

European Business in Korea

# Business Confidence Survey 2017



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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 108 companies took part, comprised of 25 questions. 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 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 analyzed and presented in three ways:

- Overview and presentation of the 2017 collective response
- Year-on-year comparison of the 2017 collective response
- Overview and presentation of the 2017 response breakdown by industry

# EXECUTIVE SUMMARY

In 2017, the Korean economy grew by 3.1%, compared to a growth rate of 2.8% in 2016. Korean exports rebounded and soared to an all-time high of USD 573.9 billion (USD 495.4 billion in 2016). Nevertheless, the economic development was somehow overshadowed by the election of new Korean president. In May 2017, Moon Jae-in was elected and became the 19<sup>th</sup> President of the Republic of Korea.

For European businesses, Korea is and will continue to be an important market. Yet, there are still areas requiring improvement to build a better business environment. Initiatives to support business such as deregulation seemed to have phased out. Overall, it can be stated that not much progress has been made in terms of substantial changes referring to improvements in business and international trade. Instead, the new administration has launched meaningful reforms on the creation of jobs and income led growth. It needs to be seen if the hopes and expectations will materialize.

108 company executives, representing a combined workforce exceeding 30,000 employees and a total turnover of EUR 28 billion, answered the survey. Executives confirmed that the Korean market remains an important market; 44% of industry leaders are of the opinion that the Korean market is of increasing strategic importance and 47% of them stated that the importance of Korea is unchanged. On the other side, 61% of respondents feel that doing business in Korea has become more challenging than two years ago.

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. Besides the Economic Growth of Korea, Rising Labor Costs, Ambiguous Rules and Regulations, Market Access Barriers, and Discretionary Enforcement of Regulations have been identified as key business challenges. Furthermore, the feedback from company leaders also states that efforts are needed to better the Rule of Law / Transparent Policy Making, Fair Competition and Domestic Consumption.

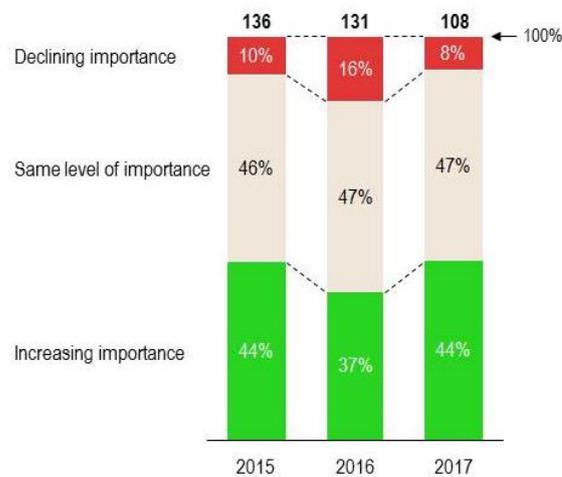
The challenges ahead for Korea, and all industry players both domestic and foreign, are considerable. We sincerely hope that the Business Confidence Survey serves as a useful tool for business people and policy makers to make future-forward decisions for the mutual benefit of the Korean society, the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



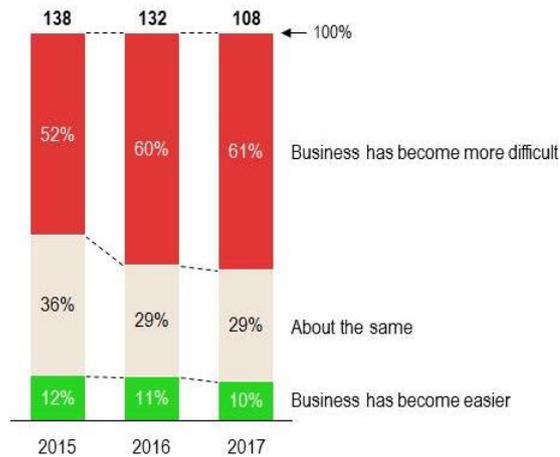
Korea is and remains an important market for European companies. 44% of responding companies see an increasing importance of Korea in their company’s overall global strategy as for 47% it is the same level of importance. 8% of companies indicate that the importance of Korea instead is declining.

The results overall confirm the importance of Korea for European companies. In 2015, 44% of the responding companies were the opinion that Korea has an increasing importance; it decreased in 2016 to 37% but increased in 2017 to 44%. 46% of company representatives stated in 2015, that the level of importance remains the same. In 2016 and 2017, 47% of responding companies shared this view, respectively. The number of companies evaluating the Korean market with a declining importance shrank from 10% in 2015, 16% in 2016 to 8% in 2017.

## 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?



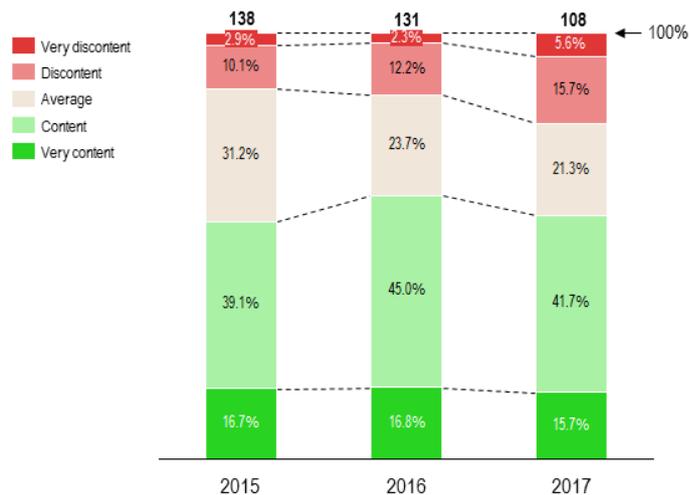
Doing business in Korea was and still is challenging. In 2017, 61% of European companies felt that the business environment has become more difficult, 29% of respondents stated it is about the same and 10% replied that it has become easier.

Overall, business has become even more difficult compared to 2015 when 52% of companies responded in this way. Replies from corporations who felt that the business environment was about the same has declined from 36% in 2015 to 29% in 2016 and 2017, respectively. Company representatives stating that the business has become easier accounted for 12% in 2015, 11% in 2016 and 10% in 2017.

### 1.3 Performance in Korea

Figure 3: Performance in Korea – YoY

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

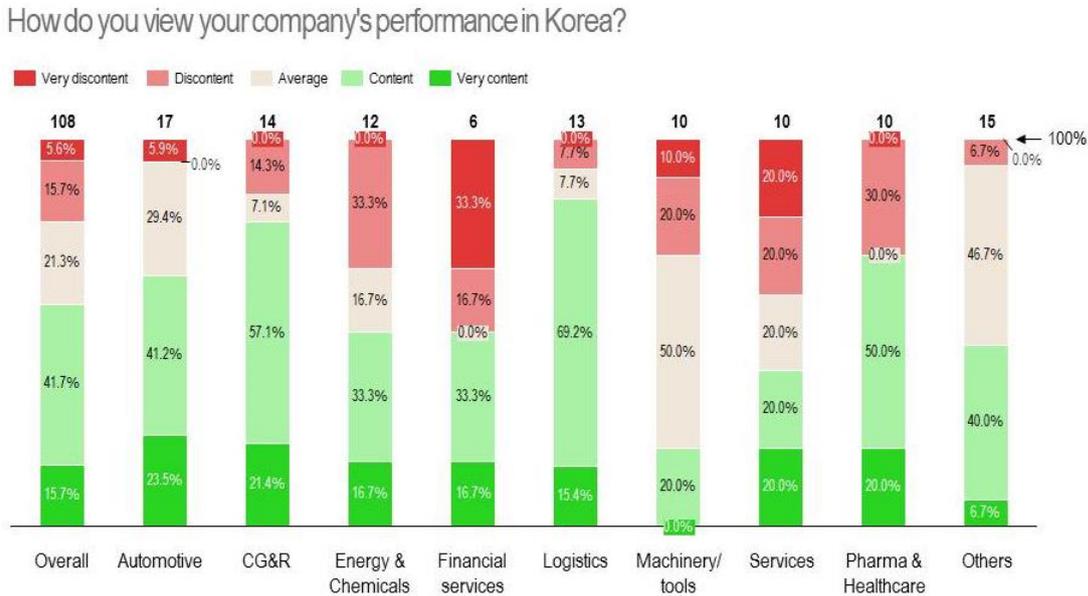


Representatives of European companies primarily see their company's performance positive; 16% were very content and 42% content with their performance. 21% evaluate their performance as adequate but 16% as discontent and 6% as very discontent.

Companies seeing their business performance positive (very content and content) accounted for 56% (17% being very content and 39% content) in 2015, 62% (17% being very content and 45% content) in 2016 and 57% (16% being very content and 42% content) in 2017. Corporations viewing their business performance in a more a neutral view decreased from 31% in 2015 to 24% in 2016 and to 21% in 2017.

The share of companies evaluating their business rather discontent increased from 10% in 2015, 12% in 2016 to 16% in 2017. 3% of companies in 2015 were very discontent; the dissatisfaction reached 2% in 2016 and 6% in 2017.

Figure 4: Performance in Korea – Industry breakdown



Business performance satisfaction varies considerably among industry sectors. The industries seeing business performance most positively are Logistics (85% content or very content), Consumer Goods & Retail (78%), and Pharma & Healthcare (70%) while Energy & Chemicals (50%), Financial Services (50%), Services (40%) reported relatively low content. The industry sectors with the highest discontent ratio (very discontent and discontent) were Financial Services (50%) and Services (40%).

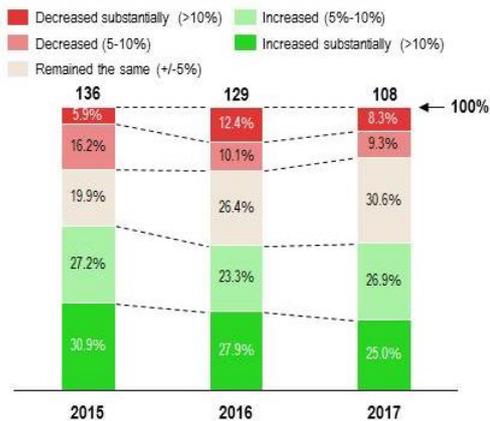
The positive business evaluation continued for Logistics (85% in 2017, 82% in 2016), Automotive (65% in 2017, 71% in 2016), Consumer Goods & Retail (78% in 2017, 67% in 2016). In Energy & Chemicals (50% in 2017, 40% in 2016) but especially in Pharma & Healthcare (70% in 2017, 30% in 2016) business evaluation was considerably better in 2017 compared to 2016. The opposite is true for Financial Services (50% in 2017, 63% in 2016), and Services (40% in 2017, 55% in 2016) content level decreased by 13% and 15%, respectively. In line with decrease in being content, Financial Services' (50% in 2017, 12% in 2016) Services' (40% in 2017, 27% in 2016) discontent ratio (very discontent and discontent) increased substantially.

## 1.4 Revenue and market share

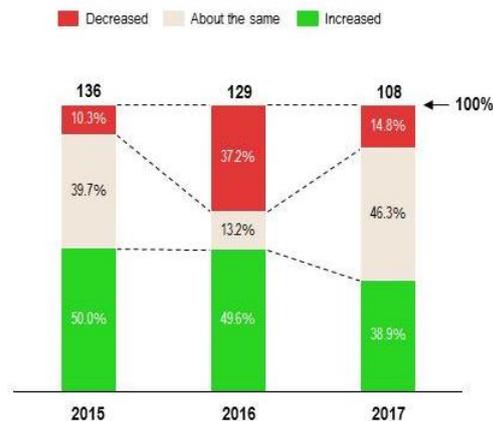
Figure 5: Revenue and market share

On revenue and market share growth

How did your company's revenue in Korea change in 2017 compared to that of 2016?



How did your market share evolve in 2017 versus 2016?



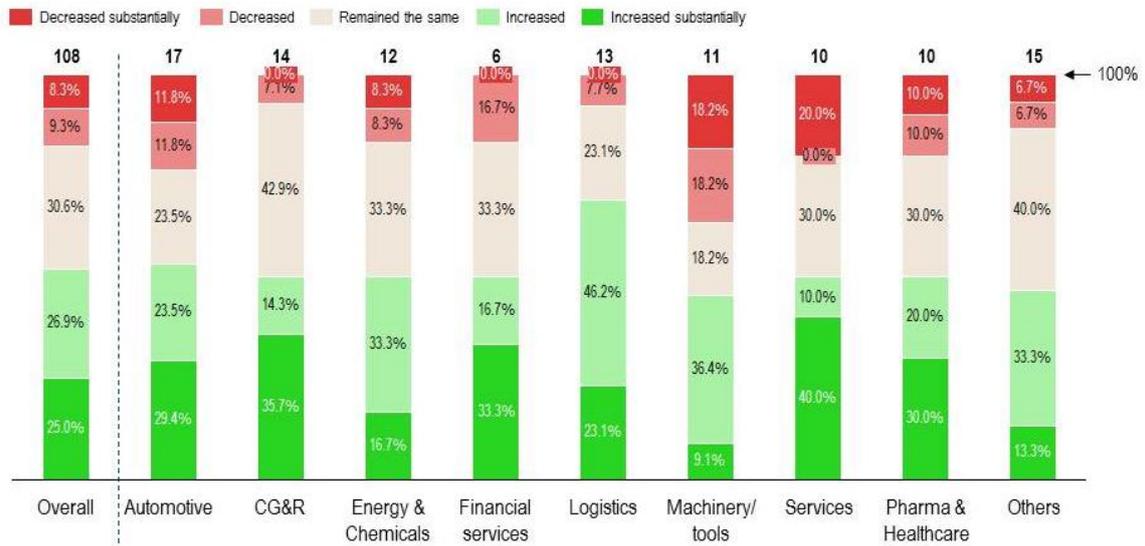
52% of the companies reported sales increases – thereof 25% substantially with 10% or more – and 31% reported about the same turnover. However, 18% of the responding companies experienced lower turnover, with 8% showing a substantial reduction in revenue by more than 10%.

In comparison to previous years, positive responses (increased and increased substantially) were 58% in 2015, 51% in 2016 and 52% in 2017, while negative responses in 2017 (decreased and decreased substantially) were at 18% versus 22% in 2015 and 2016. The number of companies feeding back that their sales remained the same did grow consistently from 20% in 2015 to 26% in 2016 and to 31% in 2017.

