that favourable for the company representatives from the Financial Services and Machinery & Tools where 50% respectively more than 30% were rather pessimistic in terms of productivity development.

2.5 Labor costs

Figure 23: Labor costs – by industry



Same as in last year, the Automotive and the Financial Services industries were most concerned about the outlook for Labor costs in the next two years with 78% and 75%, respectively, expressing pessimism. Although the picture looked a bit better in other industries, it is more than evident that labor related issues are a concern across all industries.

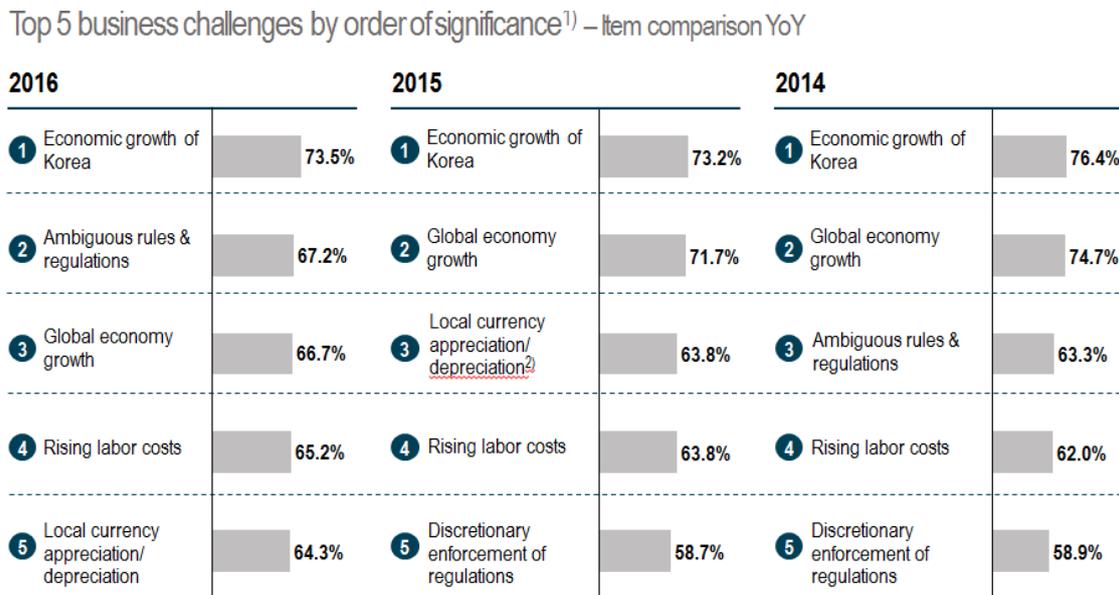
3. Business challenges

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.

Economic growth of Korea with 74% also remained in 2016 the top business challenge followed by ambiguous rules and regulations (67%), global economy growth (67%), rising labor costs (65%) and local currency depreciation (64%).

Figure 24: Top 5 Business challenges – 2016, 2015, 2014

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



1) Combined percentage of "Significant" and "Partially significant"; 2) Local currency appreciation/depreciation had more "Significant" responses than labor costs

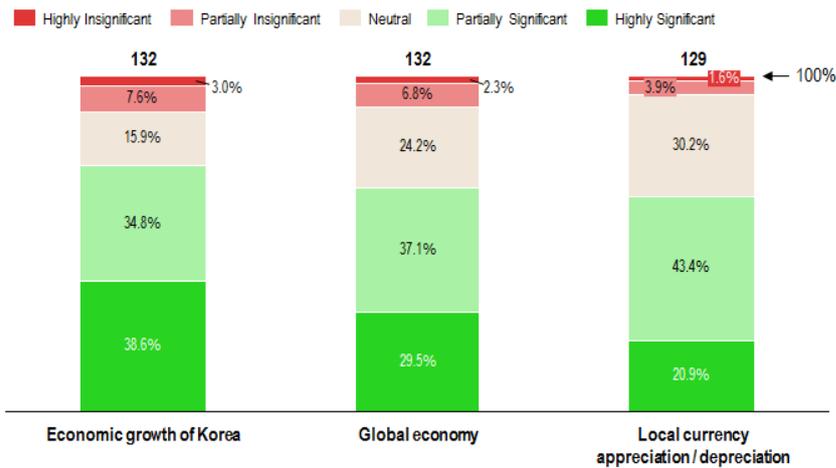
Economic growth has been the top challenge since 2014 but also global economy growth has been seen since 2014 as being very crucial for commercial success. Although in 2016, the item, ambiguous rules and regulations, was rated as the number two challenge after not being in the Top 5 in 2015. Since the launch of the survey, rising labor costs has been constantly mentioned as one of the most important business challenges. Lastly, local currency appreciation / depreciation made it to the list but was considered as not that crucial as in 2015; this item was not included in the survey in 2014.

