



From European business community in Korea

Business Confidence Survey

2020



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www.ecck.or.kr

Table of Contents

CONTENTS

- 01. **Introduction** 1

- 02. **Participating Chambers of Commerce**..... 2

- 03. **About Roland Berger** 4

- 04. **Executive Summary** 5

- 05. **Respondent Profile** 6

- 06. **Business Development** 11

- 07. **HR / Labour** 21

- 08. **Business Environment** 25

- 09. **COVID-19**..... 33

Survey Motivation and Design

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

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

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

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

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

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

Participating Chambers of Commerce



European Chamber of Commerce in Korea (ECCK)

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

Email: ecck@ecck.or.kr, Web: www.ecck.or.kr

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



British Chamber of Commerce in Korea (BCCK)

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

Email: marketing@bcck.or.kr, Web: bcck.or.kr

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



French-Korean Chamber of Commerce and Industry (FKCCI)

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

Email: welcome@fkcci.com, Web: www.fkcci.com

Address: 5F, Nobel Building, 16, Teheran-ro 78-gil, Gangnam-gu, Seoul, Korea 06194



Korean-German Chamber
of Commerce and Industry
한독상공회의소

Korean-German Chamber of Commerce and Industry (KGCCI)

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

Email: info@kgcci.com, Web: korea.ahk.de

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

Participating Chambers of Commerce



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



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



Italian Chamber of Commerce in Korea (ITCCK)
Tel: +82 (0)2-556-4379, Fax: +82 (0)2-505-409-4379
Email: itcck@itcck.org, Web: www.itcck.org
Address: 2F, Yurim Bldg, 17, Nonhyeon-ro 71-gil, Gangnam-gu, Seoul, Korea, 06248



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



Spanish Chamber of Commerce in Korea (ESCK)
Tel: +82 2 (0)10-8448-4006
Email: info@escck.com, Web: www.escck.com
Address: 17F, 10, Tongil-ro, Jung-gu, Seoul, Korea 04527



Swedish Chamber of Commerce in Korea (SCCK)
Tel: +82 (0)10-3755-0423
Email: scckinseoul@gmail.com, Web: www.scckkorea.com
Address: C/O Embassy of Sweden, Danam Building 8th FL, 10 Sowol-ro, Jung-gu, Seoul, Korea 04527



Swiss-Korean Business Council (SKBC)
Tel: +82 (0)10-7369-7393
Email: info@skbckorea.com, Web: www.skbckorea.com

About Roland Berger

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

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

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

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

Roland Berger Ltd

Tower 8 Bldg., 6F, 7 Jong-ro 5 gil, Jongno-gu, Seoul, Korea 03157
Tel.: +82 (0)2-2288-0004
Fax: +82 (0)2-2288-0011
Web: www.rolandberger.com

Executive Summary

The year 2020 has been heavily impacted by the COVID-19 pandemic. The impact of measures to contain the virus in Korea could be evaluated as rather mild. Although companies moved to a huge degree to remote working operations, Korea never experienced any kind of lock-down unlike many other countries. The concerns rather came from the disruption of supply chains, decreasing demand in export markets.

In fact, trade between the European Union, European Free Trade Association, the United Kingdom and Korea overall increased. Export from Europe to Korea amounted to USD 63.7 billion which was USD 3.6 billion or 6.0% more than in 2019; exports from Korea to Europe decreased but only slightly by 1.6% from USD 55.3 billion to USD 54.4 billion.

127 executives of European corporations participated in the Business Confidence Survey 2020. Those companies represent a workforce of 47,000 employees and a turnover of EUR 49.6 billion or KRW 65.0 trillion.

European companies operating in Korea in general were content with the business performance achieved in 2020; 63% of responding company's CEOs were either very content or content and only 12% replied discontent. 44% of corporations replied an increase in turnover at least by 5% but 34% of companies experienced a substantial decrease by 5% or more. Profitability could be ensured by even more companies as 72% reported a positive EBIT (Earnings Before Interest and Tax), 12% replied break even and only 16% reported a negative EBIT. Profitability in some cases only could be ensured by reducing the workforce as observed at 32% companies. The outlook for business development is positive and therefore, 40% of companies intend to hire additional staff in 2021 and 48% to keep the current workforce on board.

In general, it can be stated that Korea as a market became more important in European companies' global strategy as stated by 51% of respondents of the survey. This positive feedback clearly indicates that Korea, its companies and its consumers are and will remain an important partner respectively market for European companies. Accordingly, a considerable number of companies is planning to further expand their presence here.

Despite that business at many companies developed positively, there is still a high need to improve the business landscape such as in labour relations and labour costs. In fact, doing business in Korea has become more difficult over the last two years as stated by 63% of company representatives. Reforms initiated in 2020 and expected to be initiated in 2021 are not seen very beneficial for the majority of companies. The areas where the highest need for a thorough reform is seen are "legislative environment and regulations" (62% of respondents being dissatisfied with the current state of play), "discretionary enforcement of regulations" (58%), "openness of Korean market to foreign goods and services, lack of market access barriers" (48%) as less need to improve is seen at "tax rates / tax procedures / tax audits" (38%) or "custom procedures / custom audits" (32%). Same as in previous years, about half of the respondents replied a need for change regarding non-discriminatory treatment of foreign enterprises.

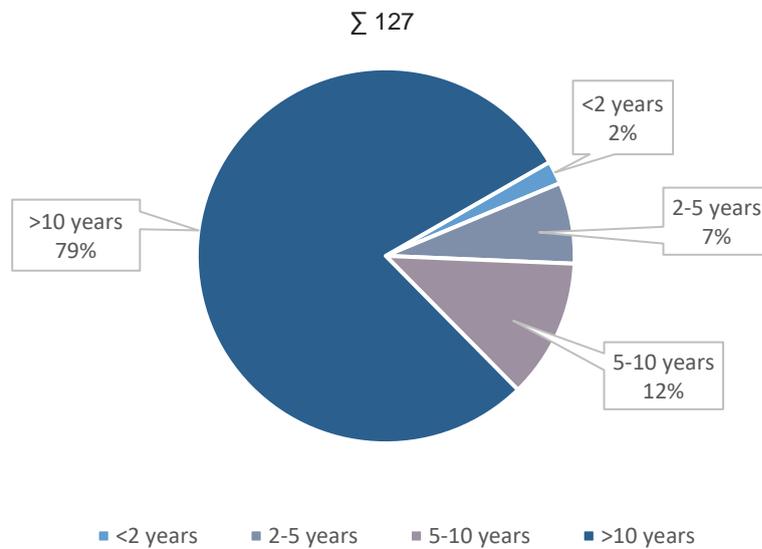
Businesspeople are in general more positive than not when it comes to conducting business in the current COVID-19 environment: 45% expect a better business environment in 2021. 15% of companies expecting to have recovered fully business wise from COVID-19 during the first two quarters of 2021 and other 53% expect to have reached this during the second half of the year.

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

Respondent Profile

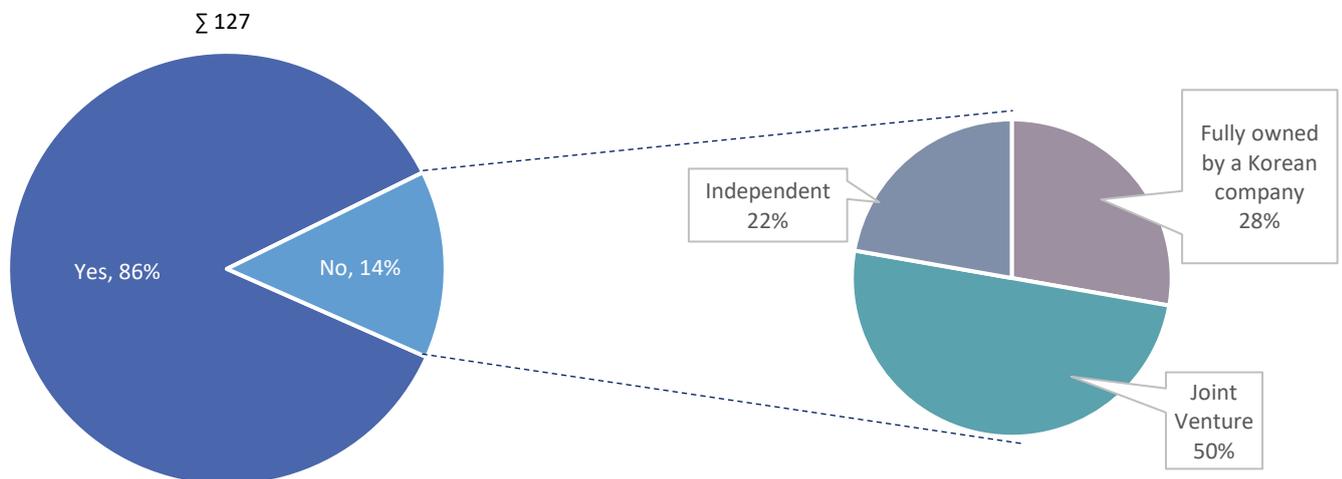
Respondent Profile

How long has your company been operating in Korea?



The majority of companies responding to the survey has been in Korea for a considerable period of time. Almost 80% of the respondents replied that they have been operating in Korea more than 10 years and 12% of the companies have been operating for more than 5 years. On the other hand, 9% of companies participating in this survey have been active in the Korean market 5 years or less.

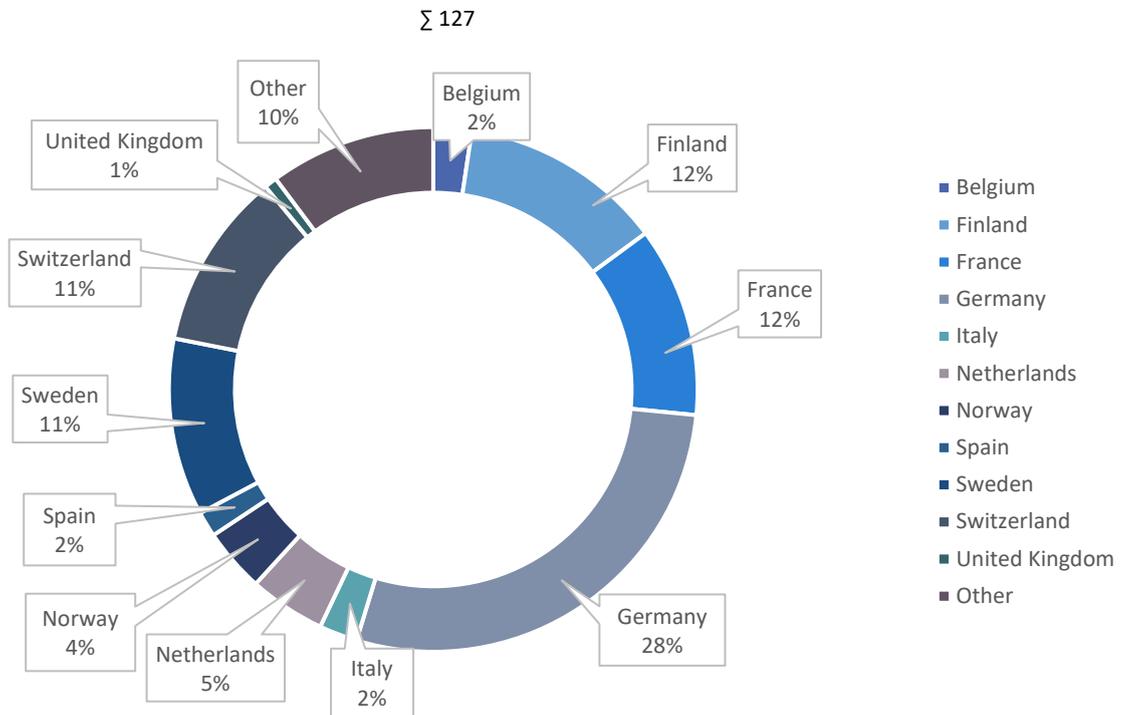
Is your company fully owned by a European company?