The revenue changes were also visible in the market share changes: 39% (50% in 2016) of the respondents saw their market share increasing compared to 2016, 46% (13% in 2016) reported about the same market share and 15% (37% in 2016) experienced a smaller market share.

Figure 6: Revenue – Industry breakdown

How did your company's revenue in Korea change in 2017 compared to that of 2016?

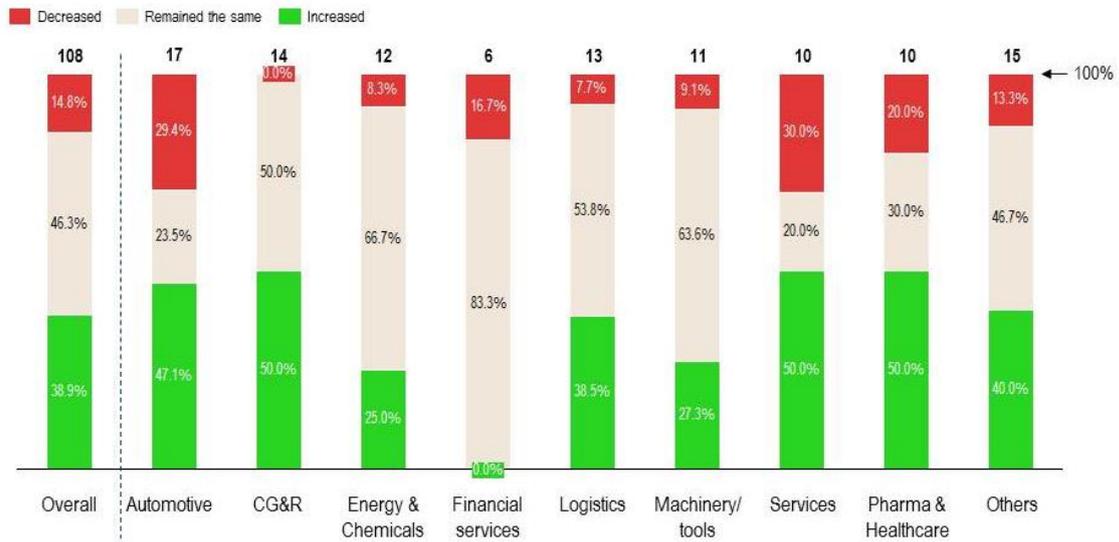


Sales development in 2017 was positive for companies active in Logistics (69%, 18% in 2016), Automotive (53%, 71% in 2016), Consumer Goods & Retail (50%, 67% in 2016), Energy & Chemicals (50%, 27% in 2016), Financial Services (50%, 37% in 2016), Services (50%, 63% in 2016), Pharma & Healthcare (50%, 50% in 2016) all of them reporting either increased or substantially increased sales.

The picture looked not so positive in Machinery & Tools were 36% (38% in 2016) of companies reported lower sales (decreased and substantially decreased) but also Automotive were 23% (8% in 2016) of the responding companies failed to reach a positive sales development. The percentage at Services is lower but here 20% reported substantially decreased sales of 10% or more (9% in 2016).

Figure 7: Market share – Industry breakdown

How did your market share evolve in 2017 versus 2016?



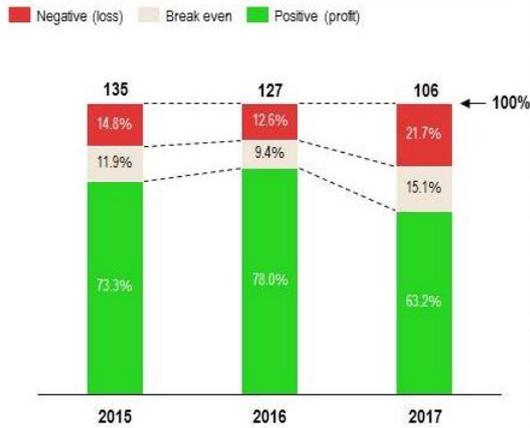
At Consumer Goods & Retail (73% in 2016), Pharma & Healthcare (60% in 2016) and Services (36% in 2016) 50% of the responding companies reported increased market shares as 47% (54% in 2016) of companies being active in the Automotive sector did. In Financial Services, 83% (38% in 2016) of respondents stated that their market share didn't change in 2017. This was also true in Energy & Chemicals where 67% (46% in 2016) of enterprises observed rather a stable sales development instead of growth. 30% (9% in 2016) of Service companies reported decreased market shares as almost 30% (8% in 2016) did of Automotive companies.

### 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 2017



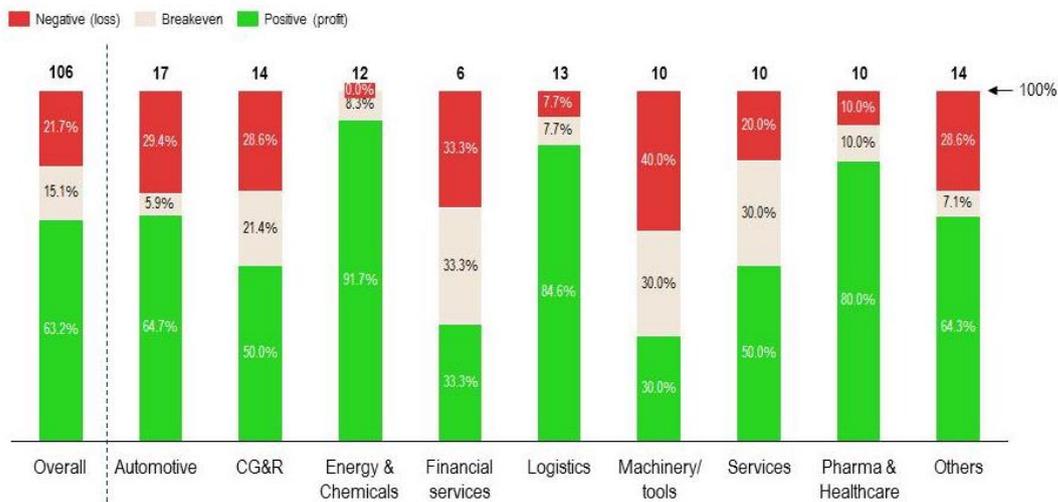
How did the EBIT margin Korea compare to your company's worldwide margins in 2017?



In 2017, 63% (78% in 2016) of European companies reached positive earnings before interest and tax (EBIT); 15% (9% in 2016) broke even but 22% (13% in 2016) reported a negative EBIT. 27% (26% in 2016) of participating companies reported an EBIT margin better than their company-group's average, 35% (38% in 2016) had an EBIT margin which was in line with the group, and 38% (36% in 2016) of corporations remained below their group's average.

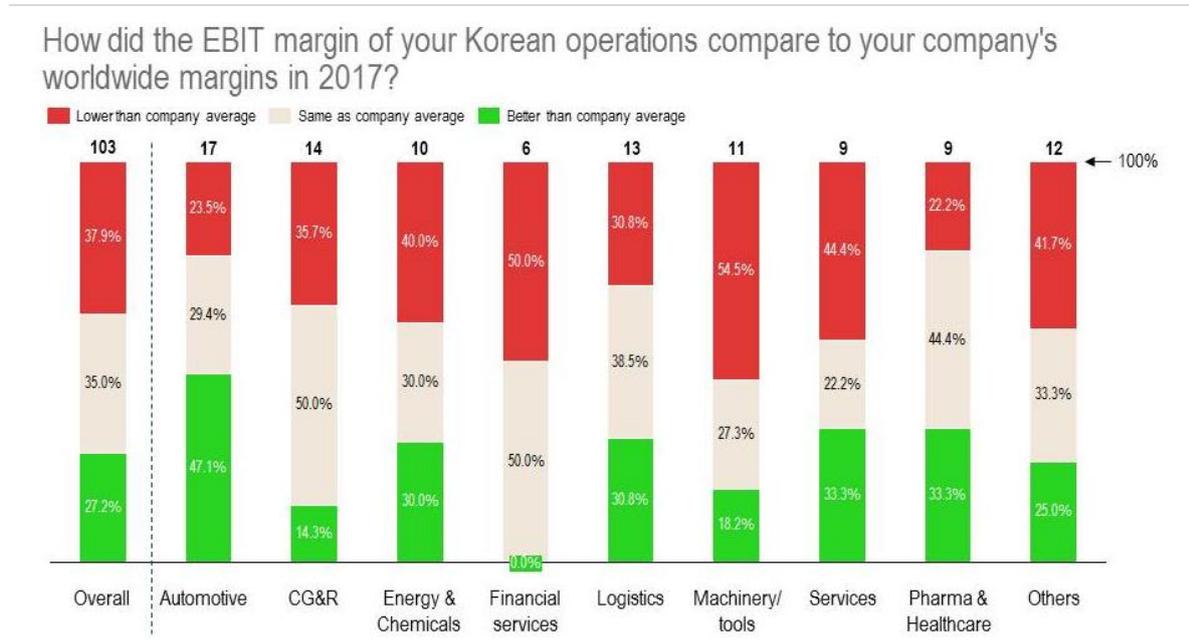
Figure 9: EBIT- Industry breakdown

Please characterize the EBIT of your company in Korea in 2017



Companies being active in Energy & Chemicals as well as Logistics did well in 2017. 92% (82% in 2016) of corporations in Energy & Chemicals reported a positive EBIT as 85% (88% in 2016) in Logistics did. Other industry sectors with a high number of companies generating a positive EBIT were Pharma & Healthcare with 80% (70% in 2016) and Automotive with 65% (83% in 2016). In contrast, 40% (8% in 2016) of companies related to Machinery & Tools and 33% (29% in 2016) Financial Services companies failed to break even. Also, 29% of corporations in both segments, Automotive (13% in 2016) and Consumer Goods & Retail (7% in 2016) experienced a loss in 2017.

Figure 10: EBIT margin – Industry breakdown

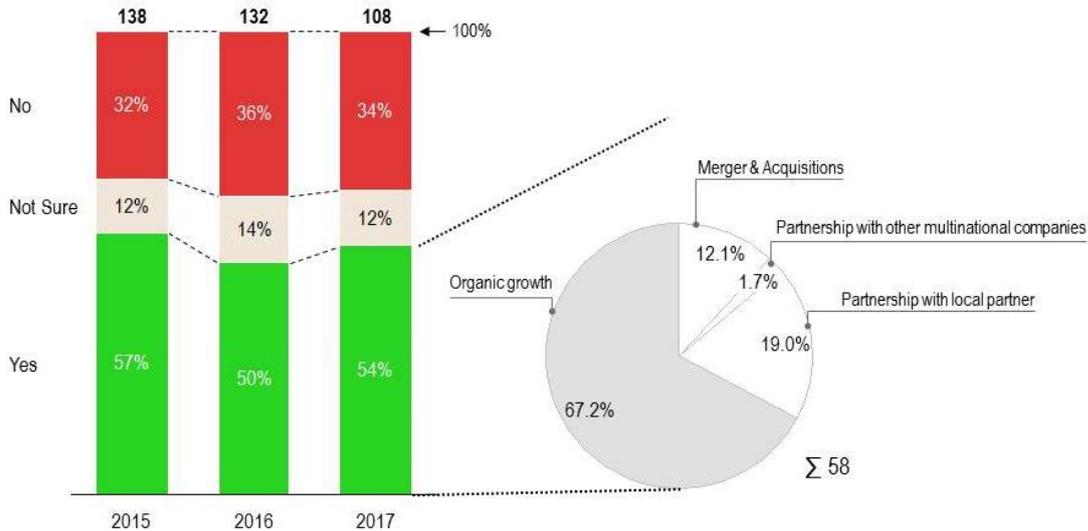


The EBIT margin generated in Korea was at 47% (38% in 2016) of legal entities active in the automotive industry better than the company's worldwide margin. Other business areas with better local profitability margins than global were Services with 33% (27% in 2016), Pharma & Healthcare with 33% (10% in 2016), Logistics with 31% (24% in 2016) and Energy & Chemicals with 30% (27% in 2016) of company responses. Local profitability is in line with global at 50% of companies in Consumer Goods & Retail (23% in 2016) as well as at Financial Services (50% in 2016) followed by Pharma & Healthcare (30% in 2016) where 44% of respondents confirmed that. In Machinery & Tools and Financial Services the majority of companies failed to reach the global profit margin; namely 55% of Machinery & Tools companies (15% in 2016) and 50% Financial Services (25% in 2016). The local profitability was also lower at a substantial number of companies in Services (44%, 27% in 2016), Energy & Chemicals (40%, 36% in 2016), Consumer Goods & Retail (36%, 62% in 2016) and Logistics (31%, 24% in 2016).

## 1.6 Operation expansions

Figure 11: Plans for expansion in Korea

Are you planning to expand your operations in Korea in 2018? If yes, by which means?

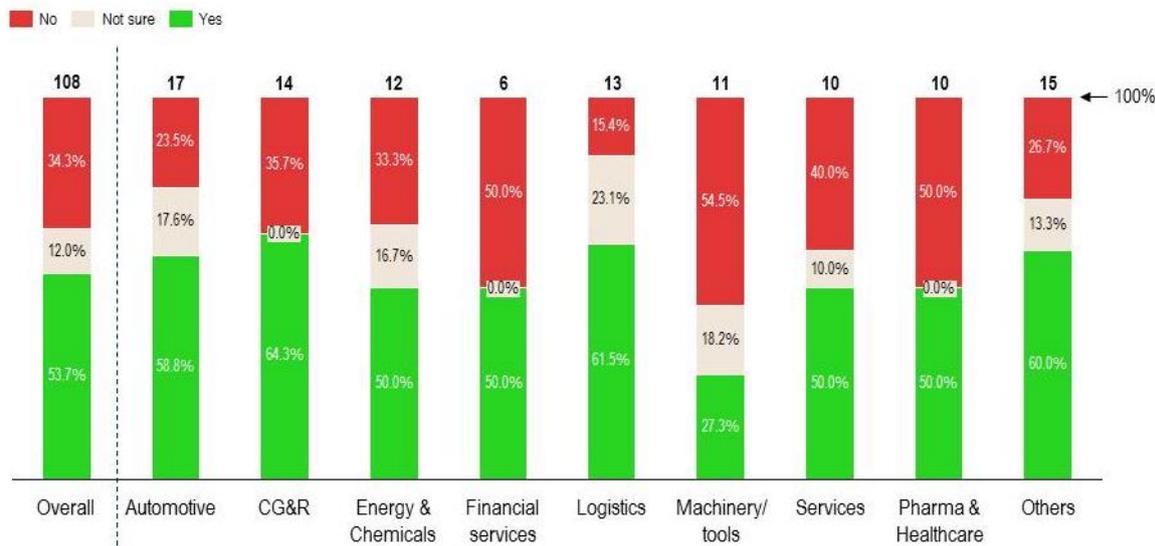


54% of European companies are planning to expand their operations in 2018 which is slightly higher than 2016 where 50% of companies confirmed their investment intention. 12% of responding companies were not yet sure about their expansion compared to 14% in 2016. Instead, 34% of corporations stated that they have no intention to expand their operations in 2018 comparing to 36% of replies in 2016.