3.1 Economy related & financing/costs

Figure 25: Economy related challenges

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

Economy related



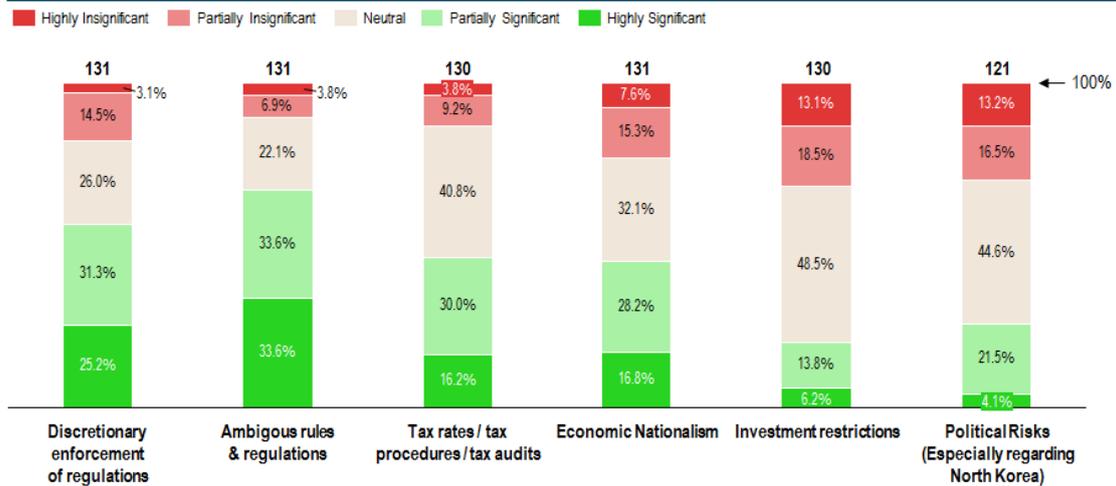
The most significant challenge seen by European companies operating in Korea is the economic growth of Korea. 73% of the respondents saw the Korean economic growth as a partially or highly significant, 16% rather had a neutral view and about 11% felt that this was rather insignificant (partially and highly insignificant). The impact by the global economy came up second with 67% of company representatives rating this as either partially or highly significant, 24% having a neutral stance and 9% evaluating this as insignificant. The local currency appreciation / depreciation was seen by 64% of respondents as either partially or highly significant, 30% of the company representatives had a neutral view as a bit more than 5% fed-back that this is rather insignificant.

3.2 Regulations/political issues

Figure 26: Regulations/Political related challenges

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

Regulatory/Political (1/2)

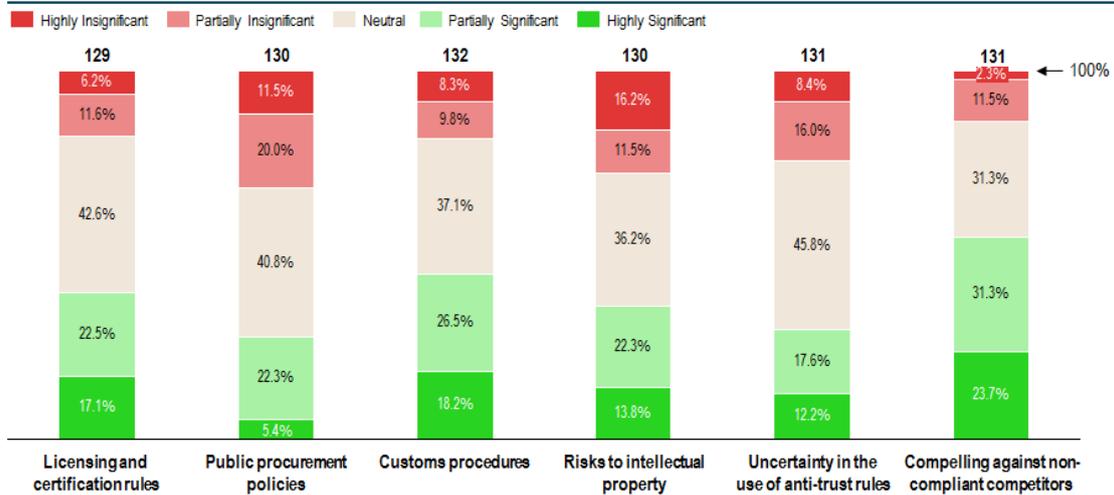


In 2015, discretionary enforcement of regulation and ambiguous rules and regulations were the most significant business challenges indicated by 58% and 57% of the respondents. Although both challenges have been named in 2016 by the respondents as the two top business challenges in the regulatory field, ambiguous rules and regulations became the most crucial one reported by 67% of the company representatives.

Tax rates / tax procedures / tax audits was seen by 46% of the respondents as significant as 45% stated that this was also the case for economic nationalism. Investment restrictions and political risks (especially regarding North Korea) instead seemed to be valued only by a minority of respondents as significant. About 20% viewed investment restrictions as either partially or highly significant as the majority stated that they either have a neutral stance on it or considered this insignificant. The political risk was seen only by 25% as significant and accordingly could not be seen as a significant business challenge.

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

Regulatory/Political (2/2)



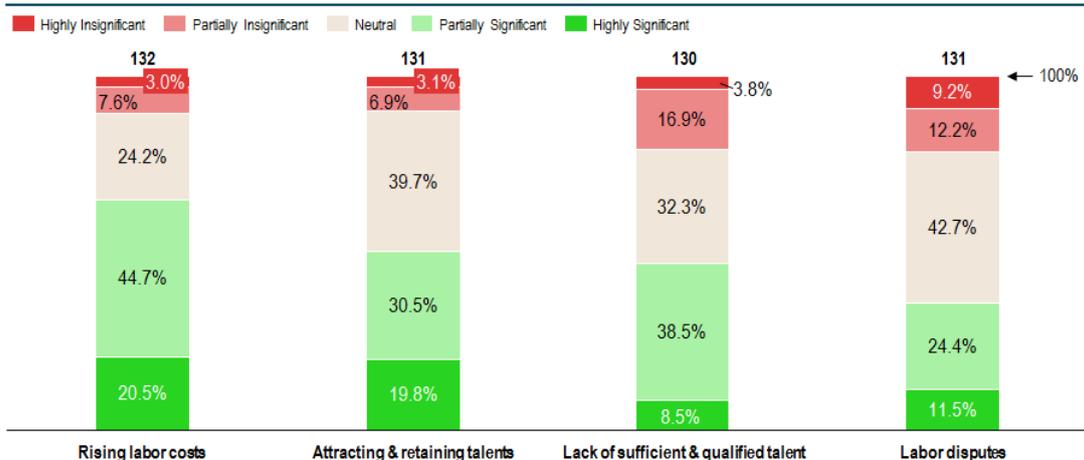
There are two criteria evaluated as a significant business challenge and this were compelling against non-compliant competitors and customs procedures. Compelling against non-compliant competitors was rated by 55% of the respondents as either partially or highly significant as the respective value was 45% for customs procedures.