The majority of firms responding to the survey, namely, 86% of the respondents are fully owned by a European company, whereas 7% are joint ventures, 4% are Korean companies and 3% are independent corporations.

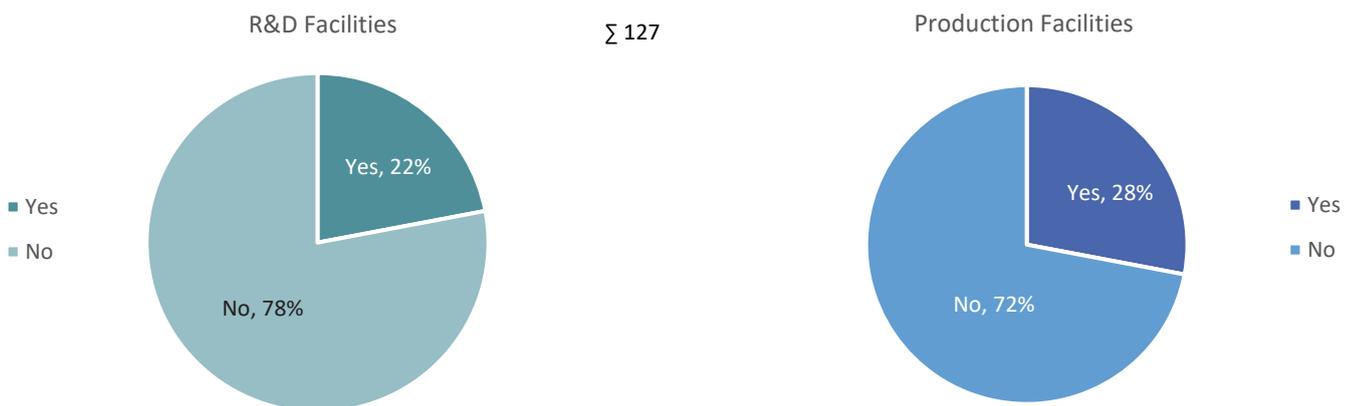
Respondent Profile

Where is your company headquarters registered in?



The majority of companies participating in the survey have their headquarters in Germany (28%); other company nationalities with a strong representation are Finland (12%) France (12%), Sweden (11%), Switzerland (11%) and to a certain extent the Netherlands (5%) and Norway (4%).

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

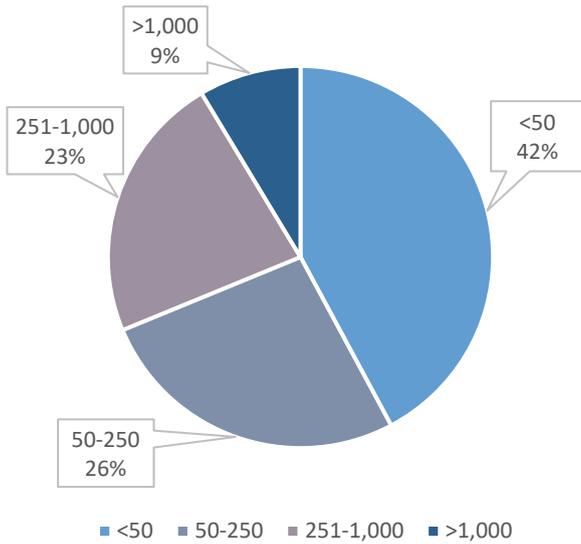


The majority of responding companies (78%) run their operations relying on overseas R&D activities as only 22% have their R&D facilities in Korea. A similar picture can be seen for production, where 72% of European corporations import their products to the Korean market, whereas 28% produce goods either partially or fully in Korea.

Respondent Profile

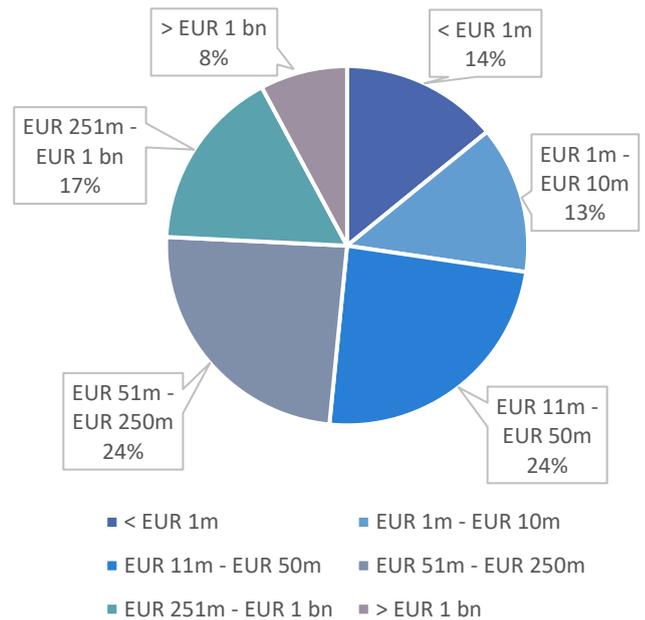
How many employees do you have in Korea in 2020?

Σ 127



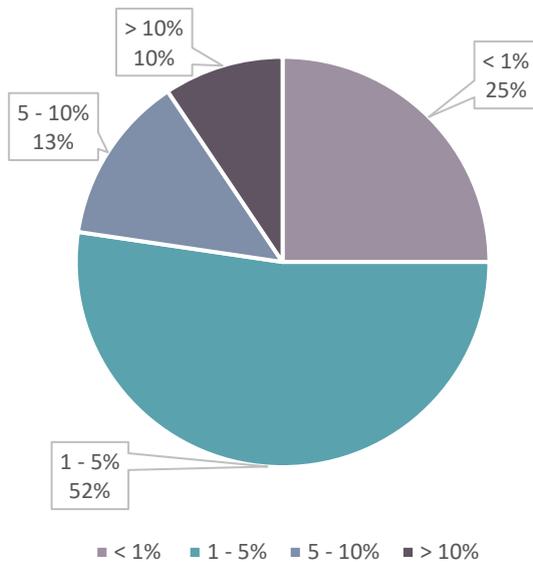
What was the total revenue of your company in Korea in 2020?

Σ 127



What proportion of global revenues was generated in Korea?

Σ 127



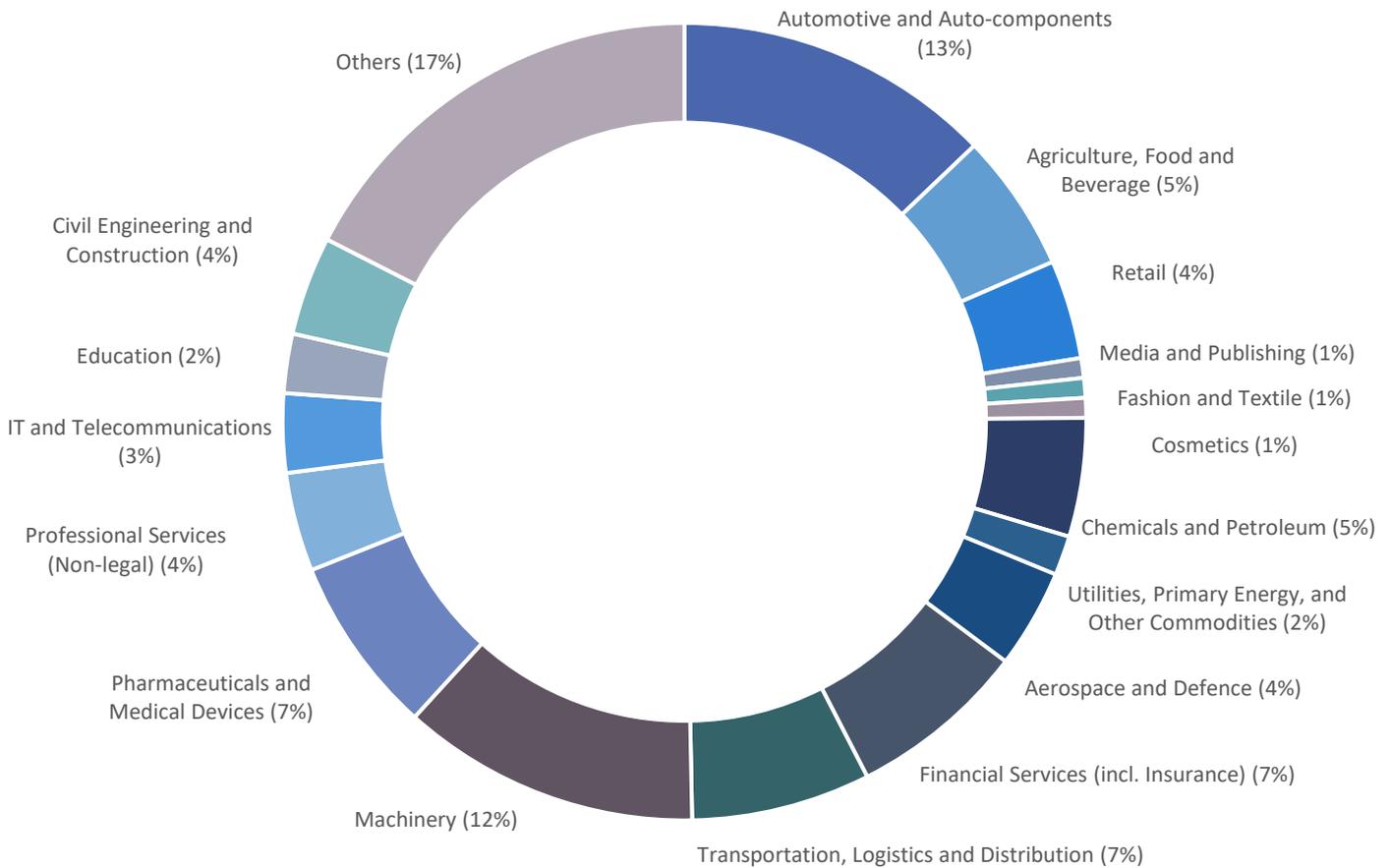
Employee number, revenue size and proportion

The majority of companies in the survey has generated with a workforce of up to 250 employees (68%) and a turnover up to EUR 250 million (75%). The respective share of the majority of those companies in the global revenue of their group is up to 5%.