The favoured business expansion is by 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 2016.

Figure 12: Plans for expansion in Korea – Industry breakdown

Are you planning to expand your operations in Korea in 2018?



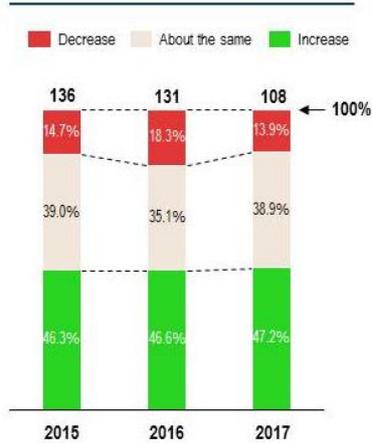
Plans for business expansion do exist at all business segments but especially at Consumer Goods & Retail and Logistics where 64% (73% in 2016) respectively 62% (24% in 2016) of respondent replied in that way. A positive attitude towards further operations was also stated by representatives from Automotive with 59% (58% in 2016), Energy & Chemicals with 50% (36% in 2016), Financial Services with 50% (63% in 2016), Services with 50% (55% in 2016), and Pharma & Healthcare with 50% (30% in 2016). Instead, only 27% (39% in 2016) Machinery & Tools companies are targeting the expansion of their business operations but 55% (54% in 2016) are not pursuing this. Furthermore, plans for the expansion of business operation do not exist at 50% of Financial Services (38% in 2016) and Pharma & Healthcare companies (70% in 2016); but also, at Services (40%, 27% in 2016), Consumer Goods & Retail 36% (27% in 2016), Energy & Chemicals 33% (55% in 2016). There is a substantial number of companies not planning the extension of their operation in 2018.

## 1.7 Human resources/hiring

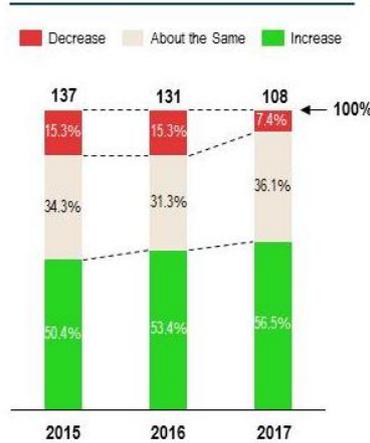
Figure 13: Responses for human resources/hiring

On human resources related matters

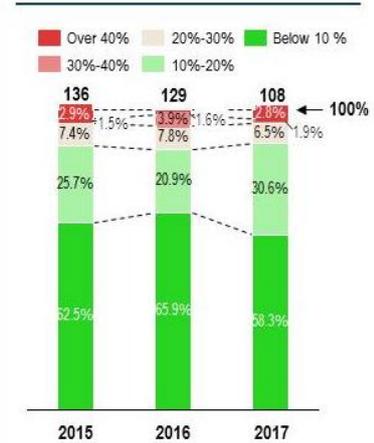
What has happened to the number of permanent positions in Korea last year?



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 2017?



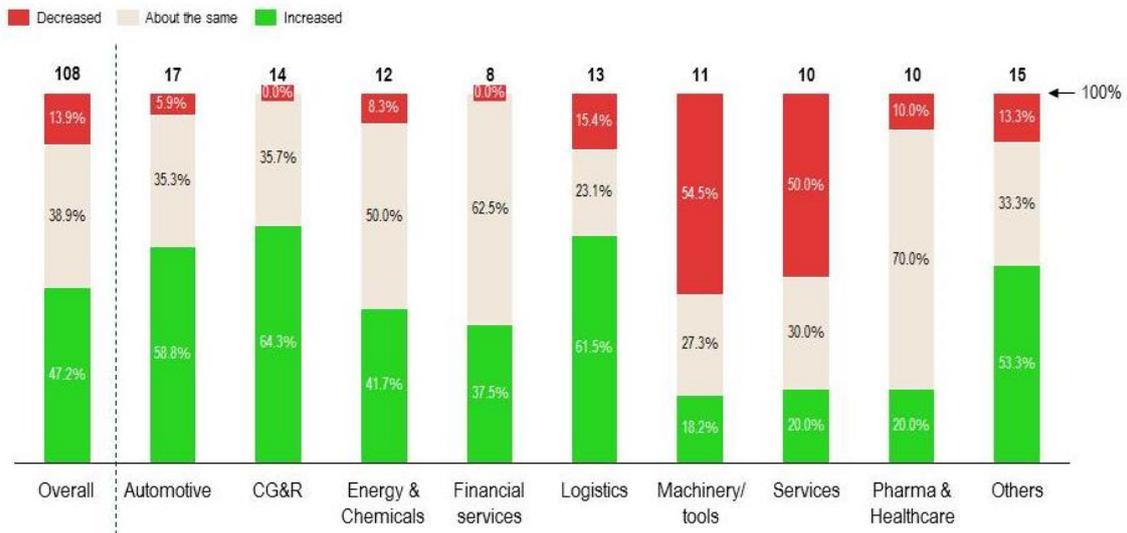
47% of companies increased their permanent positions in 2017 which is in line with the result in 2016. 39% of companies replied that they employed the same number of permanent employees therewith exceeding previous year's level by 4 percentage points. 14% of enterprises instead reduced their workforce compared to 18% of companies in 2016.

57% of legal entities expect to create additional permanent positions compared to 53% in 2016. 36% of companies do not foresee adding people to their existing workforce (31% in 2016) and 7% (15% in 2016) rather expect a decrease in people employed.

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 88% in 2015, 87% in 2016 and 88% in 2017. Instead, 3% of companies replied that they had a staff turnover of more than 40% - something which also happened in 2015 but not in 2016.

Figure 14: Changes in permanent positions – Industry breakdown

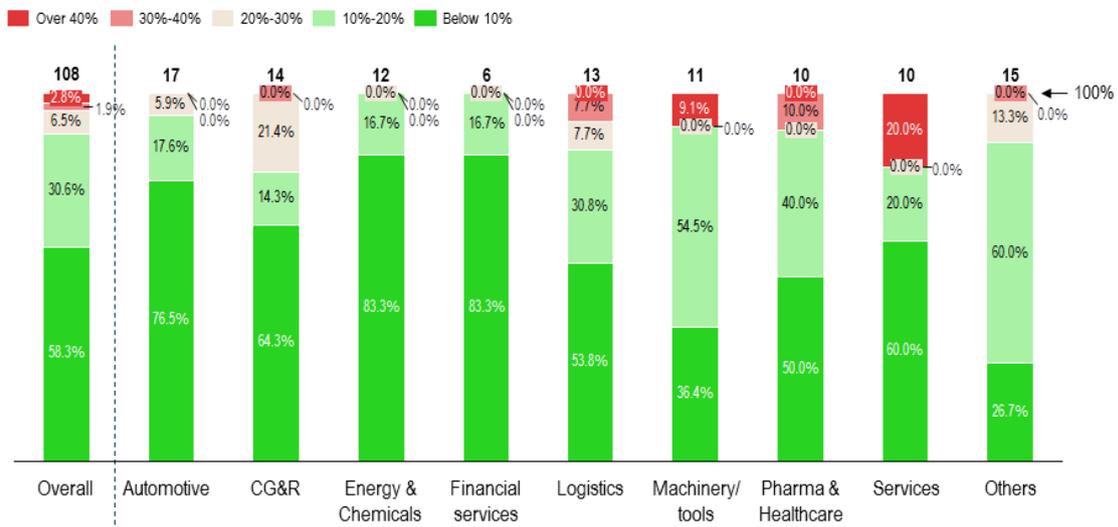
What has happened to the number of permanent positions in Korea last year?



The industry sectors with the highest responses concerning an increase in permanent positions in 2017 were Consumer Goods & Retail with 64% (53% in 2016), Logistics with 62% (29% in 2016), and Automotive with 59% (29% in 2016). Instead, hiring additional permanent employees were rather on the lower side at Services with 20%, Pharma & Healthcare with 20% and Machinery & Tools with 18%. Companies operating in 2017 with the same workforce primarily were to be found in Pharma & Healthcare with 70% of responding companies (50% in 2016) and Financial Services with 63% (25% in 2016) but also at Energy & Chemicals with 50% (9% in 2016). Headcount reduction was experienced primarily at Machinery & Tools (55%, 39% in 2016) and Services (50%, 55% in 2016).

Figure 15: Turnover rate – Industry breakdown

What was the level of your staff turnover in 2017?

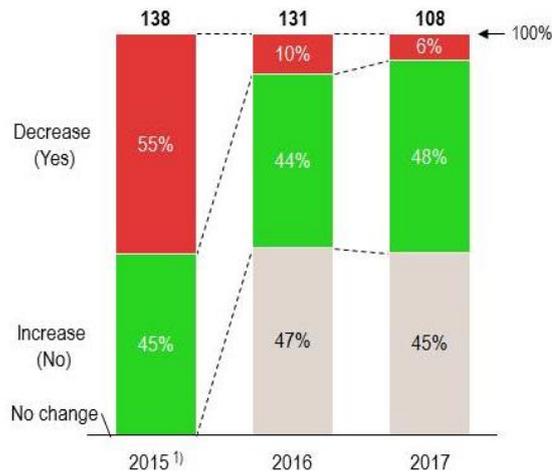


Staff turnover was no critical issue for most of the companies across all sectors. At companies active in Energy & Chemicals and Financial Services, staff turnover was in the healthy range from 0% to 20% followed by Automotive were 94% of companies experienced that relatively lower staff turnover. The picture looks different in Services were 20% of companies had a staff turnover of more than 40%.

## 1.8 Cost saving initiatives

Figure 16: Planned cost saving this year

Do you plan either to increase or to decrease investment / operational expenses? <sup>1)</sup>



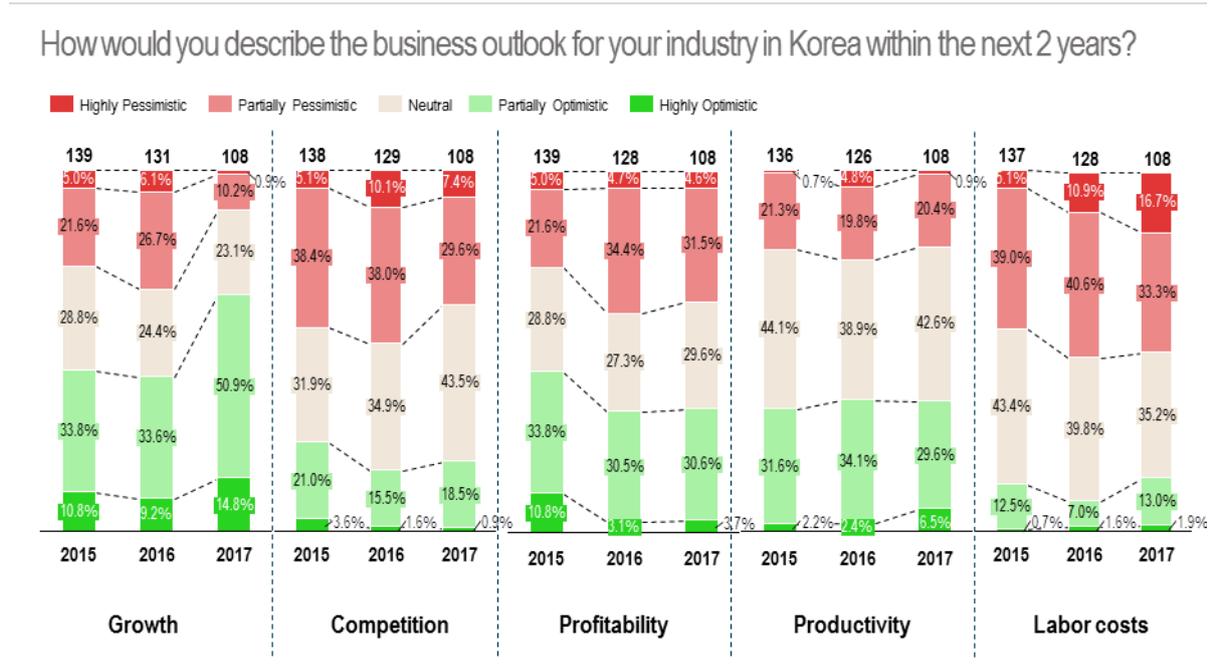
<sup>1)</sup> In 2015, the survey was conducted with different question – “Do you plan on implementing cost saving initiatives in Korea this year?”, and the respondents could answer either “Yes” or “No”

In 2017, 6% of companies replied that they will decrease investment respectively operational expenses compared to 10% in 2016. Instead, 48% of legal entities rather intend to increase spending in business; this value is slightly higher than the 44% reported in 2016. At 45% of companies there is no change in financial spending foreseen (47% in 2016).

## 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 labor costs.

Figure 17: Business outlook – Overview

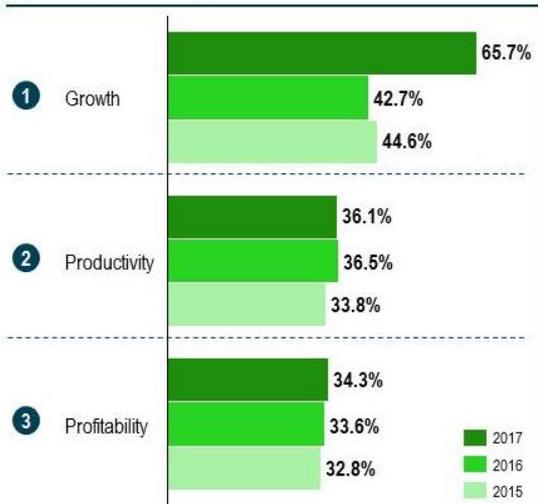


66% of company representatives are either partially or highly optimistic about growth for the next two years, 23% are neutral and 11% either partially or highly pessimistic. In comparison to 2016, optimism increased from 43% by 23 percentage points to 66% and pessimism decreased from 33% by 22 percentage points to 11%. Asked about competition, 19% (17% in 2016) of business leaders are either partially or highly optimistic, 44% (35% in 2016) are rather neutral and 37% (48% in 2016) sees this either partially or highly pessimistic. The outlook for profitability is rather stable; 34% of corporations are either partially or highly optimistic, 30% neutral and 36% either partially or highly pessimistic compared to 34%, 27% and 39%. In 2017, 36% (36% in 2016) of company representatives are either partially or highly optimistic concerning productivity as 43% (39% in 2016) have a neutral view but 21% (25% in 2016) are either partially or highly pessimistic. Labor costs remains an area of concern: In respect to the development of labor costs within the next two years, only 15% (9% in 2016) of business leaders express their optimism, 35% (40% in 2016) are neutral but 50% (51% in 2016) of them are either partially or highly pessimistic.