3.3 Labor

Figure 27: Labor related challenges

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

Labor related



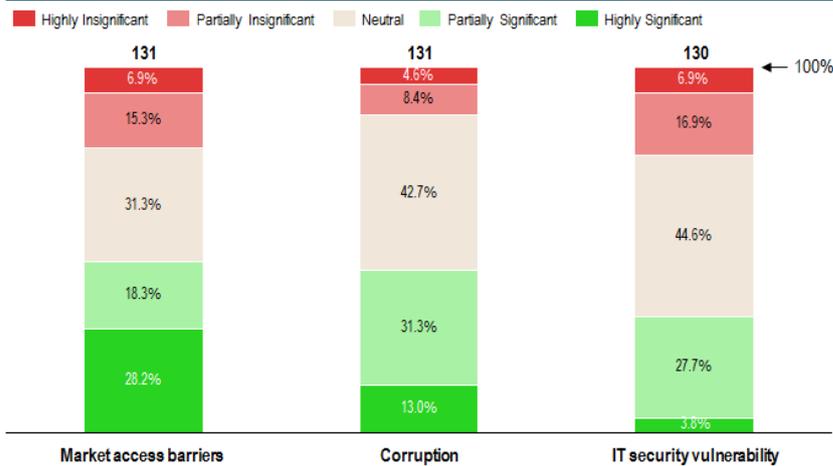
Rising Labor costs remained the most significant challenge in 2016: in total 65% of the respondents evaluated this as either partially or highly significant. 50% of the companies stated that attracting and retaining talent was a significant challenge. The lack of sufficient qualified talent, as well as Labor disputes, were also considered a significant challenge. The results in this section were very similar to the feedback received in 2015.

3.4 Social/infrastructure

Figure 28: Social/infrastructure related challenges

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

Social/Infrastructure related



Market access barriers were regarded as a significant challenge by 47% of those surveyed (which was the same as in 2015), 31% had a neutral view and 22% considered them insignificant. As for corruption, 44% found it a significant business challenge which was 8% percentage points higher compared to 2015; 13% of the company representatives evaluated this criteria as either partially insignificant or highly insignificant compared to 25% in 2015. IT Security Vulnerability was seen by about 30% of the respondents as either partially or highly significant as for the majority it did not represent an area of concern.

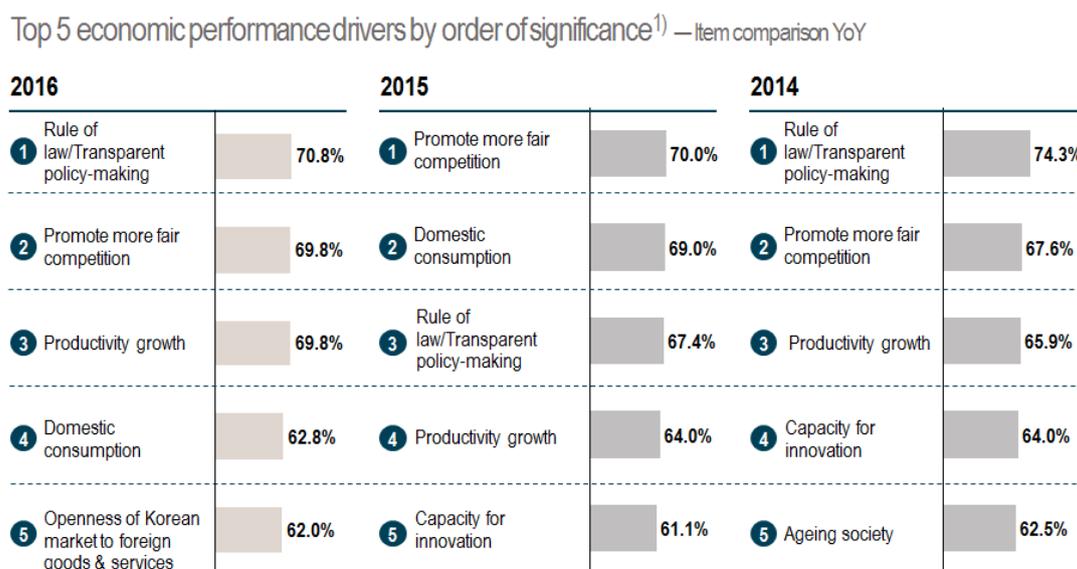
4. Performance drivers for the Korean economy

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.

The responses are generally in-line with those of the previous year. However, Rule of Law/Transparent Policy Making and Implementation gained noticeably more attention this year, becoming the number one driver compared to that of number 3 in the previous year.

Figure 29: Top 5 Economic performance drivers in 2016, 2015, 2014

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



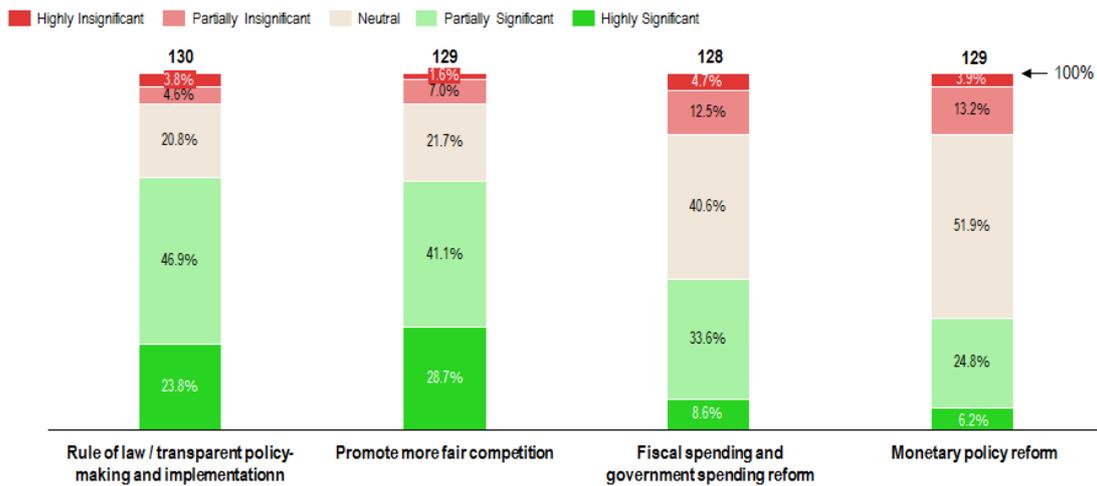
The most significant performance driver of 2016, with 71%, was Rule of Law/Transparent Policy Making followed by Promote More Fair Competition and Productivity Growth both with 70%. Domestic Consumption was rated by 63% as significant performance driver as Openness of Korean Market to Foreign Goods & Services came up at 62%.