Respondent Profile

In what industry is your company active in?

Σ 127



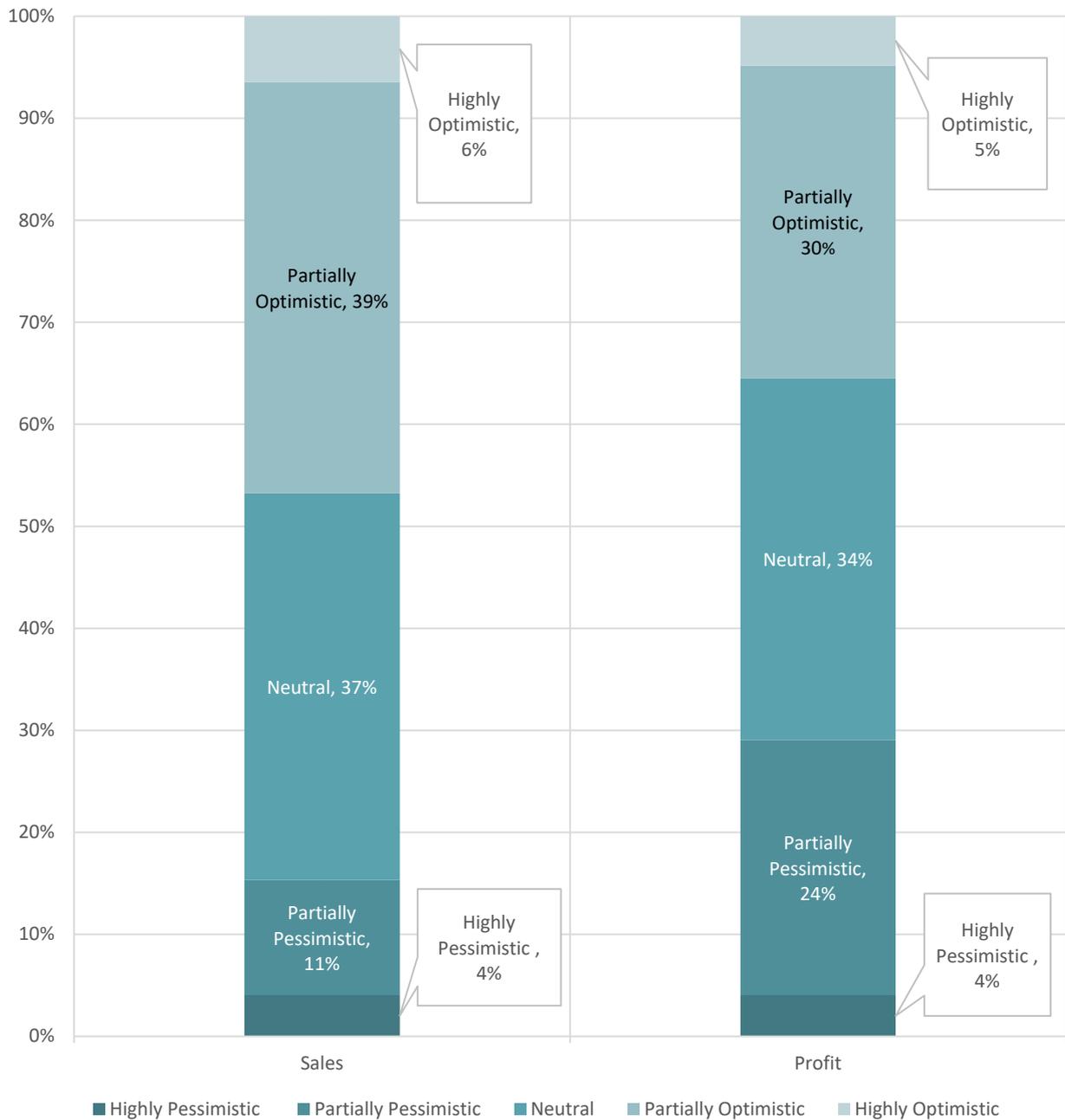
- Automotive and Auto-components (13%)
- Retail (4%)
- Fashion and Textile (1%)
- Chemicals and Petroleum (5%)
- Aerospace and Defence (4%)
- Transportation, Logistics and Distribution (7%)
- Pharmaceuticals and Medical Devices (7%)
- IT and Telecommunications (3%)
- Civil Engineering and Construction (4%)
- Agriculture, Food and Beverage (5%)
- Media and Publishing (1%)
- Cosmetics (1%)
- Utilities, Primary Energy, and Other Commodities (2%)
- Financial Services (incl. Insurance) (7%)
- Machinery (12%)
- Professional Services (Non-legal) (4%)
- Education (2%)
- Others (17%)

The highest number of replies came from Automotive and Auto Components sector (13%), followed by Machinery (12%), Financial Services (incl. Insurance) (7%), Transportation, Logistics and Distribution (7%), Pharmaceuticals and Medical Devices (7%) and Chemicals (5%),

Business Development

Business Development

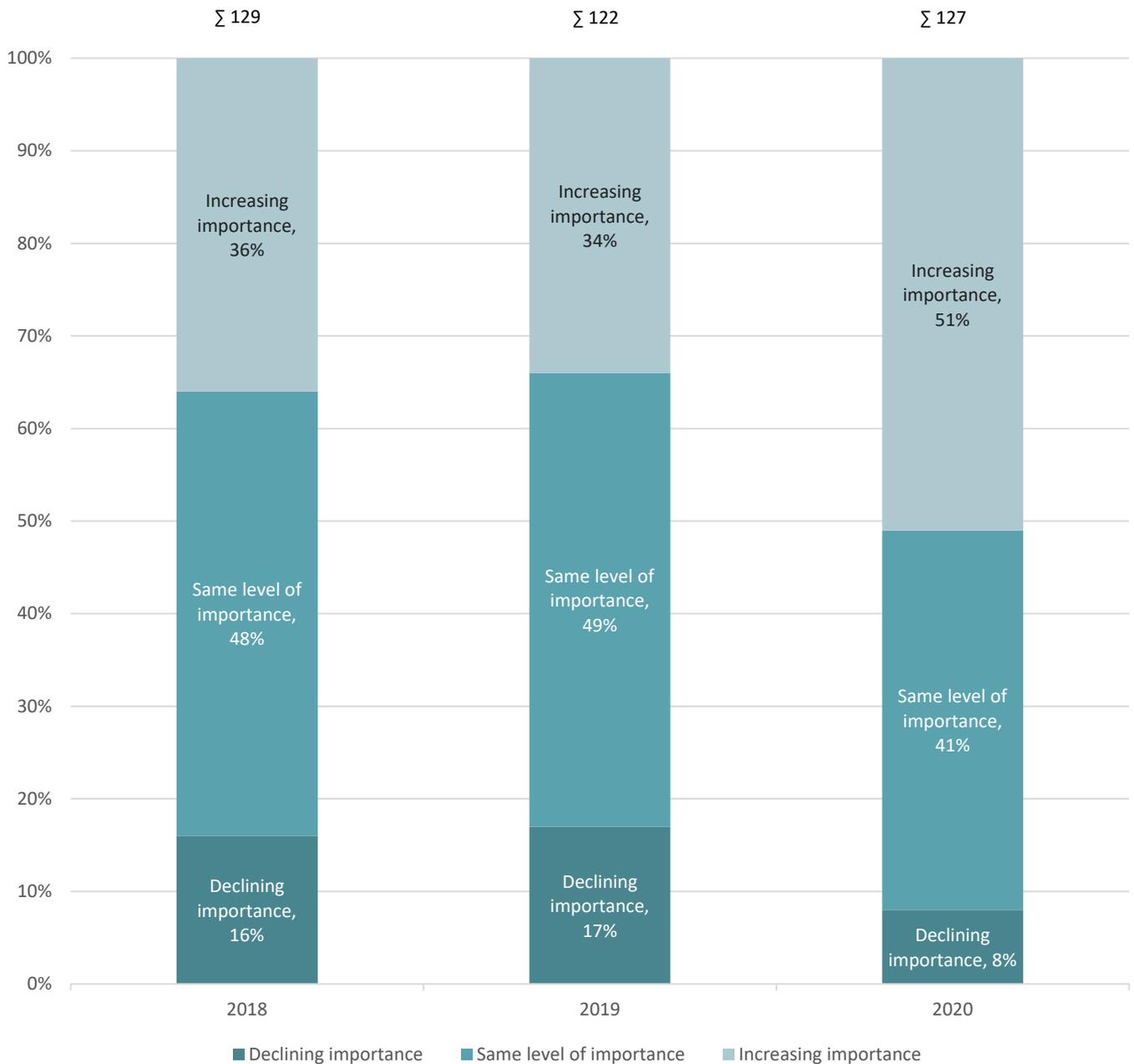
How would you describe the business outlook for your industry in Korea within the next 2 years?



45% of companies evaluate the future sales prospects rather positive. In respect to the outlook of profitability, 35% of responding companies also have a positive view but a relatively high number of companies, namely, 28% respondents, are rather pessimistic.