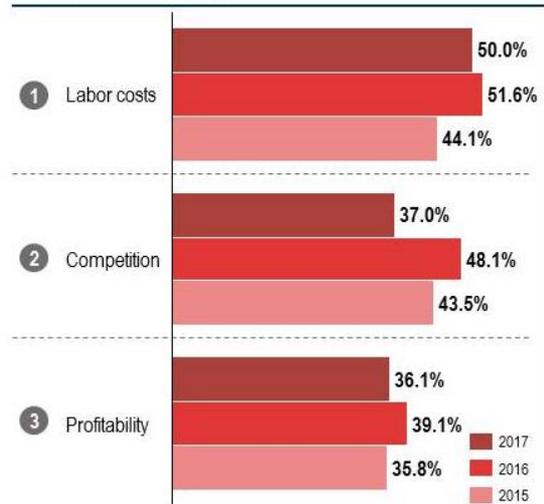
Figure 18: Ranking of the business outlook items

Ranking of the outlook items by optimistic and pessimistic responses

Optimistic ranking<sup>1)</sup>



Pessimistic ranking<sup>2)</sup>

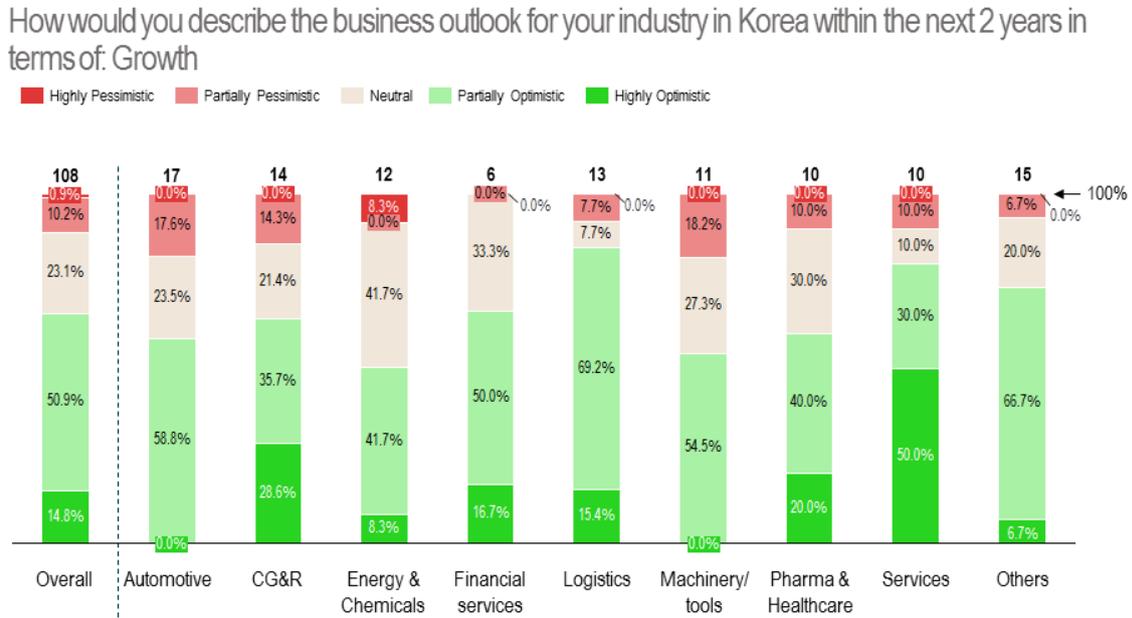


1) Combined percentage of "Optimistic" and "Partially Optimistic"; 2) Combined percentage of "Pessimistic" and "Partially Pessimistic"

European companies are mostly optimistic regarding growth. In 2014, when the Business Confidence Survey was launched, 46% of business leaders were either partially optimistic or optimistic on growth, it slightly decreased to 45% in 2015 and to 43% in 2016. Accordingly, the optimistic response on the growth outlook for the next two years stated by 66% of business leaders in 2017 is a considerable increase. Productivity is the second area where business leaders feel most optimistic about; the response rate in 2017 is 36% which is more or less in line with the rate in 2015 and 2016. The profitability outlook for the next two years is evaluated by 34% of corporations as positive; the response rate has – although marginal – increased year by year. The development of labor costs remains the main concern for European companies. 50% of business leaders are either partially or highly pessimistic which is slightly below previous year's rate of 52% but substantially higher than in 2015 where the rate was at 44%. Lastly, profitability was seen pessimistically by 36% of industry representatives – a slight decrease compared to 2016 but more or less on a similar level as in 2015.

## 2.1 Growth

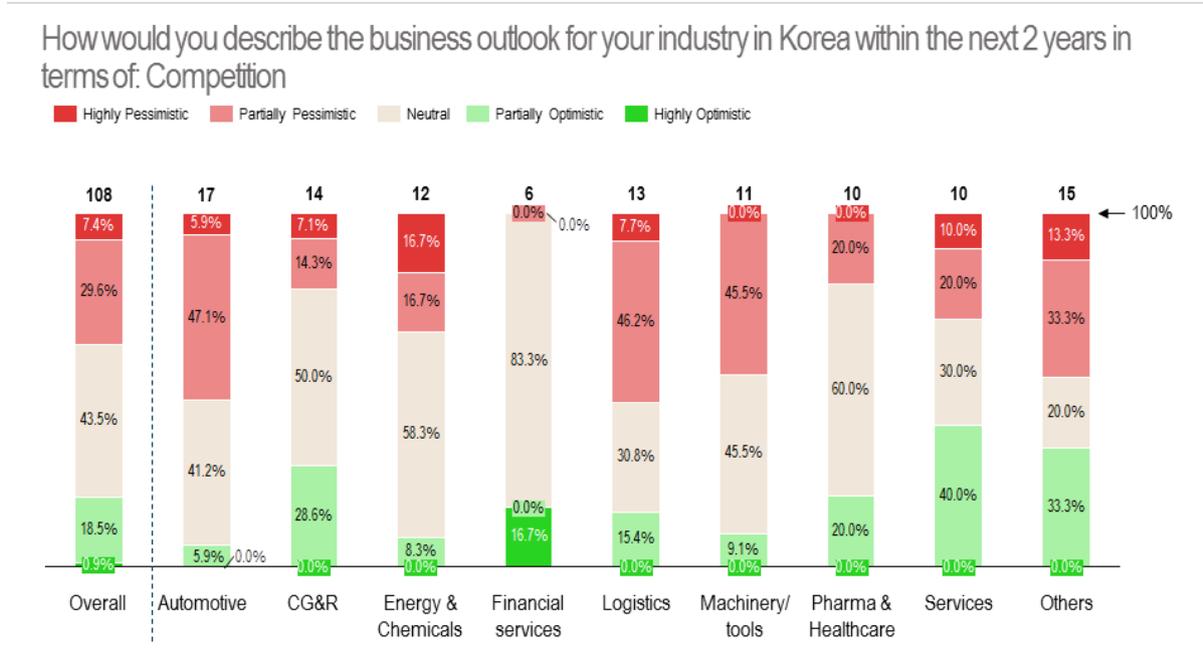
Figure 19: Growth – by industry



The growth outlook for the next two years is positive in all industry segments as in all segments the positive evaluation is more than 50%. Optimism is strongest in Logistics with 85% (29% in 2016), Services with 80% (55% in 2016), Financial Services with 67% (50% in 2016), Consumer Goods & Retail with 64% (80% in 2016) and Pharma & Healthcare with 60% (20% in 2016). Naturally the optimistic outlook is not shared by all companies. In Energy & Chemicals, Financial Services and Pharma & Healthcare 42%, 33% and 30% of company representatives have a rather neutral view on the next two years. Pessimism is most spread at Machinery & Tools and Automotive where 18% of business leaders expect difficulties to reach growth targets.

## 2.2 Competition

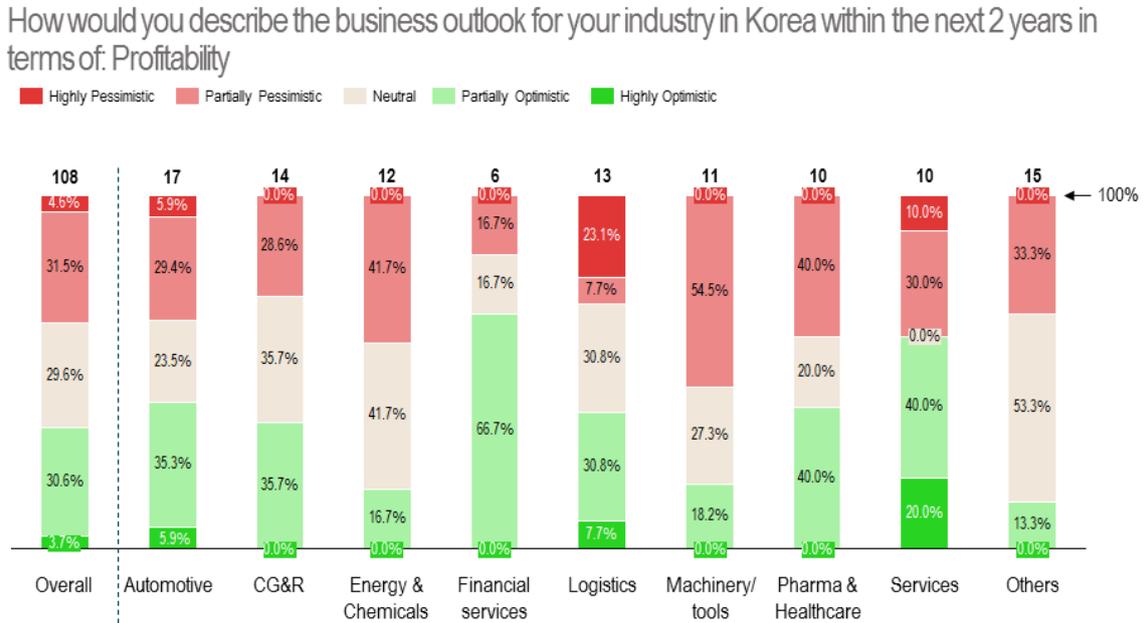
Figure 20: Competition – by industry



The expectation how competition will develop of the next two years is overall more pessimistic than optimistic. Sectors where a certain number of executives are either partially or highly optimistic are Services (40%, 46% in 2016), Consumer Goods & Retail (29%, 57% in 2016) and Pharma & Healthcare (20%, 10% in 2016). A considerable number of business leaders are rather neutral but primarily at Financial Services with 83% (38% in 2016) or Pharma & Healthcare with 60% (20% in 2016). Sectors where a considerable number of industry leaders are either partially or highly pessimistic concerning the development of the competitive environment during the next two years are Logistics with 54% (35% in 2016), Automotive 53% (35% in 2016) and Machinery & Tools with 46% (54% in 2016).

### 2.3 Profitability

Figure 21: Profitability – by industry

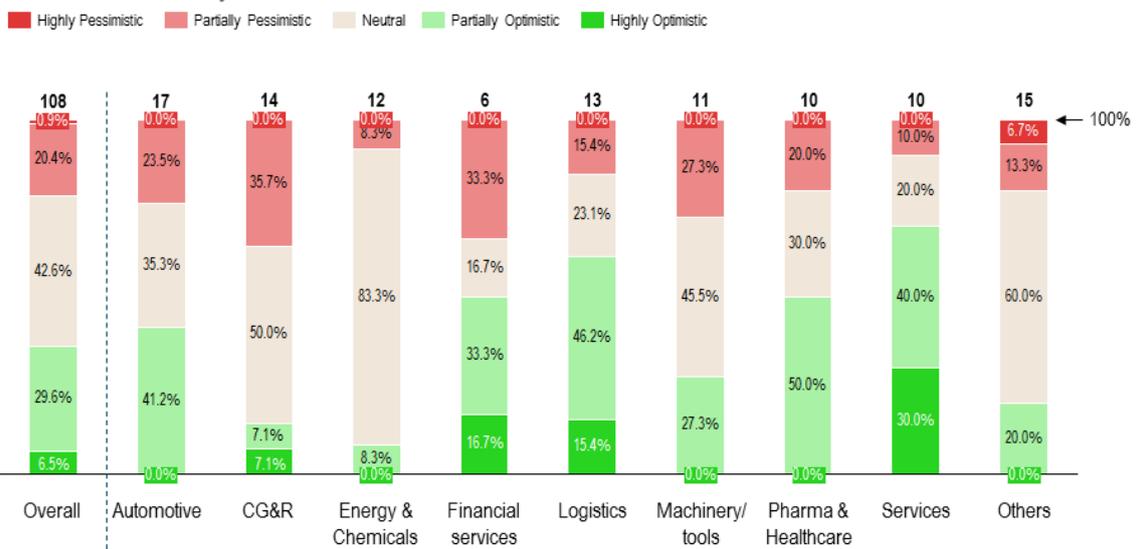


The most optimistic industry sector in respect to profitability development over the next two years is Financial Services where two third (13% in 2016) of respondents are partially optimistic and only one third (50% in 2016) either partially or highly pessimistic. 60% (46% in 2016) of business leaders in Services are also expecting a higher profitability within the next two years. Positive responses at other sectors are lower such as in Automotive with 41% (26% in 2016), Pharma & Healthcare with 40% (10% in 2016), Logistics with 39% (41% in 2016) and Consumer Goods & Retail with 36% (50% in 2016) but especially at Machinery & Tools with 18% (23% in 2016) and Energy & Chemicals with 17% (18% in 2016). In Chemicals (42%, 18% in 2016) and Consumer Goods & Retail (36%, 36% in 2016) a substantial number of business leaders rather have a neutral view on the profitability development over the next two years. A considerable group of company representatives at Machinery & Tools (55%, 54% in 2016), Energy & Chemicals (42%, 64% in 2016), Pharma & Healthcare (40%, 70% in 2016), Automotive (35%, 35% in 2016) are either partially or highly pessimistic about the future profitability.