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



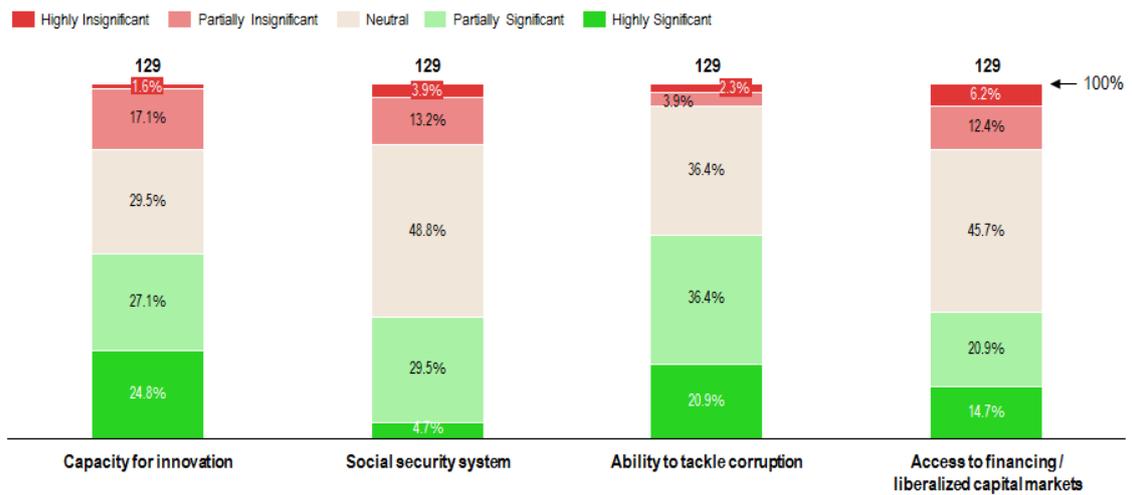
Rule of Law / Transparent Policy Making is a very significant economic driver with 70% of respondents finding it highly significant or partially significant. In contrast, only 20% responded neutrally and 8% responded as partially insignificant or highly insignificant. Promoting More Fair Competition is rated as a significant driver by 70% of the respondents with 22% responding neutrally and 8% responding as either partially insignificant or highly insignificant. Fiscal Spending and Government Spending Reform as well as Monetary Policy Reform instead were seen as not that significant as only 42% respectively 31% of the respondents rated those elements as either partially or highly significant.

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



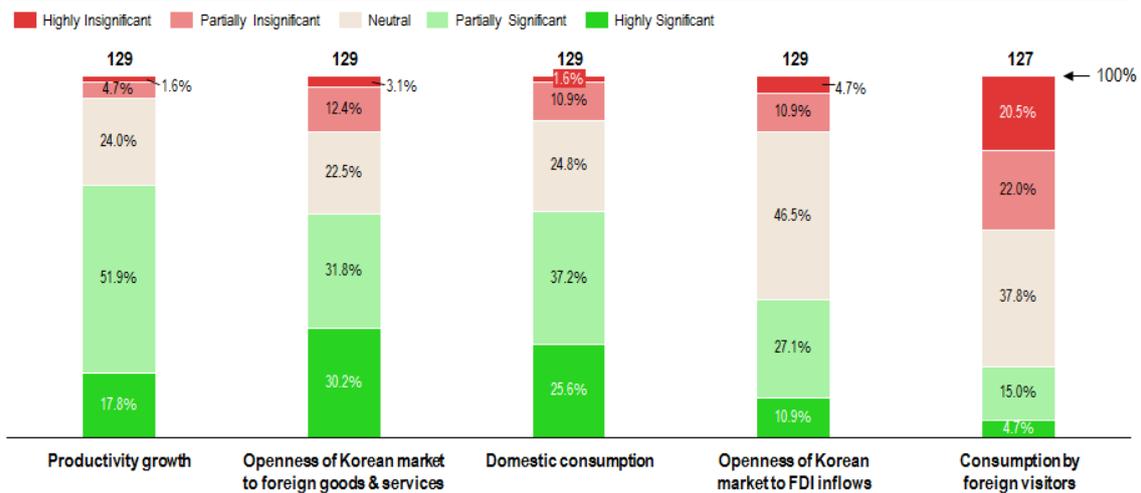
Capacity for Innovation and Aging Population used to be the main areas of concern in 2015 where 64% and 62%, respectively, stating it was either partially or highly significant. In 2016, the picture has changed as only 52% and 34% were of the same opinion. Instead the Ability to Tackle Corruption was named as either partially or highly significant by 57% of the respondents representing an increase of 10 percentage points as in 2015 only 47% saw this as a significant factor. Financing/Liberalized Capital Markets was seen by 35% as a significant factor but the majority rather viewed this as neutral or even insignificant.

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?

Economy/trade



In the area of economy and trade, significant economic drivers included Productivity Growth, Openness of Korean Market to Foreign Goods & Services, and Domestic Consumption.