Business Development

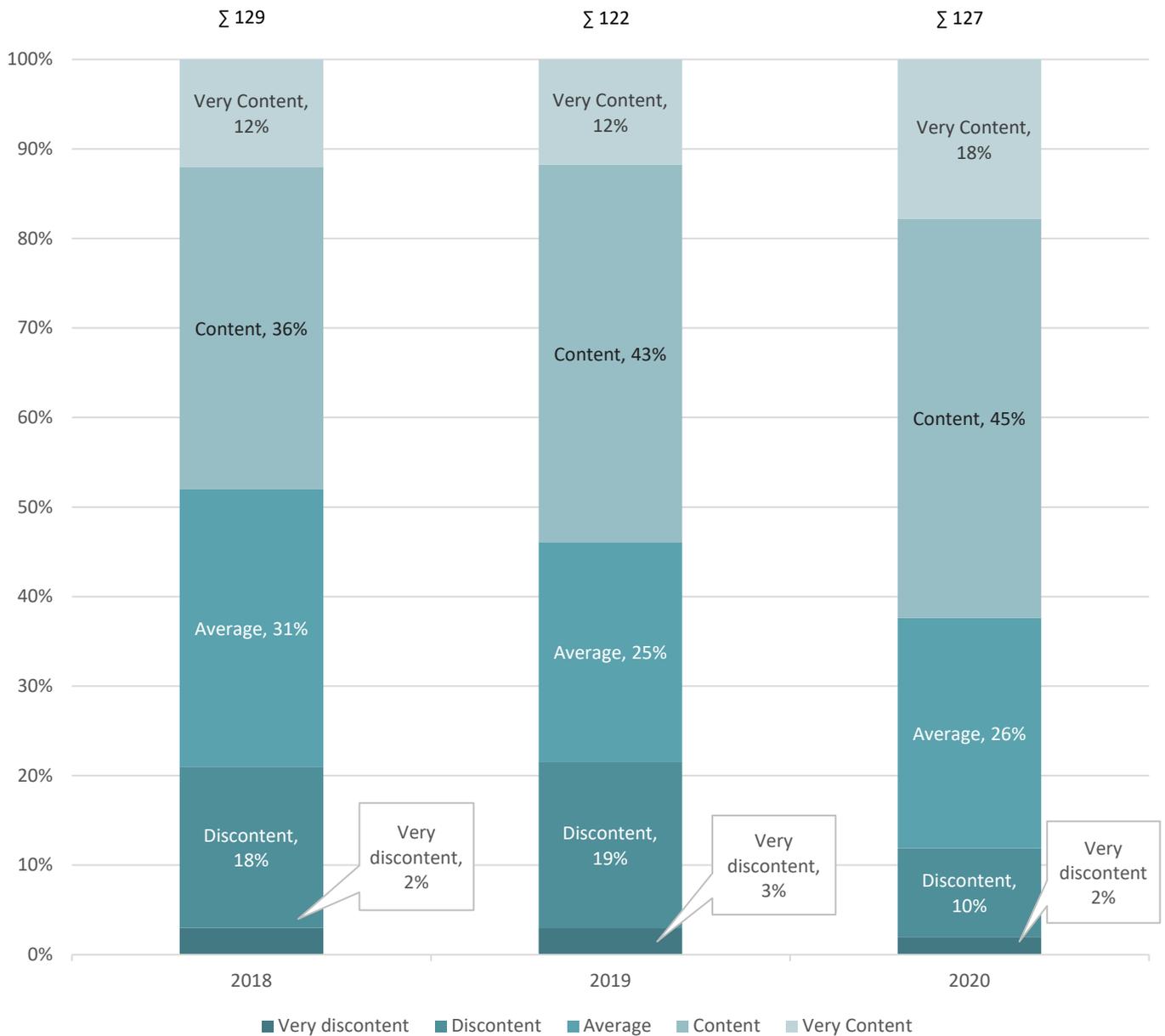
How would you characterize the importance of Korea in your company's overall global strategy?



Korea has been playing an important role in the European companies overall global strategy. In 2020, the importance has enhanced significantly more, as 51% responded that Korea will play and even more important role in their company's strategy which is 17% increase from 2019.

Business Development

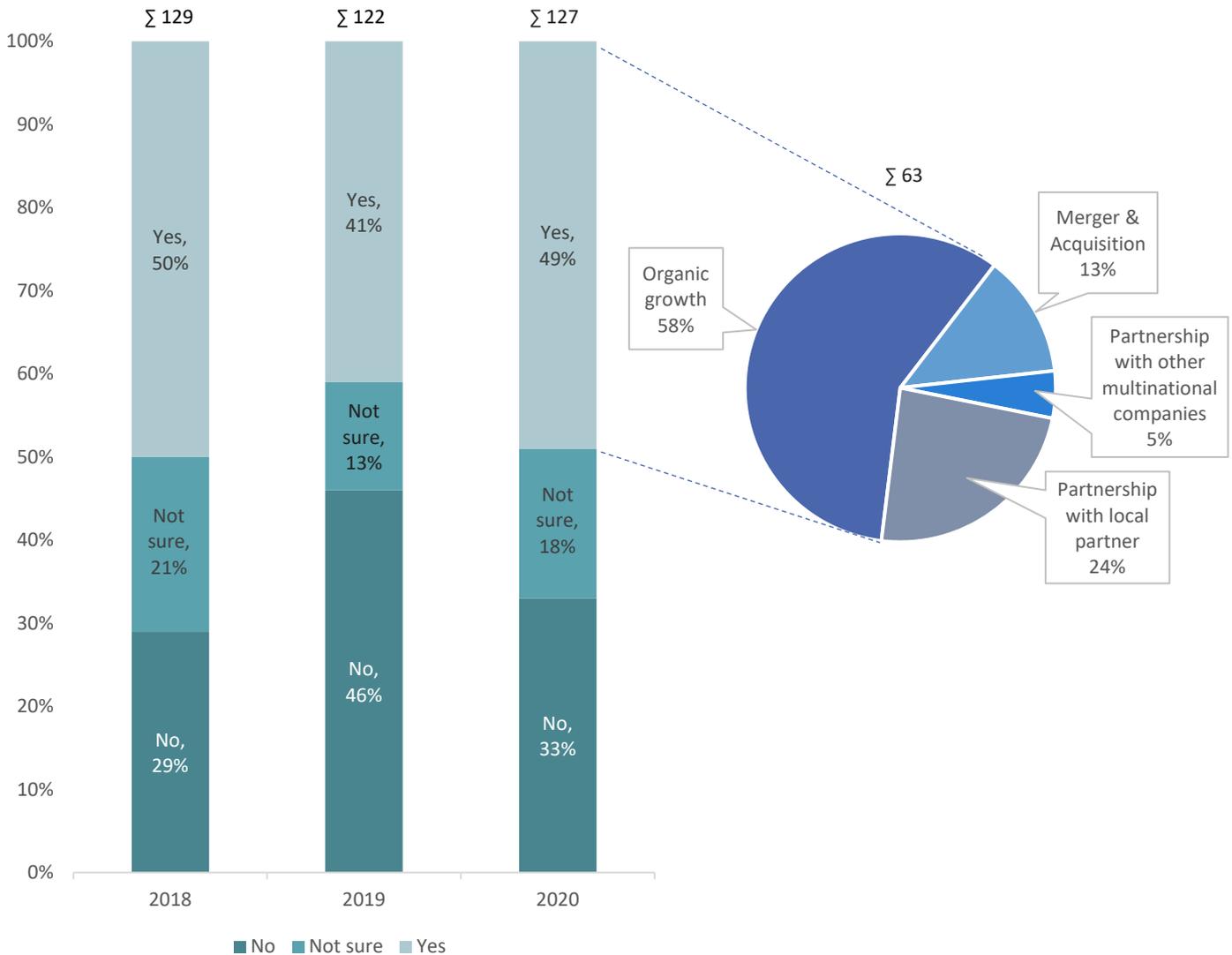
How do you view your company's performance in Korea?



The number of companies being content with their business performance has been increasing over the past few years. In 2020 63% of respondents were either content or very content. In line with this, the number of companies being either discontent or very discontent decreased to 12%.

Business Development

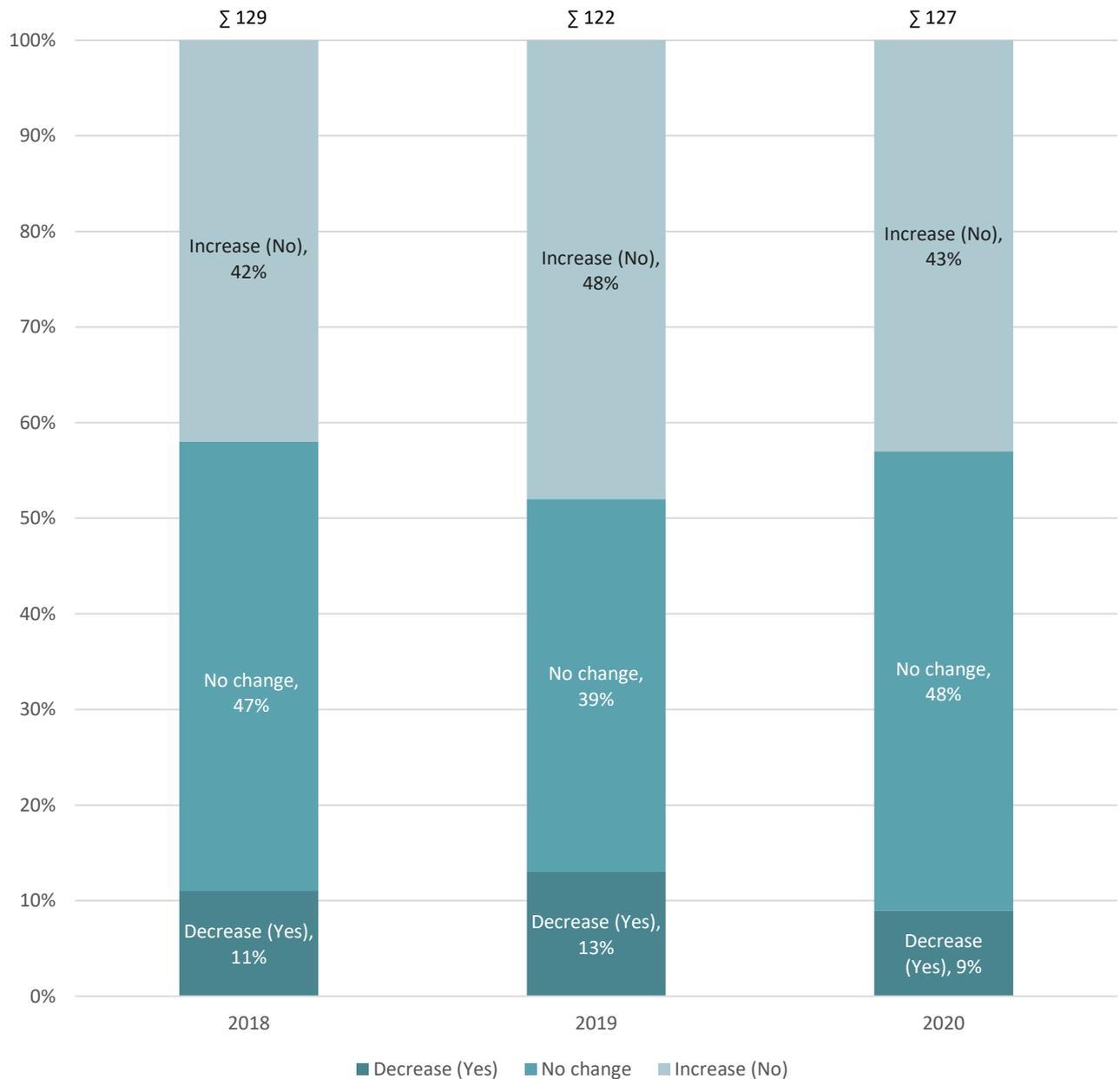
Are you planning to expand your operations in Korea in 2021? If yes, by which means?