## 2.4 Productivity

Figure 22: Productivity – by industry

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

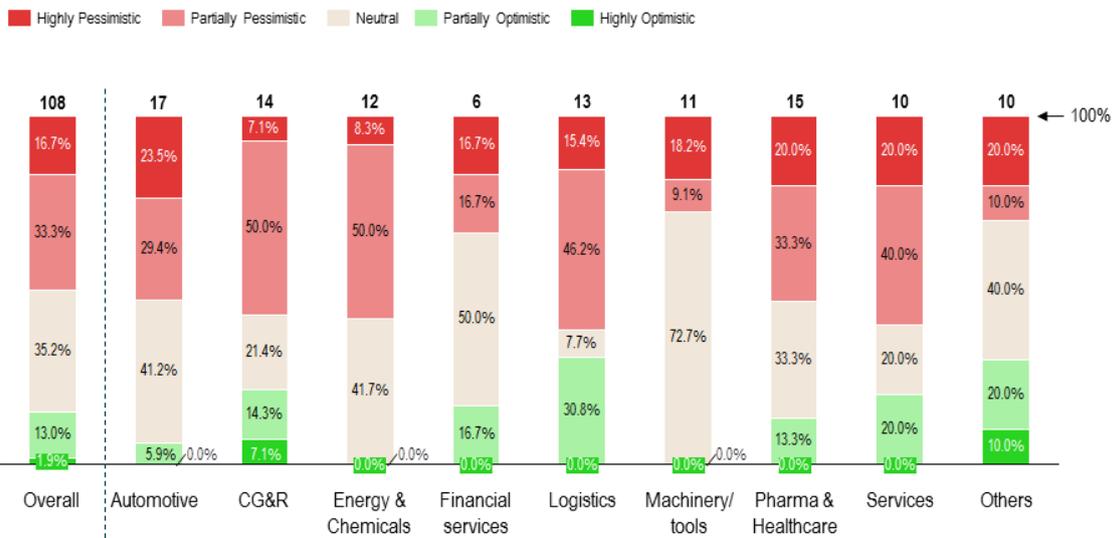


Productivity is expected to increase especially in Services where 70% (73% in 2016) of respondents are either partially or highly optimistic but also at Logistics (62%, 65% in 2016), Financial Services (50%, 13% in 2016) and Pharma & Healthcare (50%, 30% in 2016). The least change is foreseen in Energy & Chemicals where a vast majority of 83% (55% in 2016) responded in a neutral way to this question. The productivity outlook seems not to be that favorable at companies active in Consumer Goods & Retail and Financial Services and Machinery & Tools where 36% (21% in 2016) respectively 33% (31% in 2016) stated their partial pessimism.

## 2.5 Labor costs

Figure 23: Labor costs – by industry

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



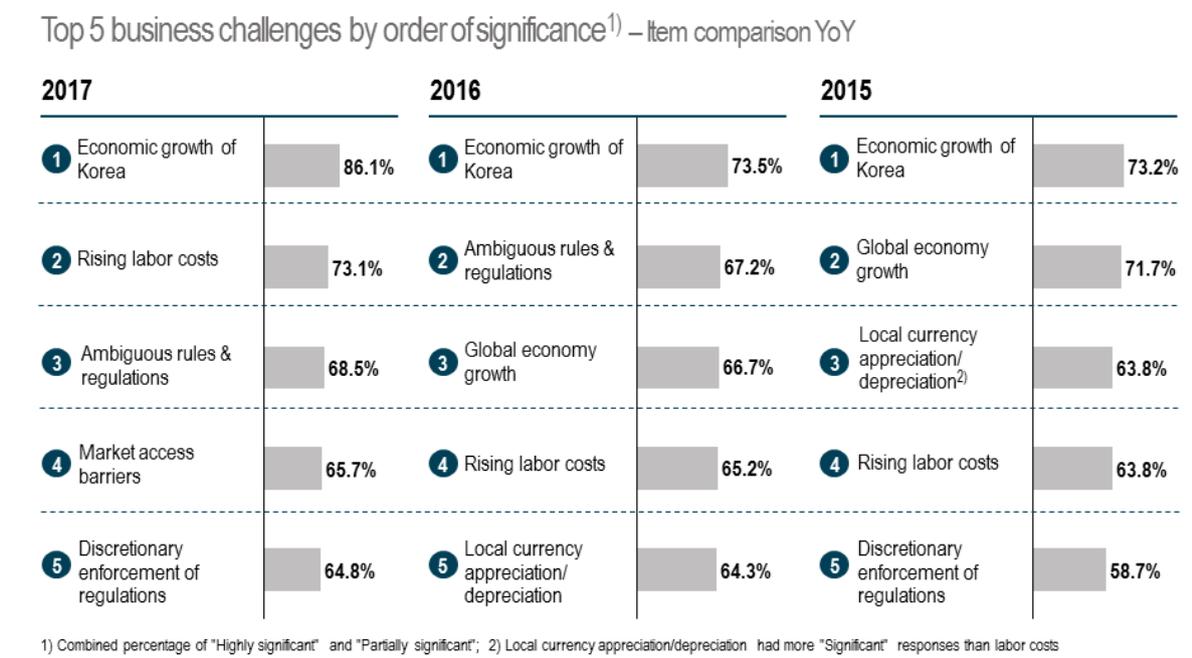
The development of labor cost over the next two-year-period is the area companies are most concerned. Highly optimistic company representatives are almost absent except at Consumer Goods & Retail where 7% of industry leaders replied in that way. Company leaders either expressing their partial or high optimism can be found to a certain degree at Logistics (31%, 12% in 2016), Consumer Goods & Retail (21%, 14% in 2016) and Services (20%, 18% in 2016). At Machinery & Tools and Financial Services the opinion on labor cost development is rather neutral as stated by 73% respectively 50% of business leaders. The majority of industry segments instead express in majority their partial or high pessimism such as at Logistics (62%, 17% in 2016), Services 60% (27% in 2016), Energy & Chemicals (58%, 64% in 2016), Consumer Goods & Retail (57%, 64% in 2016), Pharmaceuticals & Healthcare (53%, 50% in 2016) and Automotive (53%, 88% in 2016).

### 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 – 2017, 2016, 2015

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



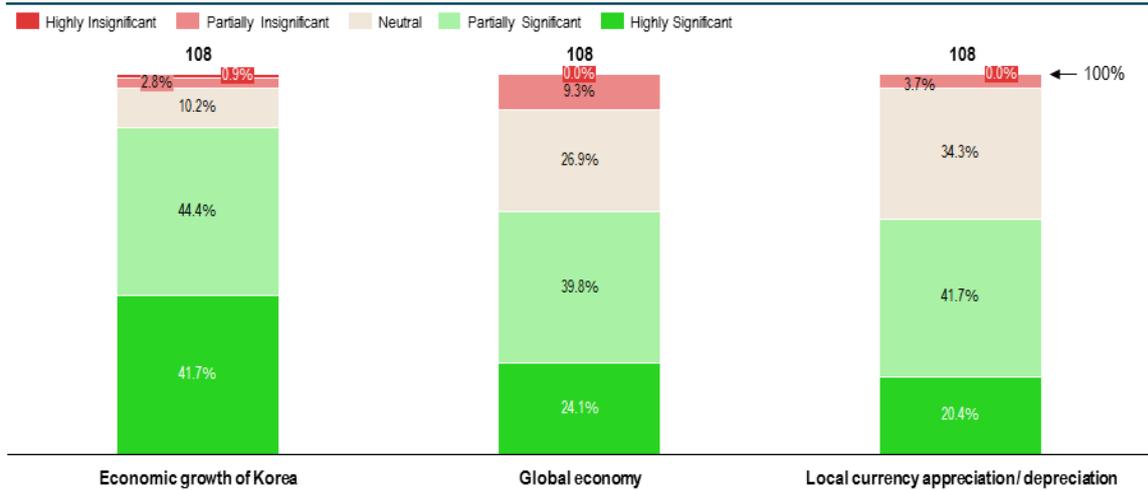
The growth of the Korean economy has been considered the main challenge since the beginning of the launch of the Business Confidence Survey in 2014; this year 86% (74% in 2016) of executives has named this item as either partially or highly significant for their business. Rising Labor Costs was named by almost three-fourth (65% in 2016) of respondents as a key challenge followed by Ambiguous Rules & Regulations where 69% (67% in 2016) of executives are of the opinion that this represents a substantial business challenge as well. This year, Market Access Barriers and Discretionary Enforcement of Regulations are new in the list of Top 5 Business Challenges. Market Access Barriers, in 2017 viewed by 66% (46% in 2016) as key challenge for business success. For past surveys, it always had response ratios below 50%, but this year, it exceeded 50% threshold for the first time. Discretionary Enforcement of Regulations, this year seen by 66% of respondents as critical, appeared in 2015 but not 2016 (57%) among the Top 5.

### 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 86% (73% in 2016), see the growth of the Korean economy either as partially or highly significant for their business as 10% (16% in 2016) rather had a neutral view and 4% (11% in 2016) 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; 63% (67% in 2016) of executives do rate this as either partially or highly significant while 27% (24% in 2016) have rather a neutral view and 9% (9% in 2016) indicating that this is rather insignificant.

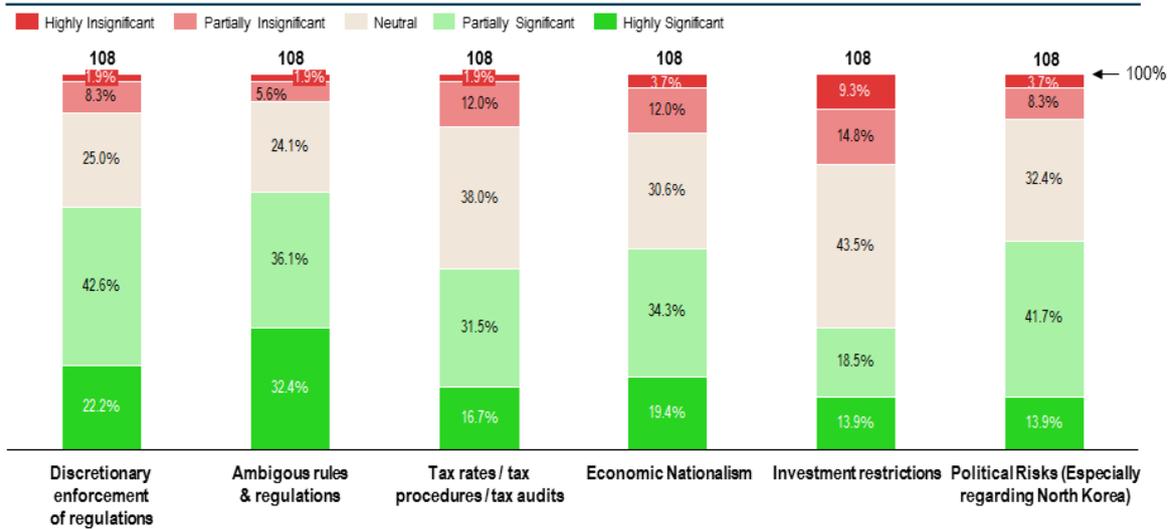
The local currency appreciation / depreciation was seen by 62% (64% in 2016) of respondents as either partially or highly significant, 30% (34% in 2016) of company representatives had a neutral view as 4% (6% in 2016) named this is rather insignificant.

### 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?

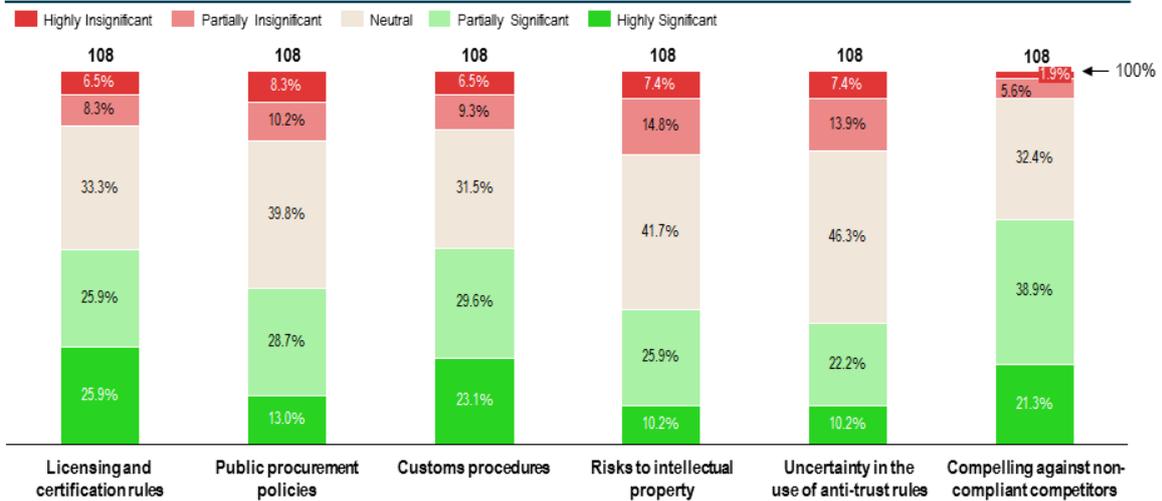
#### Regulatory/Political (1/2)



Discretionary Enforcement of Regulations and Ambiguous Rules and Regulations or the top challenges in the regulatory and political section followed by Political Risks. The number one challenge perceived by business leaders in this area is Ambiguous Rules and Regulations; 32% alone rate this as highly significant and – additional – 36% as partially significant (68% partially or highly significant, 65% in 2016) closely followed by Discretionary Enforcement of Regulations where 65% (57% in 2016) were of that opinion. Political Risk in recent years has not really been perceived as a challenge to European business in Korea; in 2016 only 26% of business leaders has evaluated this is either partially or highly significant. In 2017 instead, the feedback was different: 14% of respondents sees this as very significant, 42% as partially significant, 32% as neutral and 12% as either partially or highly insignificant. Other considerable challenges are Tax Rates / Tax Procedures / Tax Audits and Economic Nationalism as Investment Restrictions seems to be an area of less concern. Economic Nationalism challenge are named by 54% of business leaders as partial or highly significant as Tax Rates / Tax Procedures / Tax Audits are named by 48%. Investment restrictions instead seems to be valued only by a minority of respondents as significant.