Productivity Growth was seen by 70% (66% in 2015) of company representatives as an important factor. Domestic consumption was rated by 63% of corporations as either partially or highly significant. 62% of the respondents were of the opinion that the Openness of Korean Market to Foreign Goods & Services is crucial for business success.

Openness of Korean Market to Foreign Direct Investment Inflows (FDI) as well as Consumption by Foreign Visitors were instead considered not that significant visible in a more neutral evaluation.

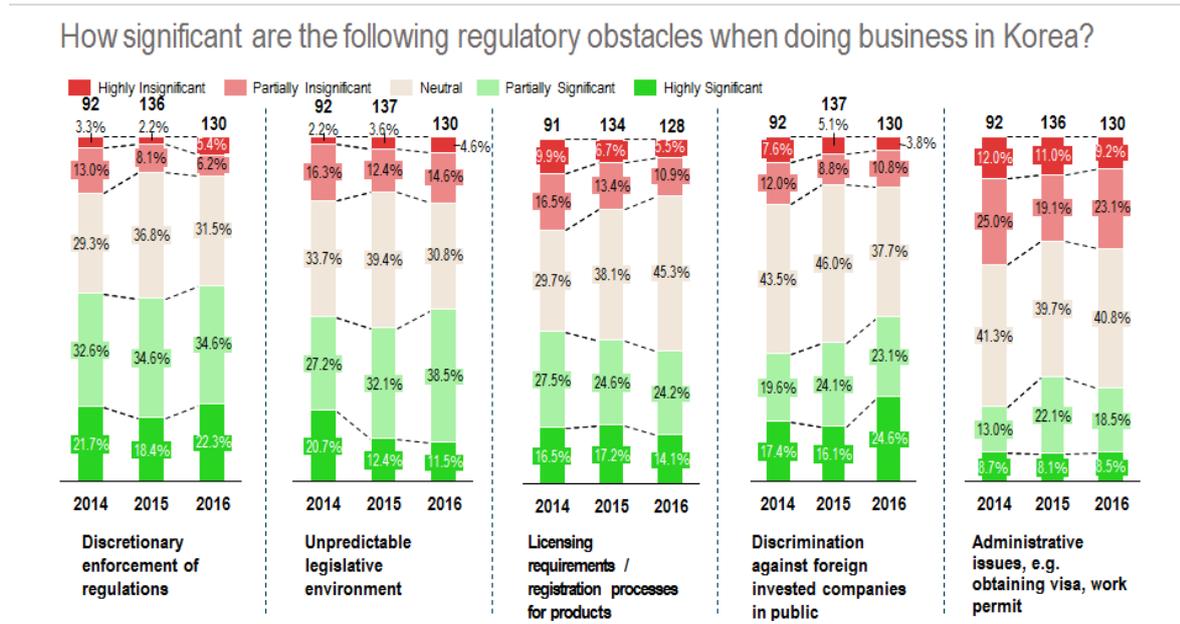
5. On Korea's legislative/regulatory environments and governments

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.

Overall, European companies' confidence in Korea's legislative/regulatory system is relatively weak. Respondents believe that such an environment results in slightly unfavourable treatment of foreign companies. A significant proportion of the respondents are still unsure whether this situation will improve over the coming years.

5.1 Regulatory obstacles in Korea

Figure 33: Regulatory obstacles YoY



Discretionary Enforcement of Regulations and Unpredictable Legislative Environment are the top two obstacles for European companies doing business in Korea. 57% (53% in 2015) of the respondents named Discretionary Enforcement of Regulations as either partially or highly significant, 32% had a neutral stance and 12% see this as either partially or highly insignificant. The Unpredictable Legislative Environment was considered by 50% (44% in 2015) of the company representatives as partially or highly significant, by 31% as neutral and by 19% as insignificant.

Licensing Requirements / Registration / Registration Processes for Products was seen as either partially or highly significant by 38% of respondents, 45% rather saw this in a neutral way and 17% evaluated this as either partially or highly insignificant.

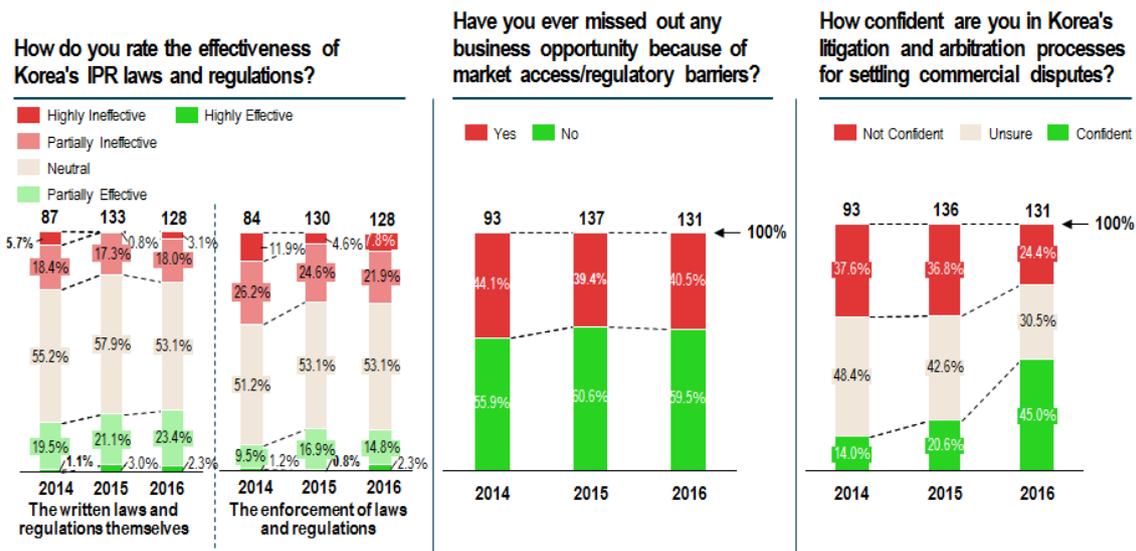
About 48% (40% in 2015) of the companies seem to have discriminative issues in the area of Public Procurement. This value can be interpreted as critical as not all the companies participating in the survey were involved in public procurement activities.