In 2020, almost half of the corporations participating in the survey, stated that they intend to expand their operations in 2021. The preferred method of expansion is by organic growth which was chosen by 58% of the companies who are planning to expand their operations in 2021, followed by partnership with a local partner as the second-best preferred option (24%).

Business Development

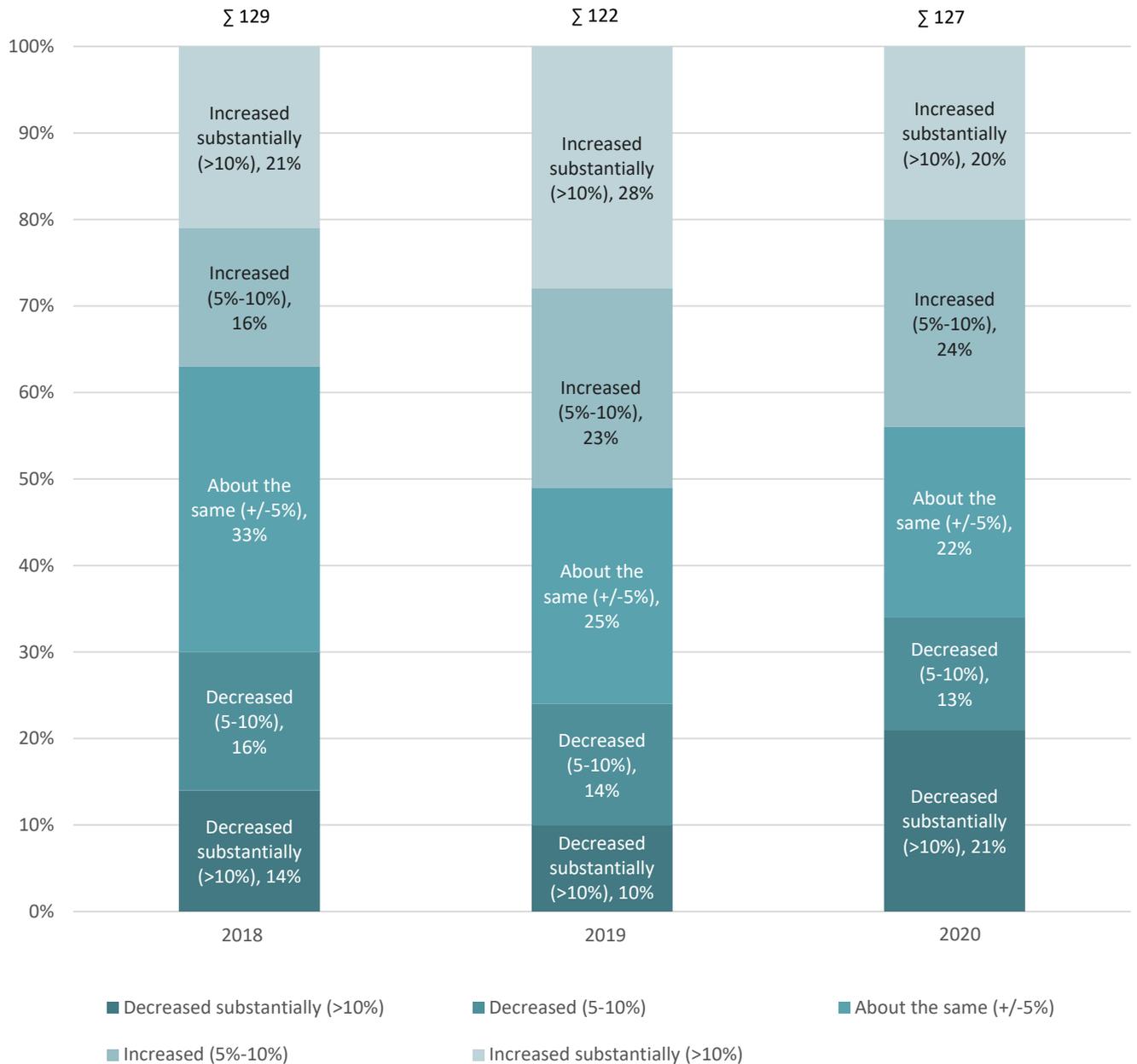
Do you plan either to increase or to decrease investment / operational expenses?



The majority of the companies, namely, 91% of respondents are planning to either increase their investment and/or operational expenses or at least maintain those.

Business Development

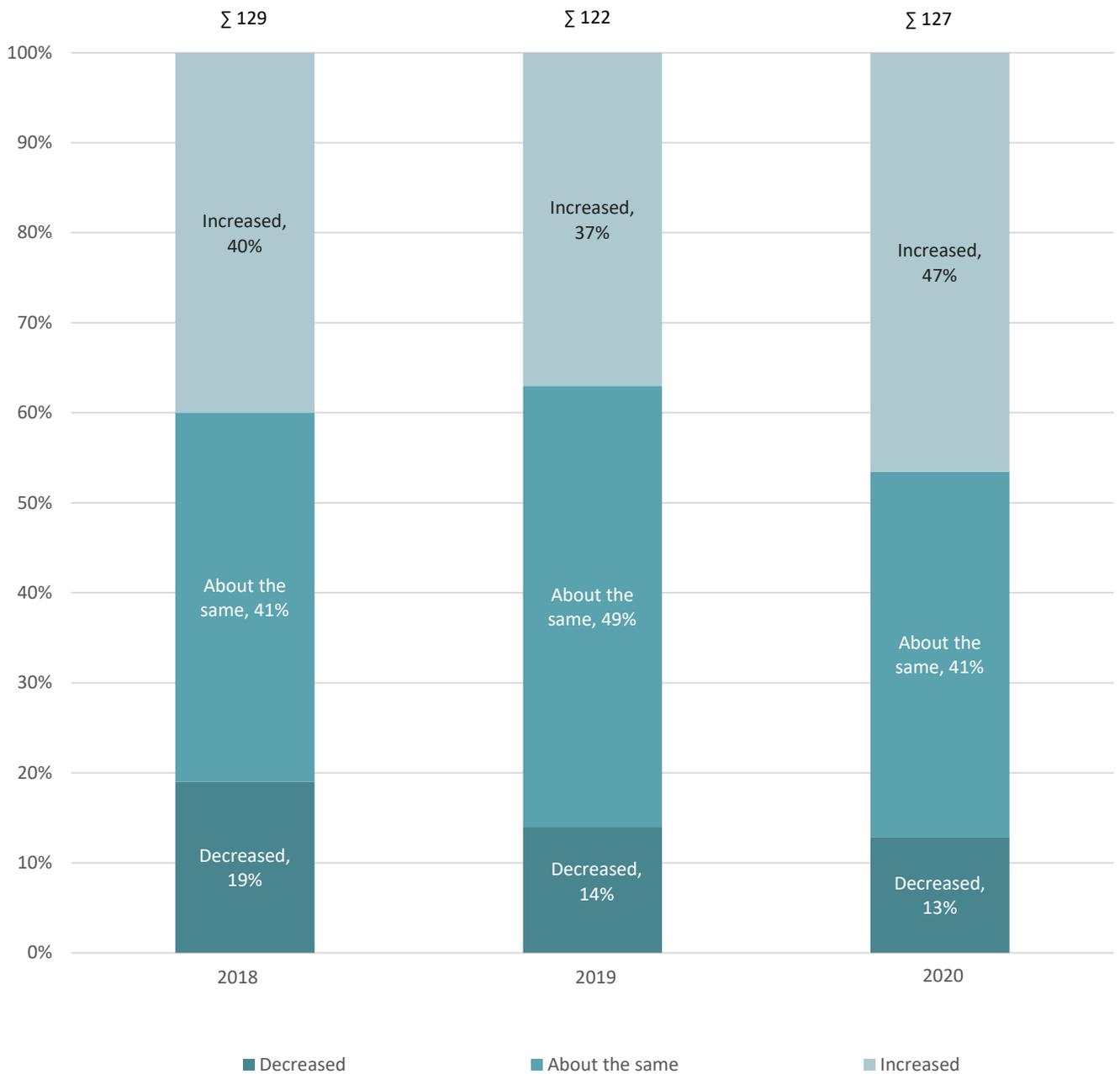
How did your company's revenue in Korea change in 2020 compared to that of 2019?



44% of European companies operating in Korea reported a higher turnover than previous year, 22% a turnover more in line with the preceding year but 34% a decrease in revenue.

Business Development

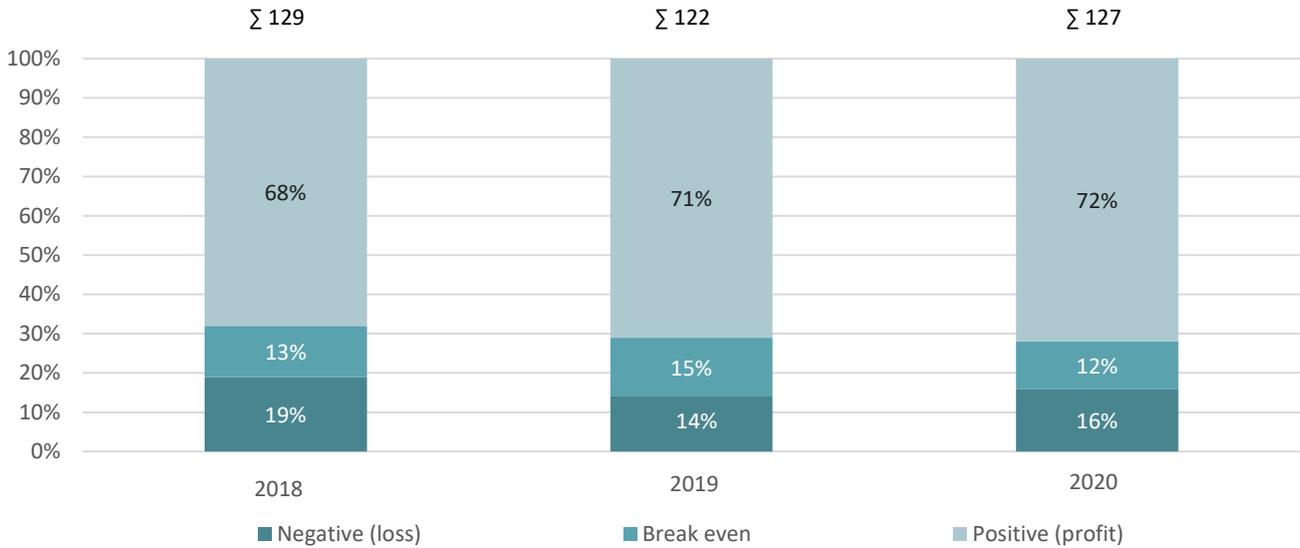
How did your market share evolve in 2020 versus 2019?