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

**Regulatory/Political (2/2)**



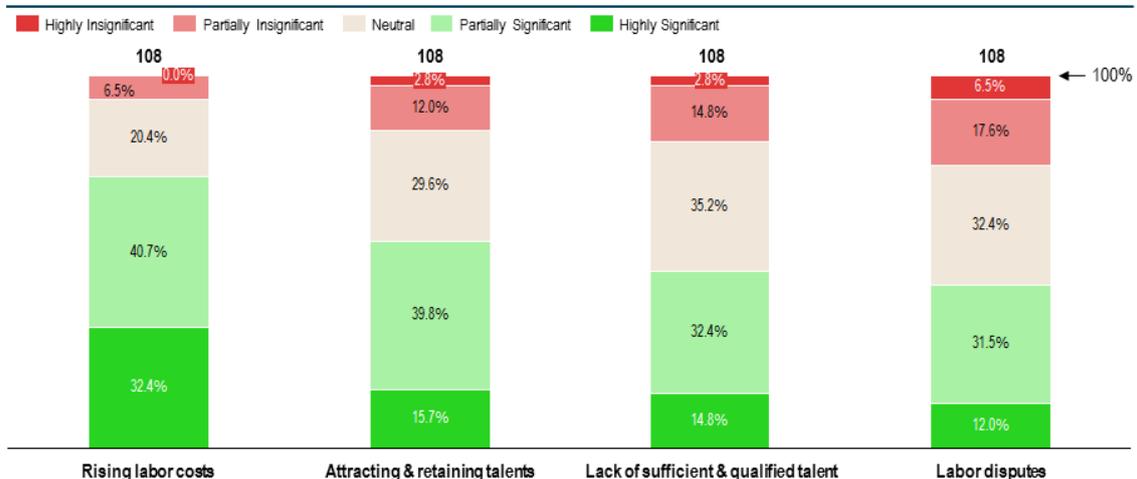
Compelling against Noncompliant Competitors remains a business challenge with 60% (55% in 2016) of responses being either partially or highly significant. The same is true for Customs Procedures where 53% (45% in 2016) and Licensing and Certification Rules where 52% (40% in 2016) of business leaders rate this as either partially or highly significant. 42% (28% in 2016) 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 36% (36% in 2016) and Uncertainty in the Use of Anti-Trust Rules 32% (30% in 2016) – both on a similar level compared to previous year – are areas where the majority of business leaders do not assume them having a major impact on their business.

**3.3 Labor**

Figure 27: Labor related challenges

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

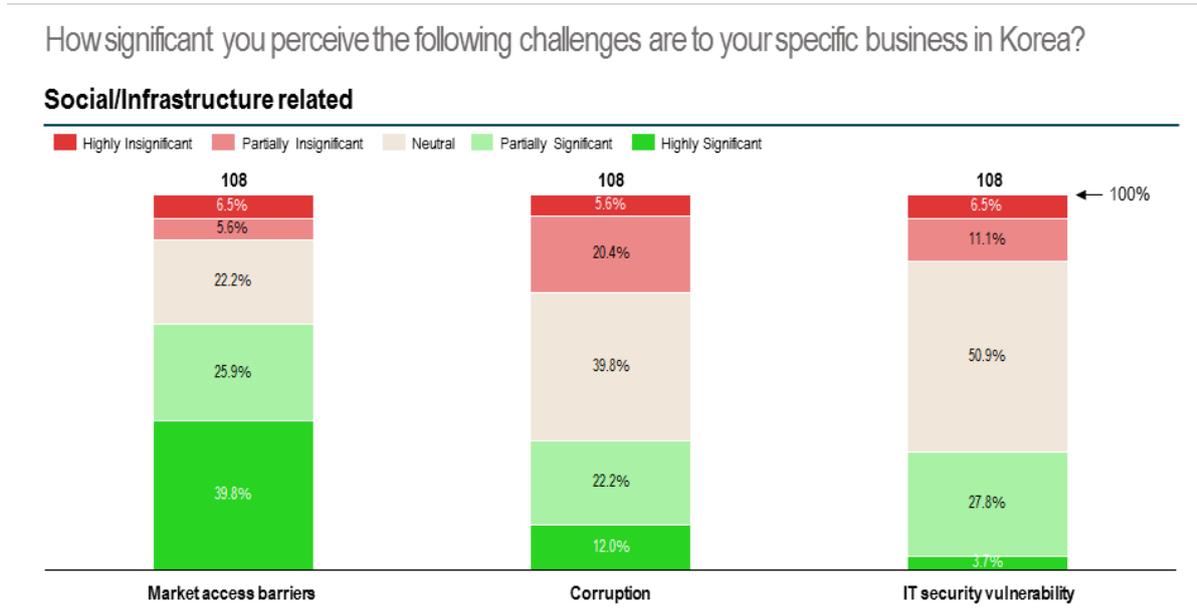
**Labor related**



In the area of HR Management, Rising Labor Costs is the main issue for European companies. 32% (21% in 2016) of company executives alone rate this as highly significant and additional 41% (25% in 2016) as partially significant. Although not seen that critical as the labor cost development, talent management also remains a key issue in 2017. Attracting and Retaining Talents and Lack of Sufficient and Qualified Talents are named by 56% (50% in 2016) respectively 47% (47% in 2016) of business leaders as significant issues (partially and highly). Finally, Labor Disputes also remains a significant impact area as stated by 44% of executives (36% in 2016).

### 3.4 Social/infrastructure

Figure 28: Social/infrastructure related challenges



For Social / Infrastructure, the key challenge is Market Access Barriers. 40% (28% in 2016) of business leaders rate this alone as highly significant, 26% (18% in 2016) as partially significant but only 22% (31% in 2016) as neutral and 12% (22% in 2016) as either partially or highly insignificant. This means that – compared to 2016 – executives are more concerned about existing or potential market access barriers.

Corruption instead seems not to be an area of main concern anymore. In 2017, only 34% see this as a significant issue; 10 percentage points less than in 2016 where this value stood at 44%. 40% (43% in 2016) of business people rate this as neutral and 26% (13% in 2016) as either partially or highly insignificant.

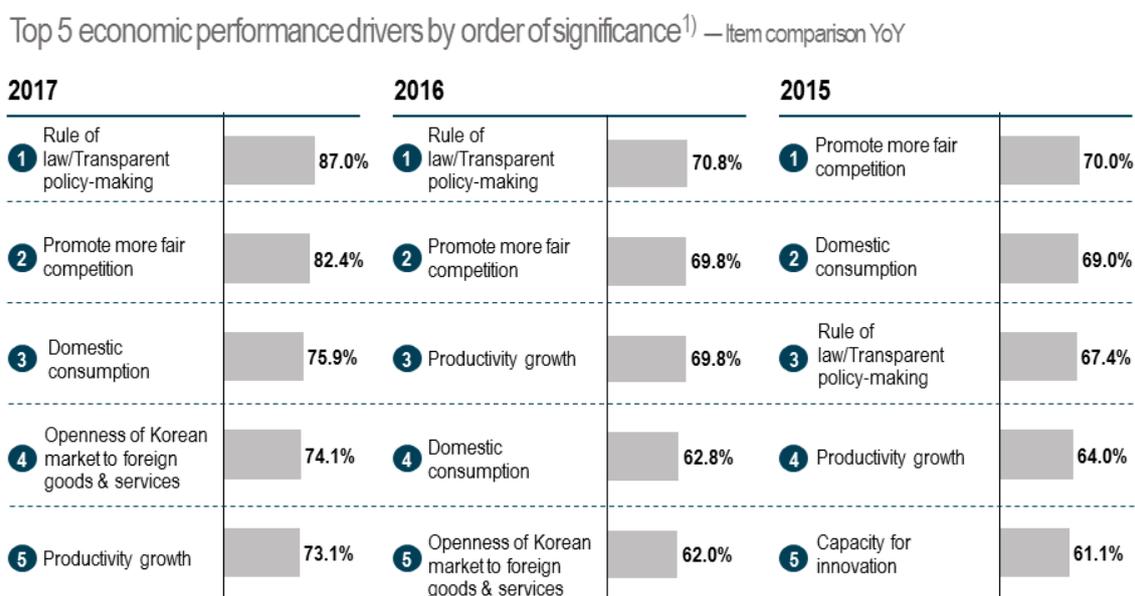
Business leaders also evaluate IT Security Vulnerability more favourable than in 2016; In 2017 this was seen as partially or highly significant by 32% (32% in 2016), neutral by 51% (45% in 2016) and as partially or highly insignificant by 17% (24% in 2016) of respondents.

## 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 2017, 2016, 2015

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



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

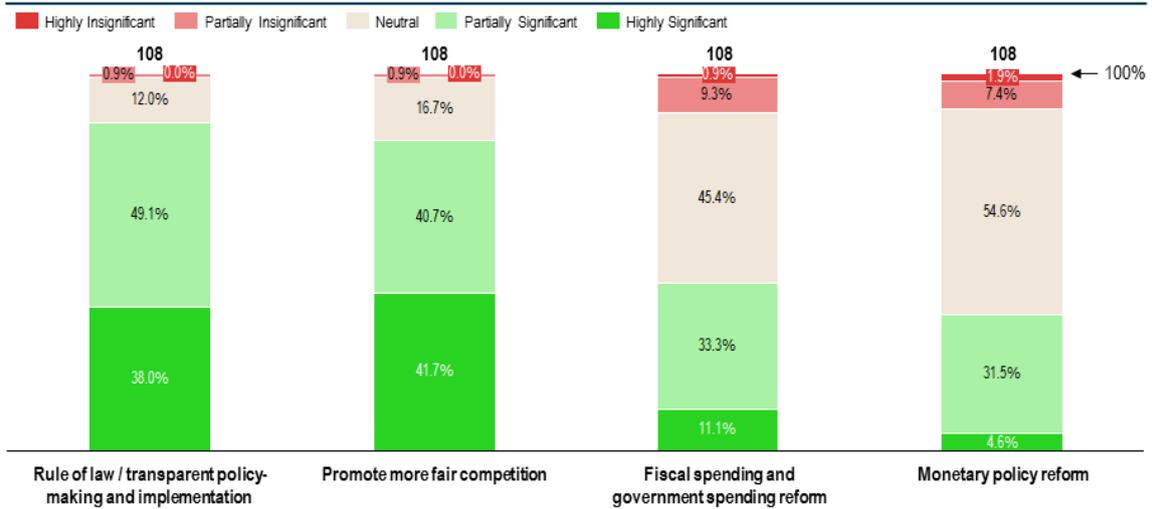
According to 87% (71% in 2016) of business leaders, the most significant performance driver in 2017 is Rule of Law/Transparent Policy Making followed by Promote More Fair Competition named by 82% (70% in 2016) as significant. Domestic Consumption is rated by 76% (63% in 2016) as significant and the Openness of Korean Market to Foreign Goods & Services comes up at 74% (62% in 2016). Productivity Growth, in 2016 ranked third with 70%, is the fifth important performance driver in 2017.

### 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



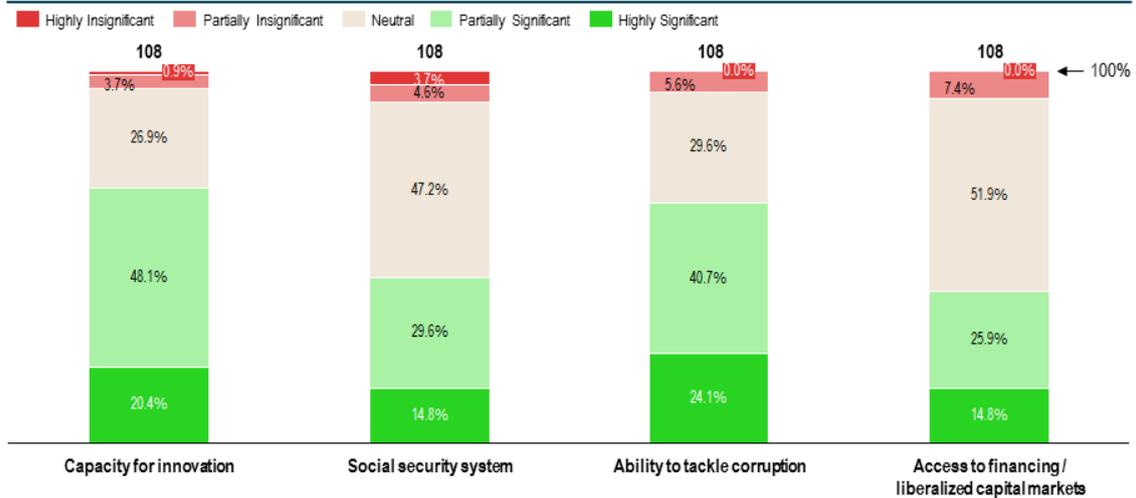
The Rule of Law / Transparent Policy Making and Implementation was named by 87% (70% in 2016) of business leaders being either partially or highly significant for the economic development of Korea closely followed by Promote More Fair Competition where 82% of executives consider this crucial; in fact, 42% alone consider this item as highly significant. Instead Fiscal Spending and Government Spending Reform as well as Monetary Policy Reform are not considered in the same degree as performance drivers: 44% believe that Fiscal Spending and Government Spending Reform is either partially or highly significant as 45% rather have a neutral view and about 10% consider this even as either partially or highly insignificant. A similar picture is true for Monetary Policy Reform where 36% considers this is an important economic driver but 55% express a more balanced view and 9% evaluates this as insignificant.