Administrative Issues was considered by 27% (30% in 2015) 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

Questions on regulation and litigation



26% of the company representatives valued the Written Laws and Regulations Themselves as either partially or highly effective (24% in 2015). On the other hand, 21% of the respondents saw the laws and regulations as partially or highly ineffective – representing an increase from 2015 where the value stood at 18%.

Enforcement of Laws and Regulation stood at 17% partially effective or highly effective versus 18% in 2015. The combined value for partially and highly ineffective came up at 30% but did not change much in 2016 compared to 2015.

Approximately 40% of the companies experienced a loss of business opportunities, due to either market access or regulatory barriers; the result in 2016 was pretty much the same as in 2015.

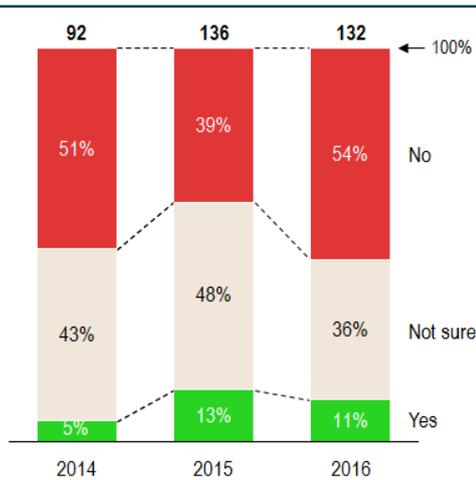
In the area of Confidence in the Litigation and Arbitration Processes for Settling Commercial Disputes there was a considerable improvement: 45% of the respondents expressed confidence – up from 20% in 2015 and up from 14% in 2014. 30% of the company representatives were unsure (43% in 2015, 48% in 2014) as 24% were not confident (37% in 2015 and 38% in 2014).

5.3 Opinion on government reforms

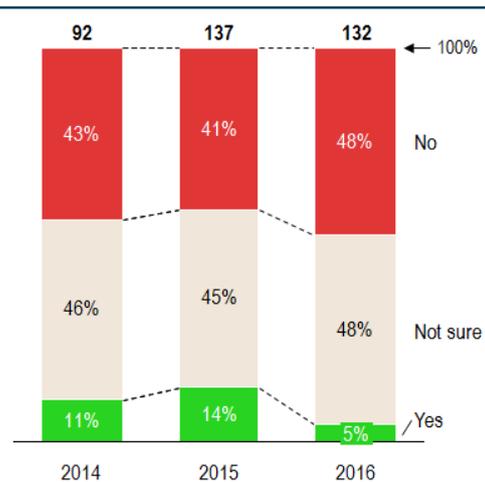
Figure 35: Government reforms – YoY

Questions on government reforms

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



Are you confident that the Korean government will start to implement meaningful reforms?



Korean government’s policy is to implement reforms in any year to improve – among others – the business environment. In 2016, the feedback received from the participating companies indicates a considerable dissatisfaction with the government reform policy in 2016. The majority of the company representatives, namely 54%, clearly stated that implemented reforms have not helped their business. This was only stated by a decent 11% of the respondents.

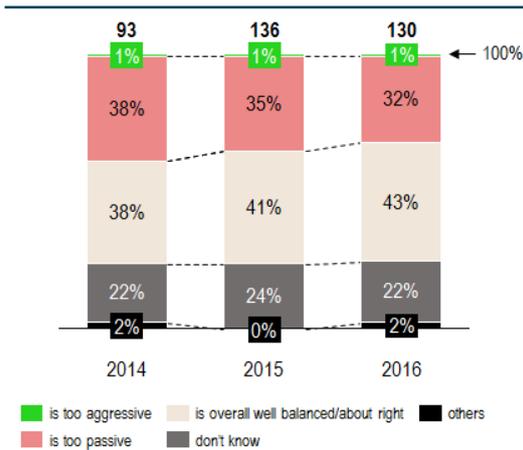
The outlook as well was seen very critical: 48% of European companies do not believe that the Korean government will come up with meaningful reforms in the near future. This was only believed by a small 5% of respondents.

5.4 Opinion on European and Korean governments' actions

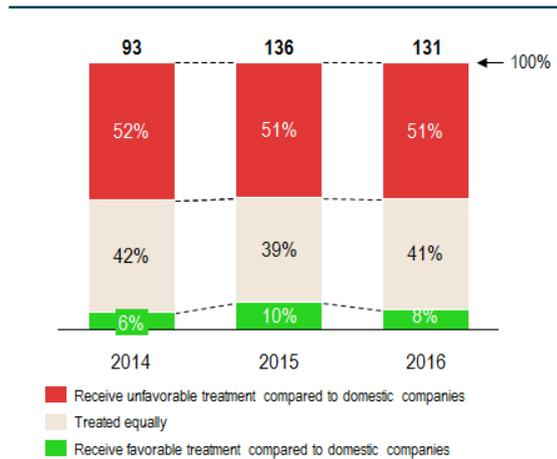
Figure 36: Legislative / regulatory environment YoY

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

43% of the respondents believe the support they receive regarding market access and trade related issues, from European institutions, was adequate and well balanced. 32% would like to see more active support provided and 1% believe the approach to be overly heavy handed. It is surprising to note that 22% of the enterprises were not able to evaluate this.