Almost half, namely, 47% of European companies increased their market share in 2020. 41% replied that they maintained their market position in 2020, but 13% of participating companies experienced a lower market share than in 2019.

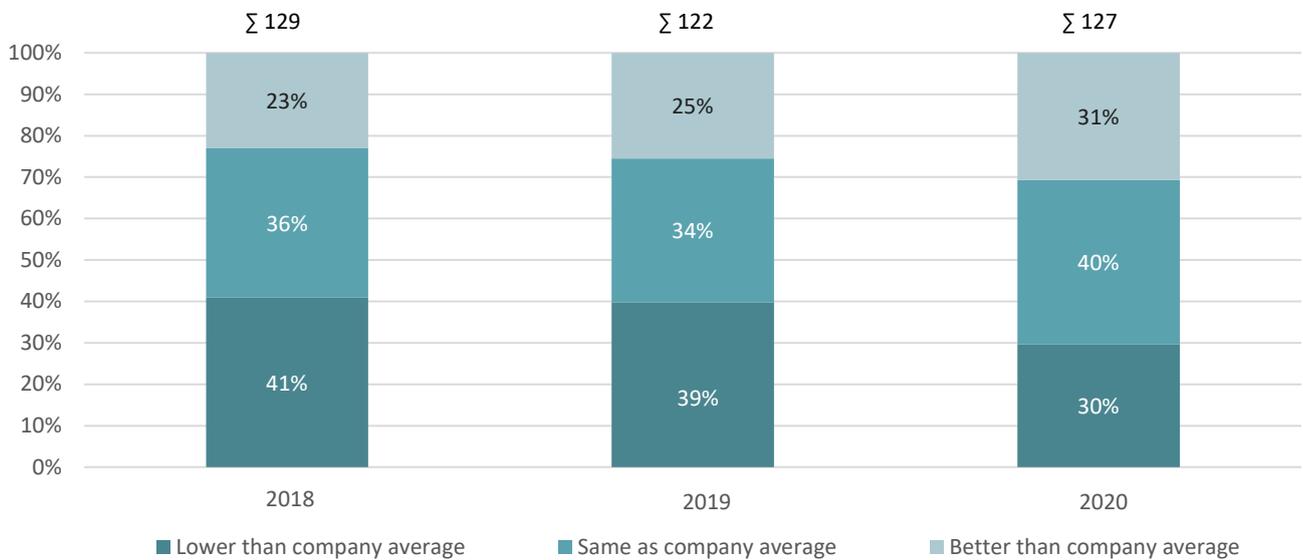
Business Development

Please characterize the EBIT (Earnings before interest and tax) of your company in Korea in 2020



72% of European companies generated a positive EBIT, 12% broke even and 16% reported a negative EBIT.

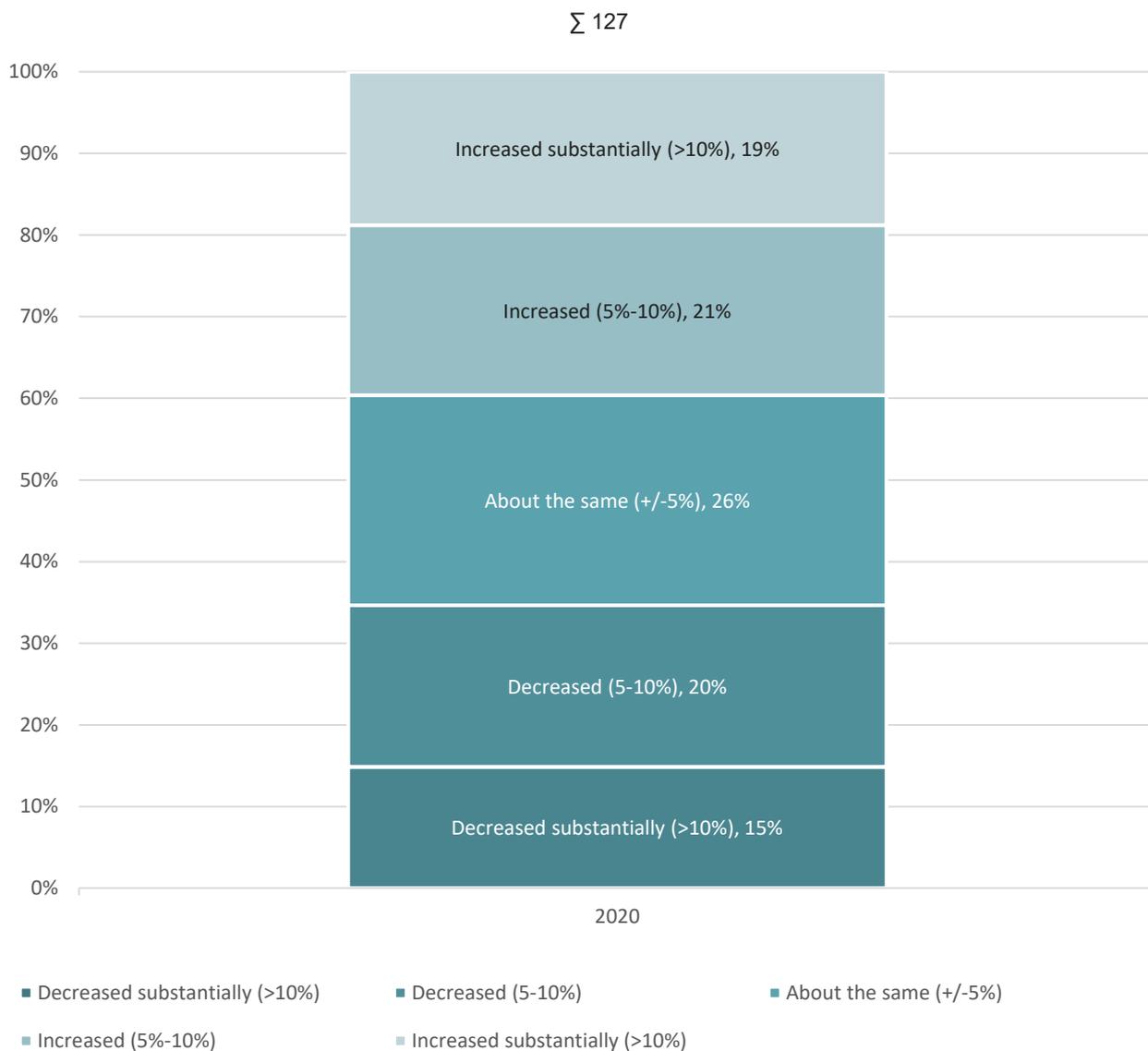
How did the EBIT margin Korea compare to your company's worldwide margins in 2019?



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

Business Development

How was your company's EBIT margin in Korea for 2020 compared to 2019 results?

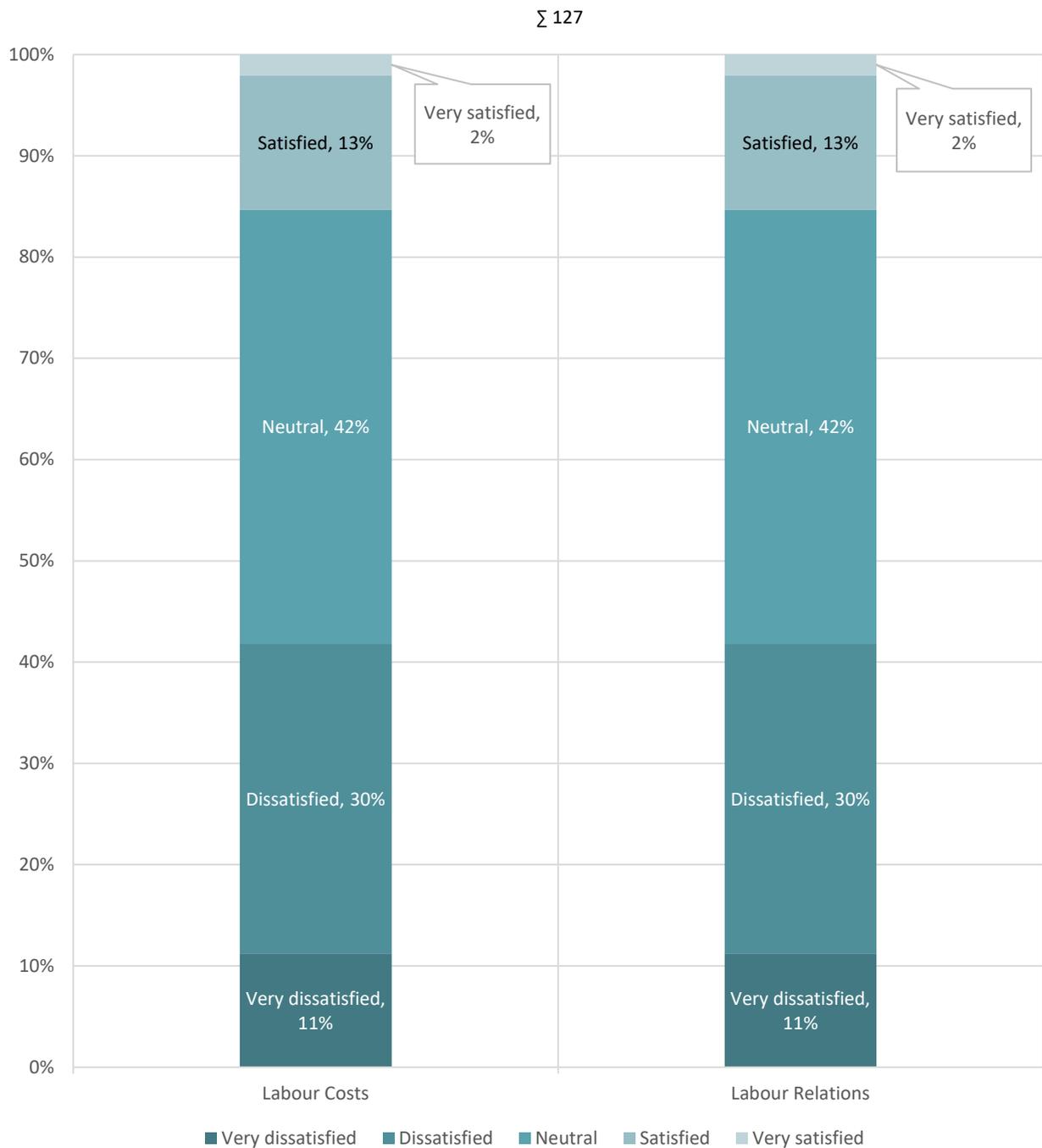


The EBIT margin in 2020 improved versus 2019 for 40% of European companies. 26% said EBIT margin remained about the same whereas, 35% replied they experienced a decrease in EBIT margin.