## 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



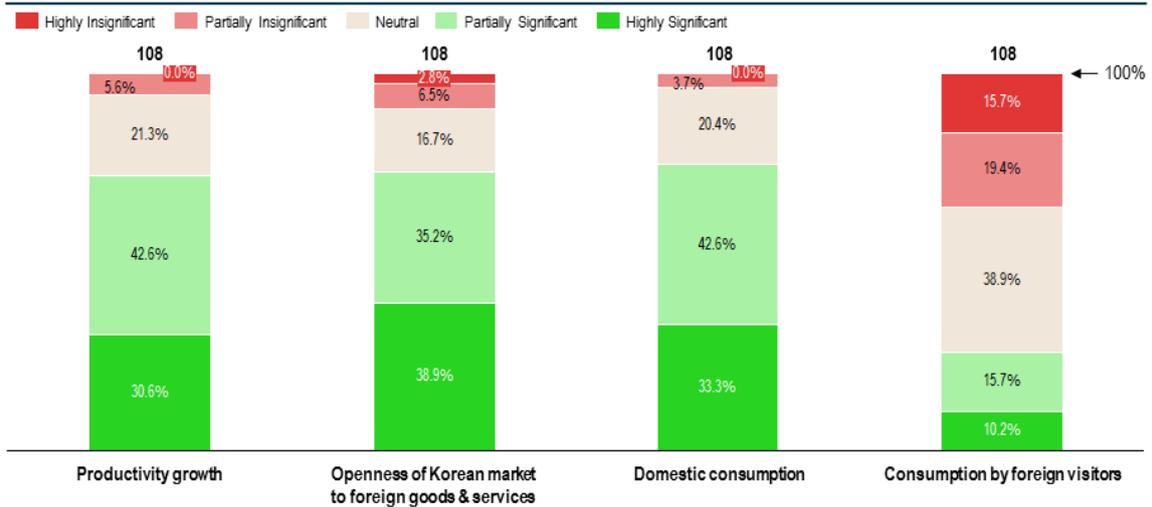
In respect to Social and Infrastructure related performance drivers, Capacity for Innovation as well as the Ability to Tackle Corruption are considered the most important ones followed by the Social Security System and the Access to Financing / Liberalized Capital Markets. The Capacity for Innovation is seen by 69% (partially and highly significant) of business leaders as crucial which 18 percentage points higher than in 2016 when this ratio stood at 51%. The Ability to Tackle Corruption was named by 65% (57% in 2016) of business leaders as either partially or highly significant. The view by executives on Social Security System is more balanced as 45% (34% in 2016) consider this as significant but 47% as neutral. The situation is similar for Access to Financing / Liberalized Capital Markets where 41% (36% in 2016) of business leaders sees this as a significant area but 52% 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?

#### Economy/trade



In the area of economy and trade, significant economic drivers include Productivity Growth, Openness of Korean Market to Foreign Goods & Services, and Domestic Consumption. Instead, Consumption by Foreign Visitors is considered less important.

Productivity Growth was seen by 73% (70% in 2016) of company representatives as an important factor. 74% (62% in 2016) 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 76% (63% in 2016) of corporations as either partially or highly significant.

The majority of business leaders are rather of the opinion that Consumption by Foreign Visitors is not crucial for the economic development in the up-coming years; 39% have a neutral stance and 35% state it is rather insignificant – only 26% of respondents believe it has an either partially or highly significant importance.

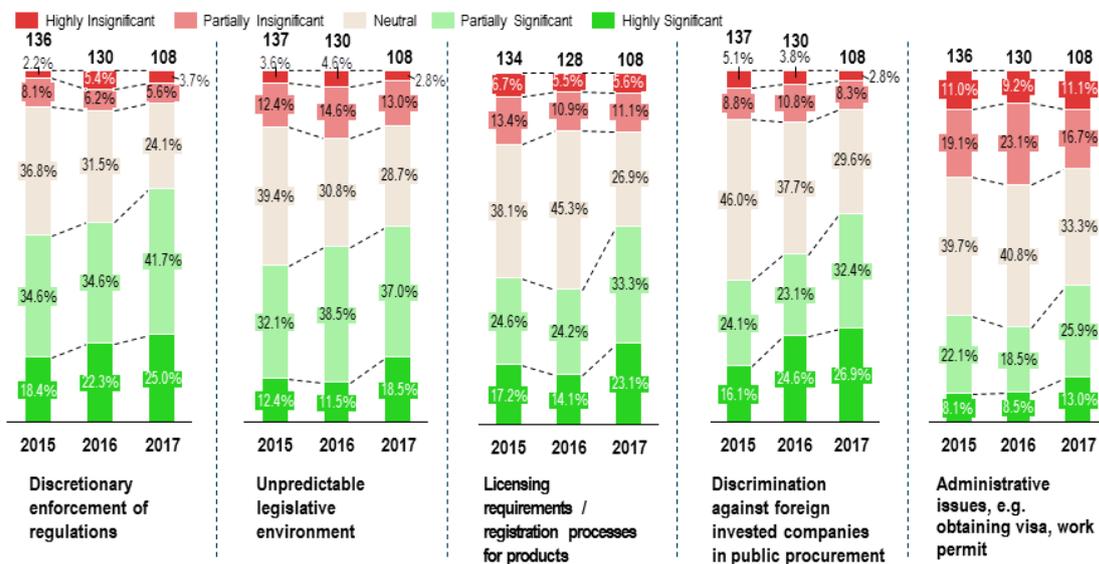
## 5. On Korea's legislative/regulatory environments and governments

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

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



The elimination or reduction of regulatory obstacles are key for business and economic growth. The feedback received in 2017 for all five criteria shows that business leaders perceive the recent development more critical than in 2016.

Discretionary Enforcement of Regulations and Unpredictable Legislative Environment are the top two obstacles for European companies doing business in Korea. 77% (57% in 2016) of respondents named Discretionary Enforcement of Regulations as either partially or highly significant, 24% (32% in 2016) had a neutral stance and 9% (12% in 2016) see this as either partially or highly insignificant. The Unpredictable Legislative Environment was considered by 56% (50% in 2016) of company representatives as partially or highly significant, by 29% (31% in 2016) as neutral and by 16% (19% in 2016) as partially or highly insignificant.

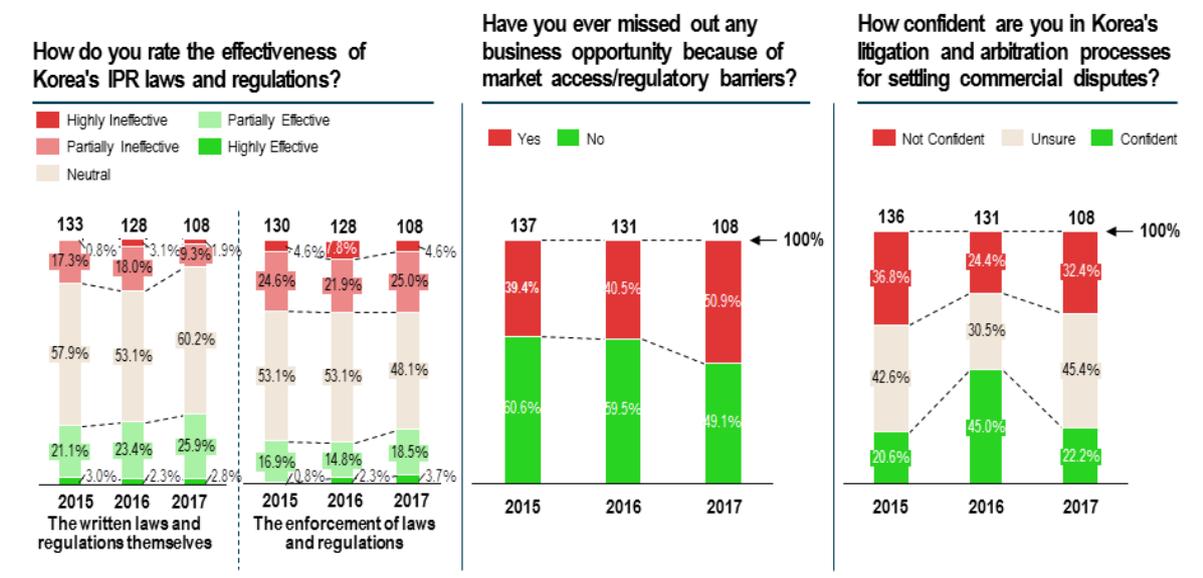
Licensing Requirements / Registration / Registration Processes for Products is seen as either partially or highly significant by 56% (38% in 2016) of respondents, 27% (45% in 2016) responded neutral and 17% (17% in 2016) evaluated this as either partially or highly insignificant. About 59% (48% in 2016) 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. Executives responded that Administrative Issues also became more an area of concern; in 2016, the

ratio of executives considering this as either partially or highly significant stood at relatively low 27%; in 2017 this ratio increased by 12% percentage points to 39% (27% in 2016). Still, 33% of business leaders have a neutral stance on it and 28% consider this as either partially or highly insignificant.

## 5.2 Confidence and effectiveness of litigation and regulation

Figure 34: Responses for regulation and litigation

### On 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. 29% (26% in 2016) of company representatives valued the Written Laws and Regulations as either partially or highly effective, 11% (21% in 2016) of respondents saw the laws and regulations as partially or highly ineffective. Enforcement of Laws and Regulation stood at 22% (17% in 2016) partially effective or highly effective. The combined value for partially and highly ineffective came up at 30% (30% in 2016). Approximately 50 % (40% in 2016) of all companies experienced a loss of business opportunities, due to either market access or regulatory barriers.

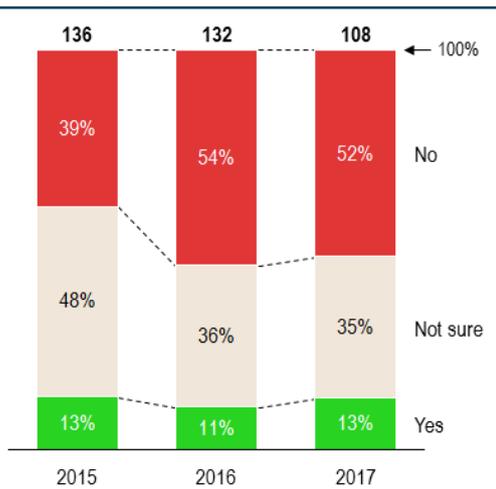
In the area of Confidence in the Litigation and Arbitration Processes for Settling Commercial Disputes there was a considerable improvement: 22% (45% in 2016) of respondents expressed confidence – up from 20% in 2015 and up from 14% in 2014. 45% (30% in 2016) of company representatives were unsure and 32% (24% in 2016) were not confident.

### 5.3 Opinion on government reforms

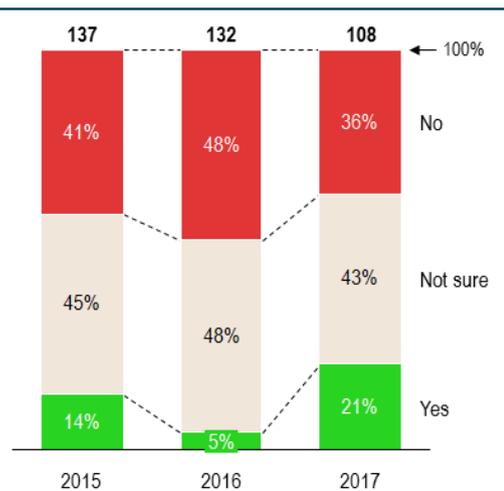
Figure 35: Government reforms – YoY

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?



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 52% (54% in 2016), are of the opinion that the reforms launched and implemented in 2017 have not been supportive for business operation. 35% (36% in 2016) of executives are not sure about the impact and only 13% (11% in 2016) evaluate those positively.

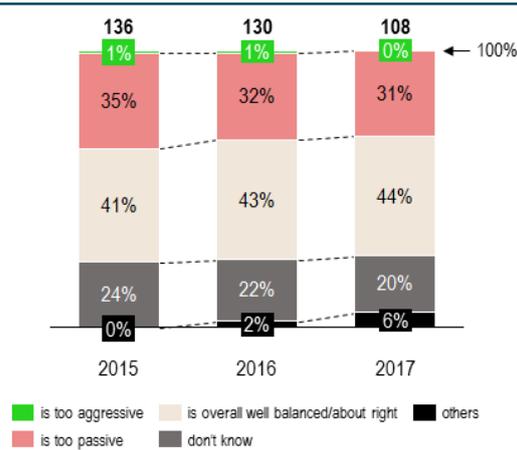
The outlook of the implementation of reforms for the years 2018 and 2019 is a bit brighter than the outcome for 2017. 21% (5% in 2016) of respondents state that they are optimistic about the government implementing meaningful reforms, 43% (48% in 2016) are not sure and 36% (48% in 2016) are of the opinion that the government will not come up with meaningful initiatives within the next two years.

## 5.4 Opinion on European and Korean governments' actions

Figure 36: Legislative / regulatory environment YoY

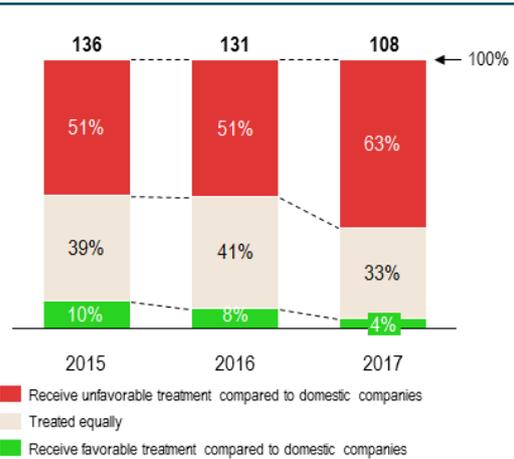
### On European and Korean governments' actions

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



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

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



The majority of respondents, namely 44% (43% in 2016) evaluate the activities related to market access and trade relations as well balanced. 31% (32% in 2016) instead believe that the European Union respectively the Delegation of the European Union to the Republic of Korea is too passive in its outreach to Korean government to advocate on behalf of European business.

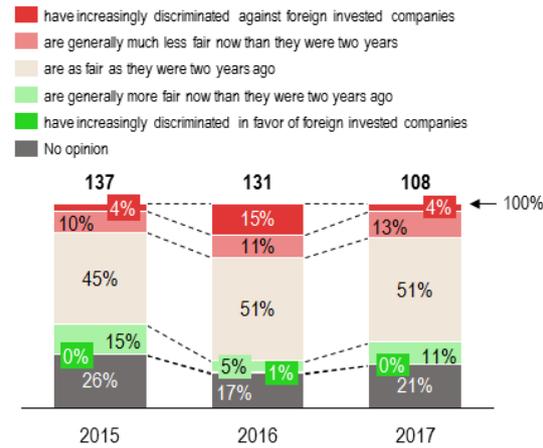
In respect to unfair or unfavourable treatment by the Korean government, or related government bodies, 63% (51% in 2016) of respondents indicated that they experienced unfavourable treatment, 33% (41% in 2016) felt that they were treated equally and 4% (8% in 2016) responded that they have received favourable treatment.