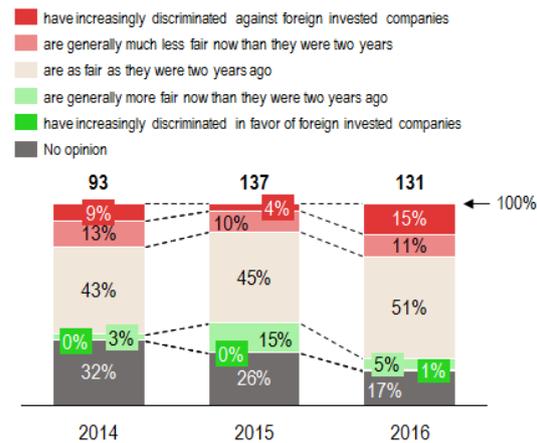
In respect to unfair or unfavourable treatment by the Korean government, or related government bodies, there was no real development compared to 2015. 51% (51% in 2015) of the respondents indicated that they experienced unfavourable treatment, 41% (39% in 2015) felt that they were treated equally and 8% (10% in 2015) responded that they have received favourable treatment.

5.5 Government policies regarding business conditions

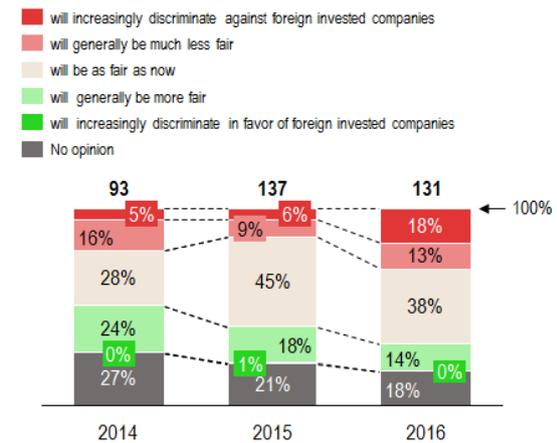
Figure 37: Government policies regarding business conditions YoY

On government policies regarding business conditions

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?



51% believe policies towards foreign companies are as fair as they were 2 years ago – which is 6 percentage points higher than in 2015. 26% believe policies became less fair, or even discriminatory compared to 14% in the previous year. This question was unanswered by 17% of the companies – down from 26% in 2015.

Regarding the outlook for the next two years, more than half – namely 52% – expect that policies will be either as fair as now or fairer. 31% of the respondents, however, believe that fairness will deteriorate representing a strong increase from 14% in 2015. Here, as well, a substantial group of 18% do not feel in the position to provide an opinion to the question.

CONCLUSION

Korea is and remains an attractive market for European businesses. New companies are entering the market and companies with operations on the ground expect their businesses to develop positively within the next two years and intend to expand their operation accordingly.

Despite the fact that growth perspectives for the Korean economy are nowadays rather in the range of 3%, European business remains optimistic in respect to their operations. Doing business in Korea is rewarding, but also challenging. The fact that 23 companies participating in this survey have been in the market since two years ago is the proof of the continuous positive market chances for European companies.

The business prospects differ among industries. Industry sectors with positive performances and outlooks are, among others, Automotive and Consumer Goods & Retail. It came as a kind of surprise that the business evaluation in Financial Services has considerably improved although the business environment still seems to be a bit away of being perfect. Pharmaceuticals and Healthcare instead still suffer from the lack of progress made in regulations but primarily in the area of rewarding innovation.

In the regulatory framework, Korea has made some progress in recent years. Nevertheless, in 2016, the perception at the industry on some key issues such as law & regulations themselves or their respective enforcement became increasingly sceptical. Therefore, it did not come as a surprise that 40% of the companies stated that they experienced a loss of business opportunities, due to either market access or regulatory barriers. However, there was a remarkable improvement in the area of Confidence in the Litigation and Arbitration Processes for Settling Commercial Disputes – something the ECCK strongly welcomes and acknowledges.

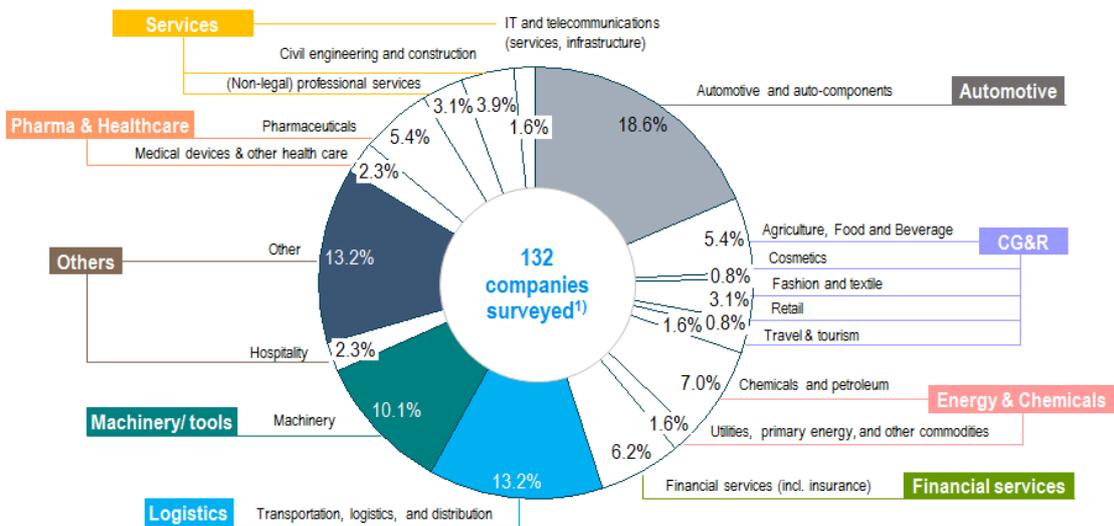
Although more than half of the European companies stated that there was no less fair treatment / no discrimination towards foreign business during the last two years, 26% or 34 felt that the opposite was the case. The outlook was even more pessimistic with 31% or 40 companies assuming that business will become more nationalistic.