HR / Labour

HR/Labour

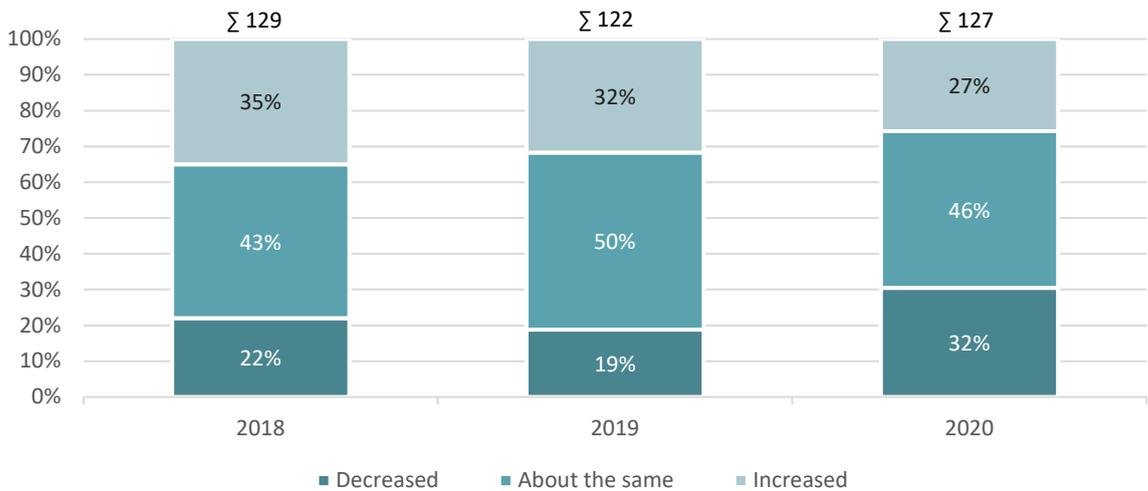
How do you perceive the labour environment parameters in your specific business in Korea?



Labour costs but also labour relations are still seen as an area of concern for European companies. In fact, 41% of company representatives express their dissatisfaction with labour costs and labour relations; 42% have a rather neutral view but only 15% evaluate labour costs and relations as positive.

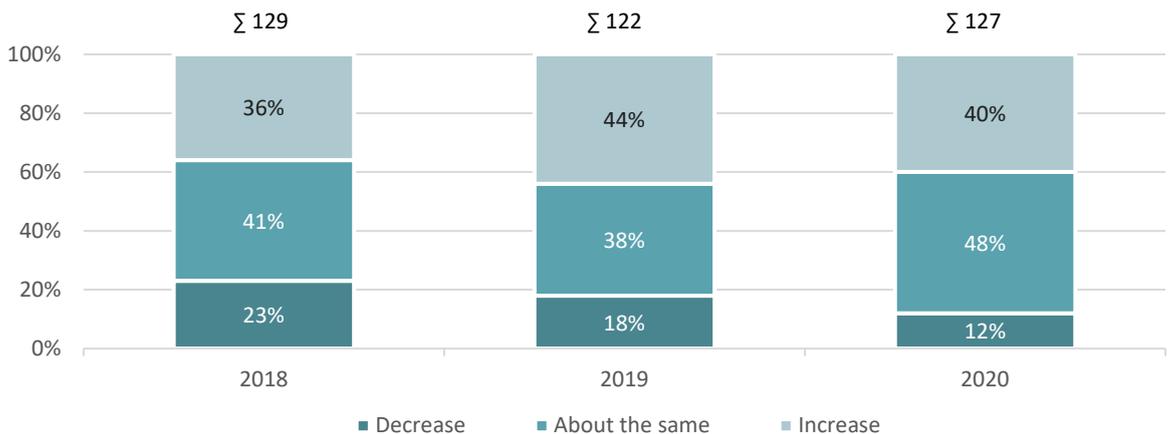
HR/Labour

What has happened to the number of permanent positions in your company in Korea in 2020?



An increased number of European companies reduced permanent positions (32% in 2020 versus 19% in 2019) although the majority either kept the workforce stable (46%) or even increased (27%).

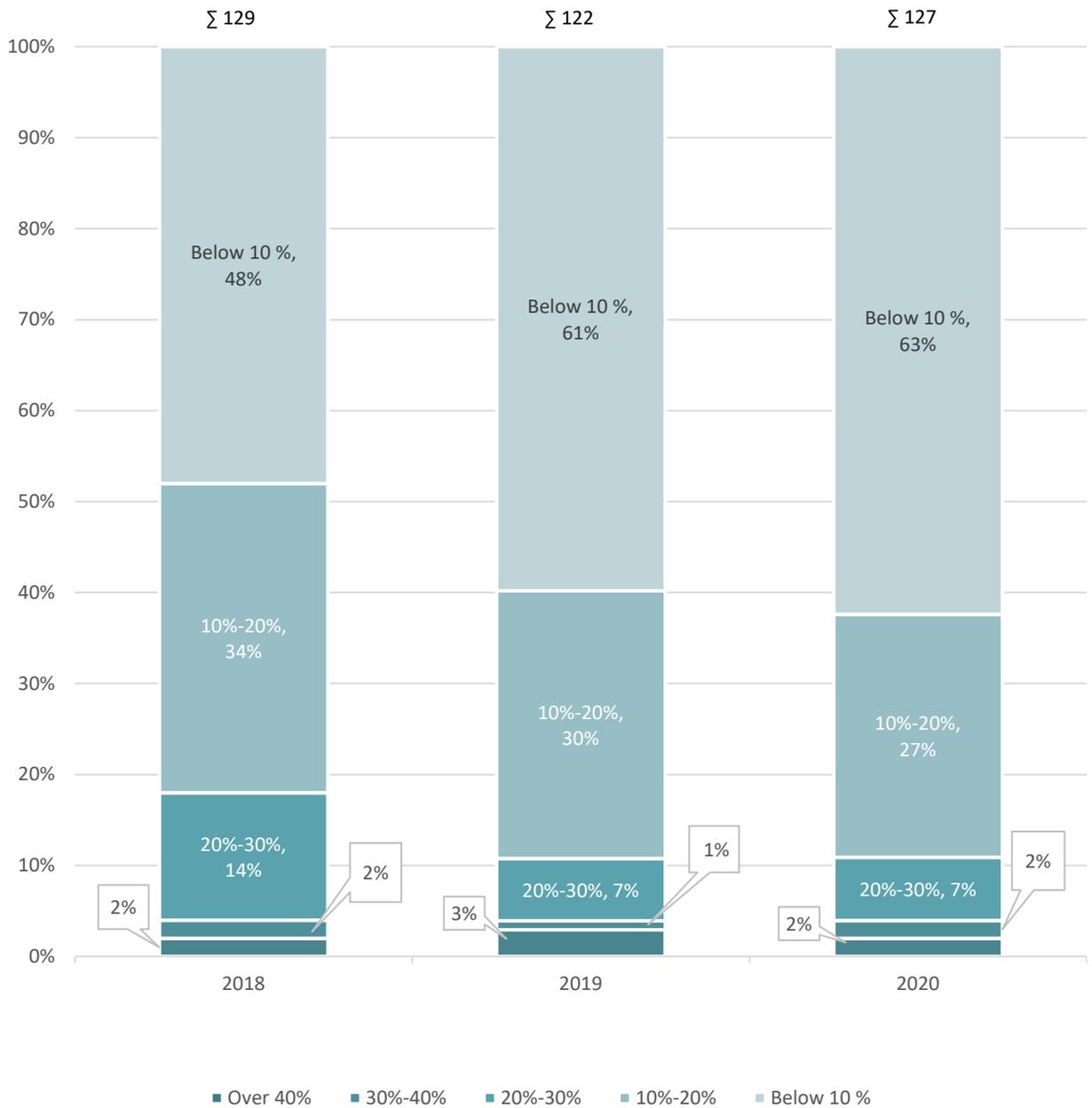
How do you expect the number of permanent positions in Korea to evolve over the next two years?



The majority of European companies are expecting to either keep their workforce (48%) or to increase them (40%) as only 12% foresee a reduction of employees.

HR/Labour

What was the level of your staff turnover in Korea in 2020?

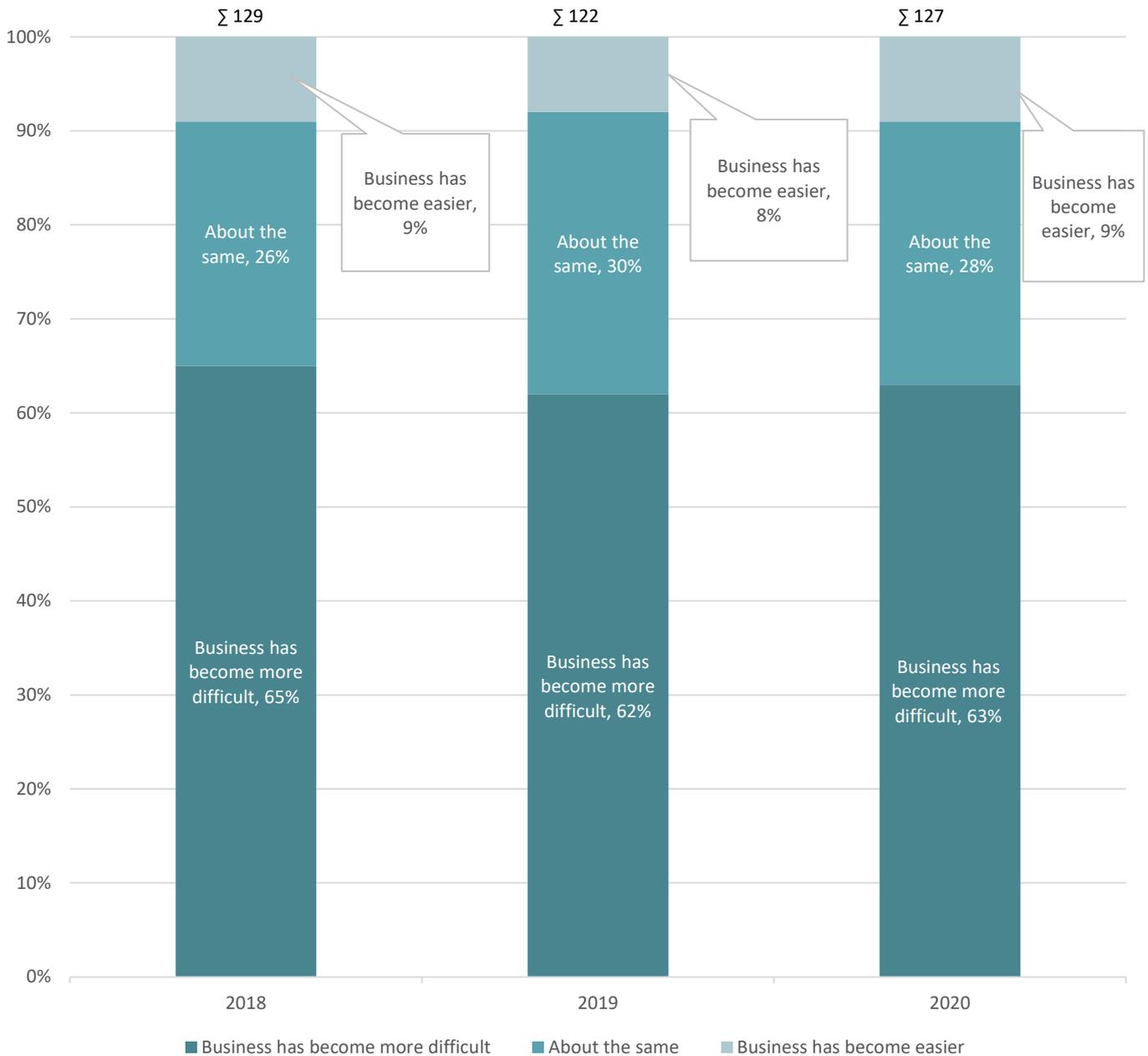


The level of staff turnover has been very low; 90% of companies reported a staff turnover of less than 20%.