### 5.5 Government policies regarding business conditions

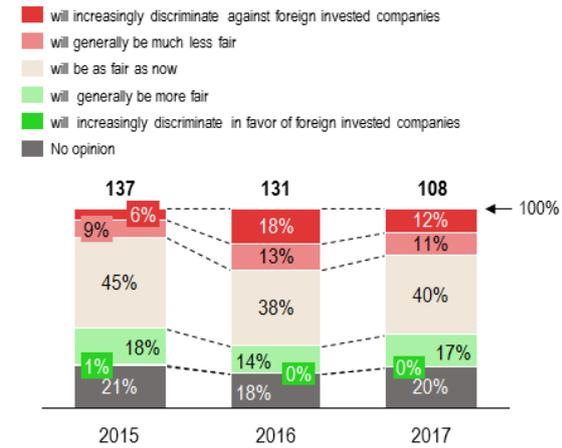
Figure 37: Government policies regarding business conditions YoY

#### 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?



14% (26% in 2016) believe policies either became less fair or increasingly discriminated. The majority of respondents, namely 51% (51% in 2016), believe policies towards foreign companies are as fair as they were two years ago. 11% (6% in 2016) state that government policies relevant to foreign companies, became fairer or even increasingly discriminated in favour of foreign companies. This question was unanswered by 21% (17% in 2016) of companies.

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 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.

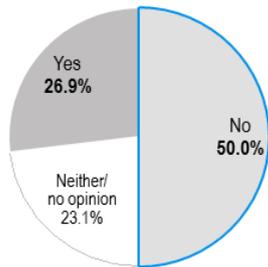
## 6. Impact of new government and its policies

Figure 38: Employment policy

### On employment policy

Do you think President Moon's dual policy goals of job growth and minimum wage increase are feasible from your business' perspective?

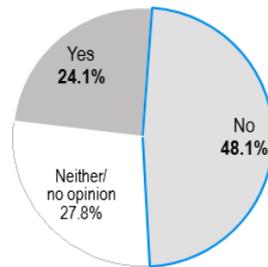
Σ 108



> Half of the respondents think promoting job growth and increasing minimum wage at the same time is not feasible

Do you think the youth employment quota, if expanded to companies as proposed by President Moon, could help companies generate job growth?

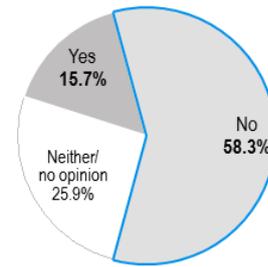
Σ 108



> Respondents who think expanding youth employment quota double will not help the job growth the number of whom think it will

Do you think that the government's push to convert non-regular to regular workers is compatible with job growth from your business' perspective?

Σ 108



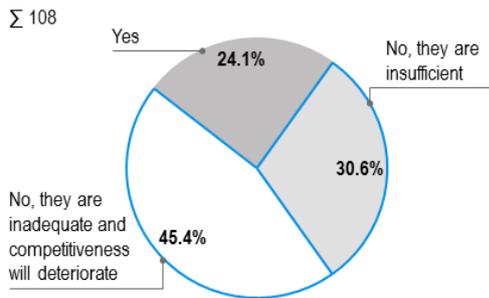
> Majority of the respondents consider promoting job growth and converting non-regular to regular workers at the same time is not feasible

The Moon administration initiated various measures in 2017 focusing on increasing employment and personal income, such as raising minimum wage for low income earners. 50% of respondents believe that the measures will not be positive for the development of the Korean economy. Instead 27% of respondents consider those measures as positive and 23% have no opinion. The feedback looks similar when asking about the youth employment quota to expand to businesses to create additional jobs. 48% of company leaders believe that this will not facilitate job creation as 24% think it will. 28% of respondents instead have no specific opinion. Another governmental target is to transform irregular to regular workers. 58% of companies rather consider this as a not feasible approach, rather hindering job growth. 16% of respondents believe it is beneficial as 26% have no opinion on that.

Figure 39: General policy measures and diplomatic affairs

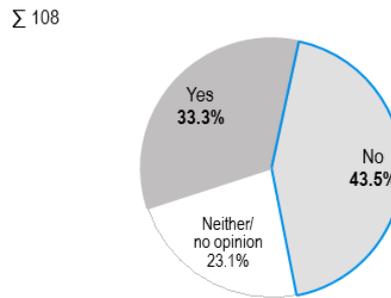
On general policy measures and diplomatic affairs

Do you expect the policy measures proposed by the Moon administration will improve the competitiveness of the Korean market?



> More than 75% of the respondents doubt the positive impact of the new policies on the competitiveness of the Korean market

Does the heightened tension between the U.S. and North Korea pose a significantly greater risk to your business operation in Korea than before?



> Most of the respondents does not agree that the tense relation between U.S. and North Korea will significantly increase the risk to business operation

The policy measures proposed by the Moon administration are supposed to improve the Korean competitiveness. 24% of respondents believe that those measures will support receiving that target but 31% state that those measures are insufficient and 45% even express their concerns evaluating those measures as inadequate leading to a deterioration of the country's competitiveness.

The heightened tension between the United States of America and North Korea pose for 33% of executives a significant greater risk to their business operation than before; instead 44% have an opposite opinion and 23% either state it is a "neither/nor" or having no specific opinion.

# CONCLUSION

Korea is and remains, despite a number of different challenges, 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.

Nevertheless, it needs to be stated that the evaluation of business performance does vary considerably from one industry to another. Industry sectors with positive performances and outlooks are, among others, Logistics, Consumer Goods & Retail, and Pharma & Healthcare.

In the regulatory framework, there were not much progress in recent years. In 2017, the perception by the industry on certain key issues, such as law and regulations or respective enforcement, were rather less positive. The lack of progress in the regulatory framework was due to a certain degree with the lack of an acting government in the first months of 2017 along with the formation of a new government. Additionally, there were certain disruptive factors like the renegotiation of the KORUS FTA and the regional conflict with North Korea.

The link of European companies with Korean corporations is a very positive sign for successful business relations by combining different countries expertise and competitive advantages, finally leading to a win-win situation for both parties. To ensure this, it is essential that the that the business and legislative environment needs to be fair, transparent and consistent. 63% of company executives perceived an "...unfair or unfavourable handling of foreign-invested companies in Korea by the Korean government compared with Korean companies". In respect to policy making, the feedback is better for 2017 but for the years to come, company leaders do not have an optimistic view.

The survey grasps the opinions, views and perception of business leaders representing European businesses operating in Korea. Real change for the better business environment can only be achieved through constant and constructive dialogues between stakeholders. 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.

# APPENDIX: RESPONDENT PROFILE

Figure 40: By industry

In what industry is your company active?

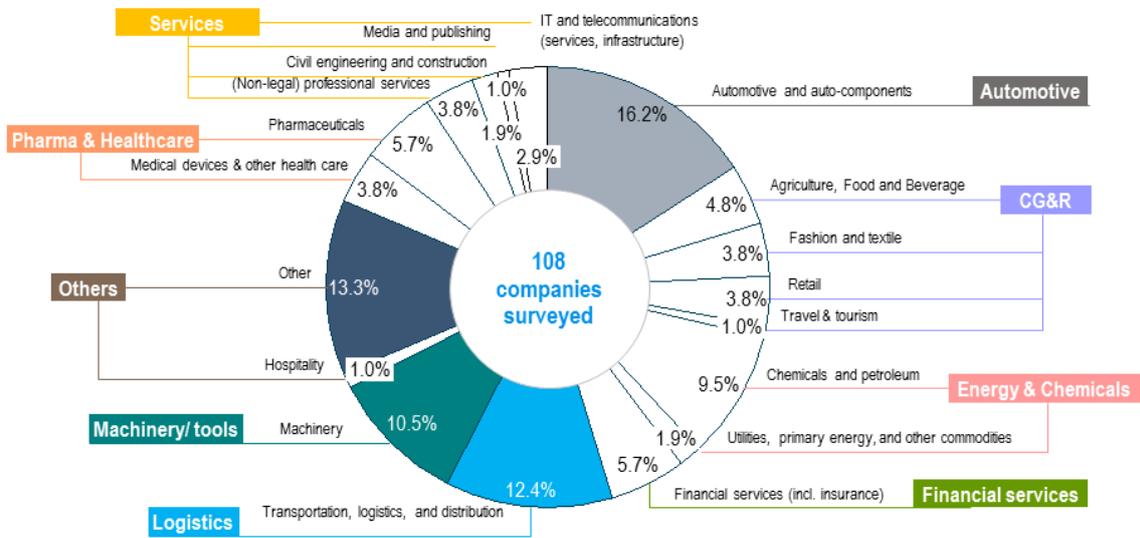
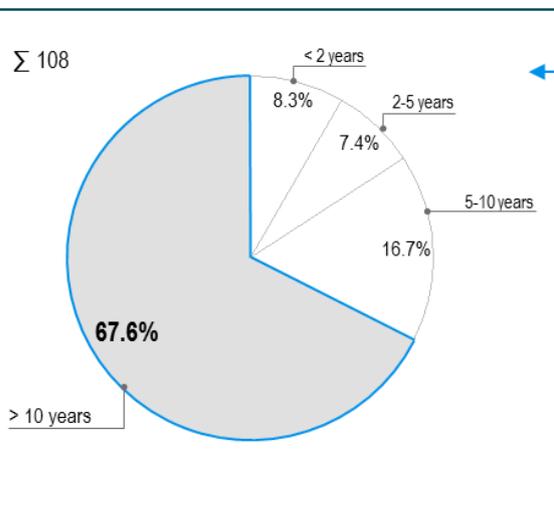


Figure 41: By number of years of operation in Korea

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
- > 8.3% of respondents are new to Korean market, a positive sign that European companies are still entering into the market; compared to 2016, this figure has increased slightly

Figure 42: By ownership

Is your company fully owned by a European company?

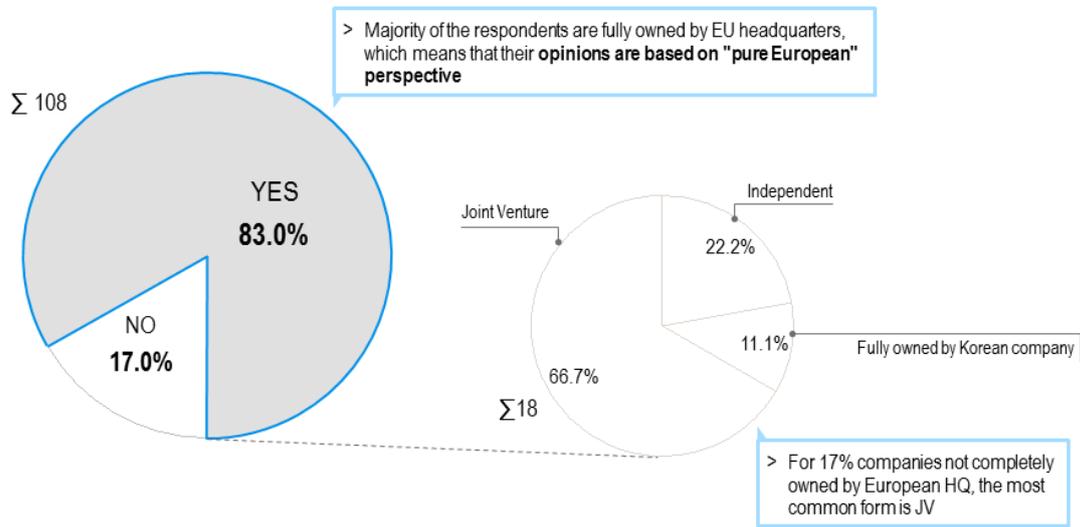
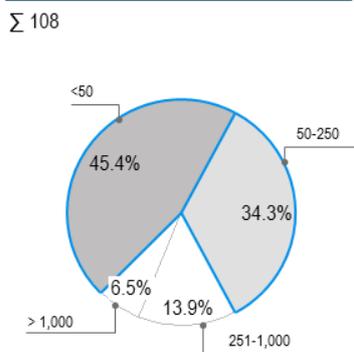


Figure 43: By size

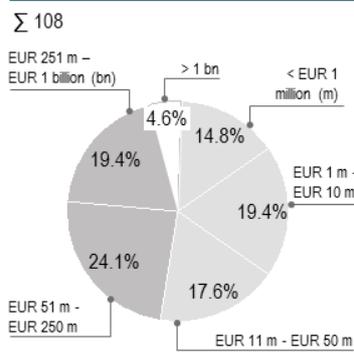
Employee number, revenue size and proportion

How many employees do you have in Korea?



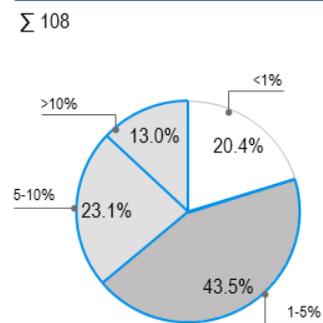
> Most of the respondents have under 250 employees, and this tendency has strengthened from 2016

What was the total revenue of your company in Korea in 2017?



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

What proportion of global revenues was generated in Korea?



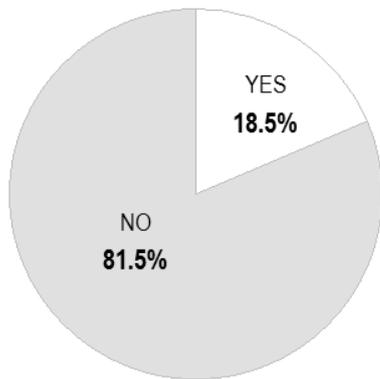
> Although Korean market accounts for less than 5% of the global revenue in most of the respondents, the portion of above 5% has increased compared to that in 2016

Figure 44: Ownership of R&D or production facilities

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

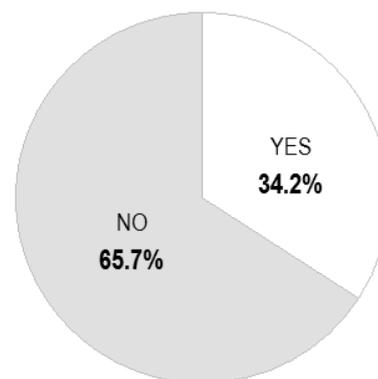
**R&D facilities**

Σ 108



**Production facilities**

Σ 108



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