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 should focus on products and services, on people being employed, taxes paid and not on companies' nationality.

APPENDIX: RESPONDENT PROFILE

Figure 38: By industry

In what industry is your company active?

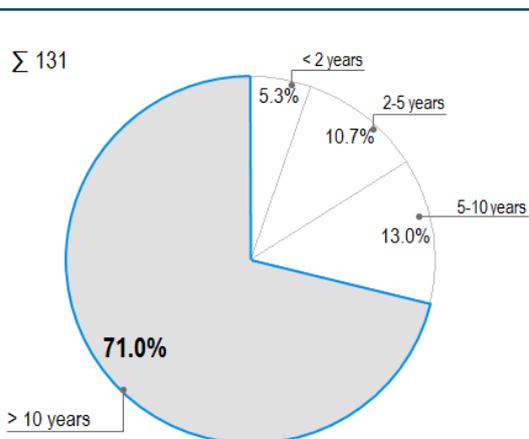


1) 3 respondents have not indicated their industry

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
- > 5.3% of respondents are new to Korean market, a positive sign that European companies are still entering into the market, compared to 2015, this figure has increased slightly

Figure 40: By ownership

Is your company fully owned by a European company?

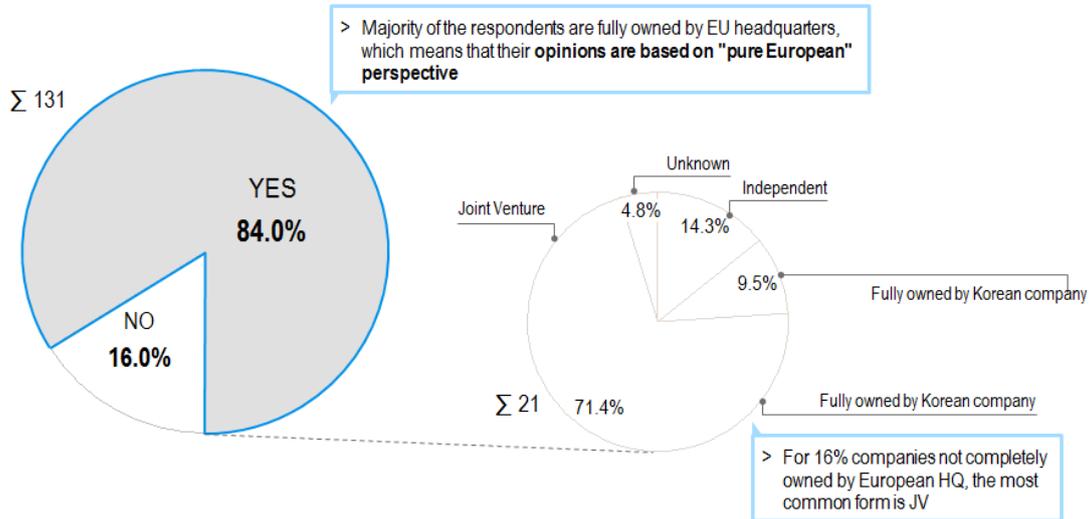
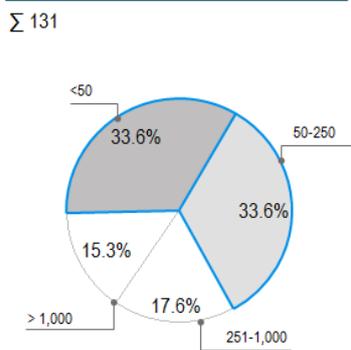


Figure 41: By size

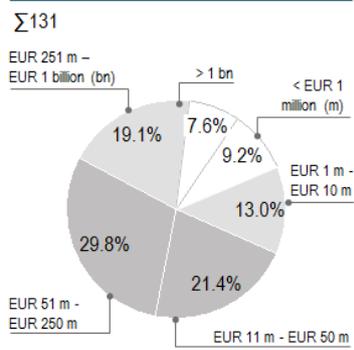
Employee number, revenue size and proportion

How many employees do you have in Korea?



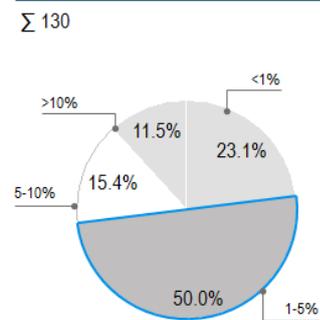
> Most of the respondents have under 250 employees

What was the total revenue of your company in Korea in 2016?



> Respondents' revenue sizes are varied from under 10 Mn EUR to 1 Bn EUR +

What proportion of global revenues was generated in Korea?



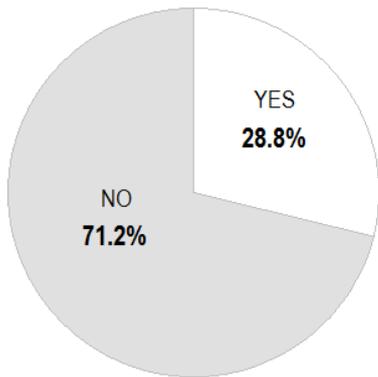
> Korea accounts for relatively small portion of the global revenue in most of the respondents' companies

Figure 42: Ownership of R&D or production facilities

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

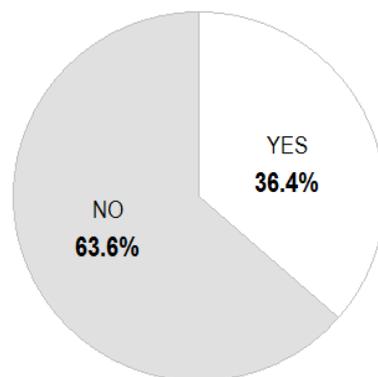
R&D facilities

Σ 132



Production facilities

Σ 132



1) Financial services category, Other services category, Travel/tourism and Retail from "CG&R", "Logistics" and "Other" sections are excluded

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