Business Environment

Business Environment

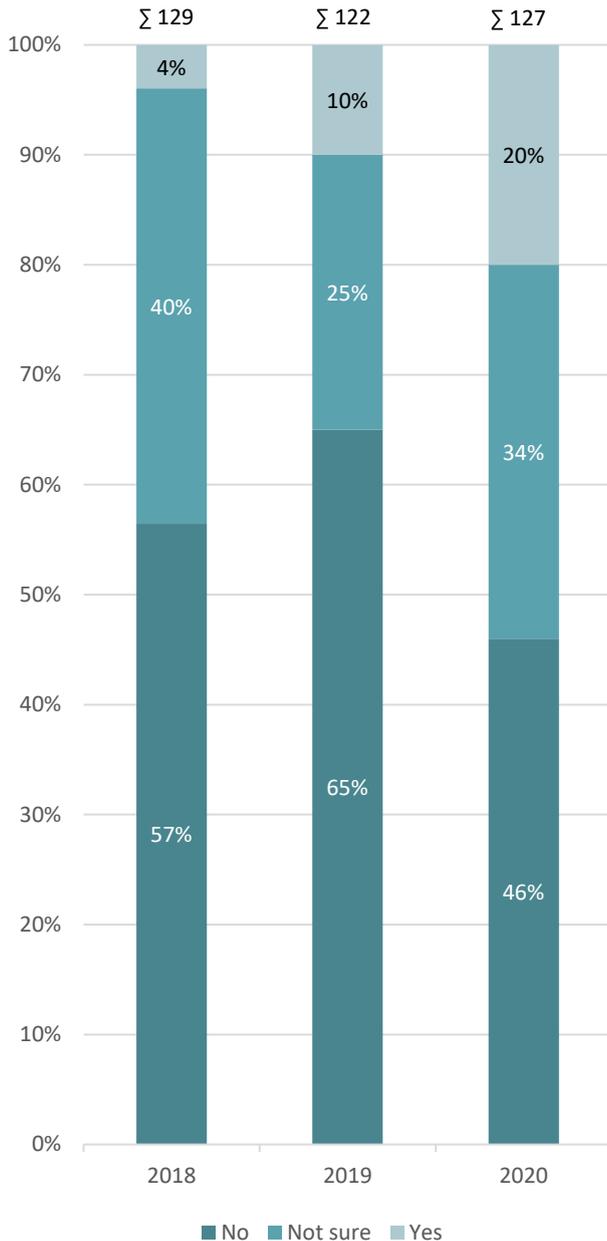
How has doing business in Korea for your company developed over the last 2 years?



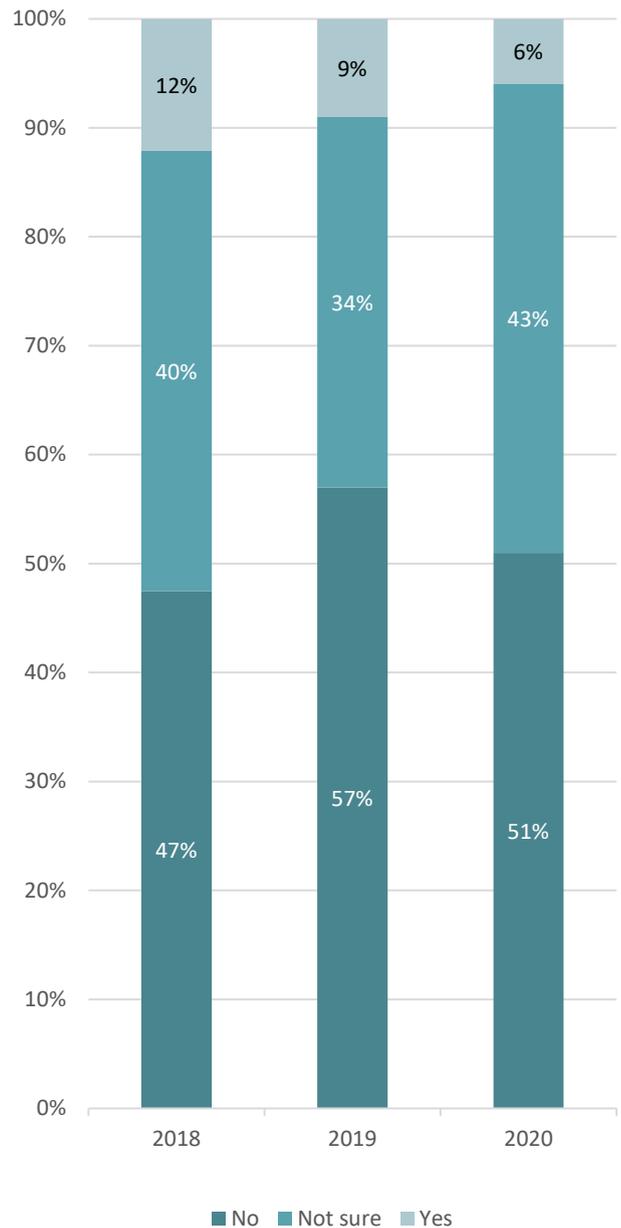
The majority of respondents (63%) have replied that business situation has become more difficult over the past two years, as 28% view the situation more neutral and 9% have a positive stance.

Business Environment

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



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

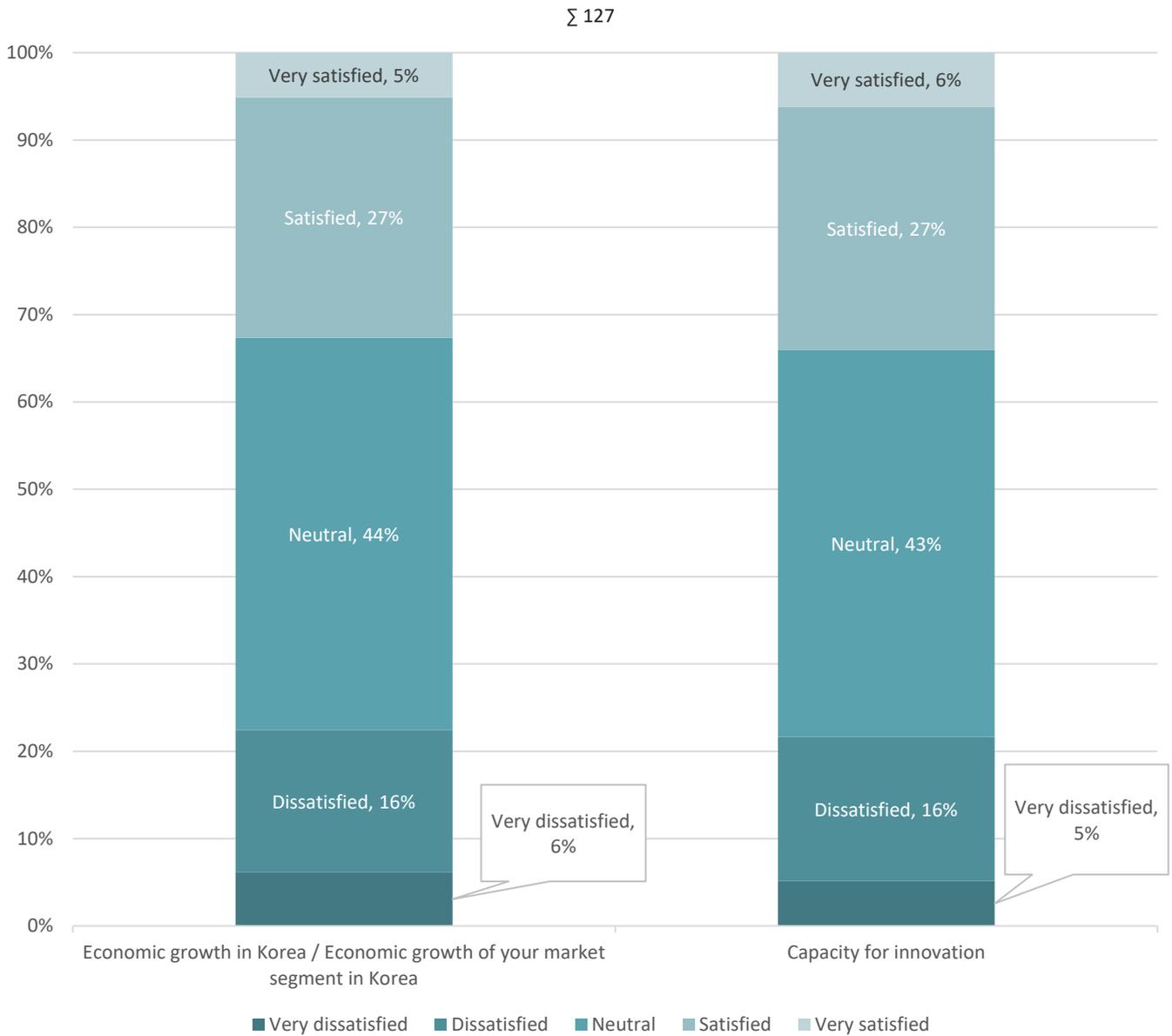


The majority of respondents (46%) is of the option that business reforms in 2020 have not been helpful; 34% responded that they are not sure and 20% stated that those reforms were supportive for their business.

The outlook for 2021 looks similar although there is less optimism but mor skepticism as well as uncertainty.

Business Environment

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

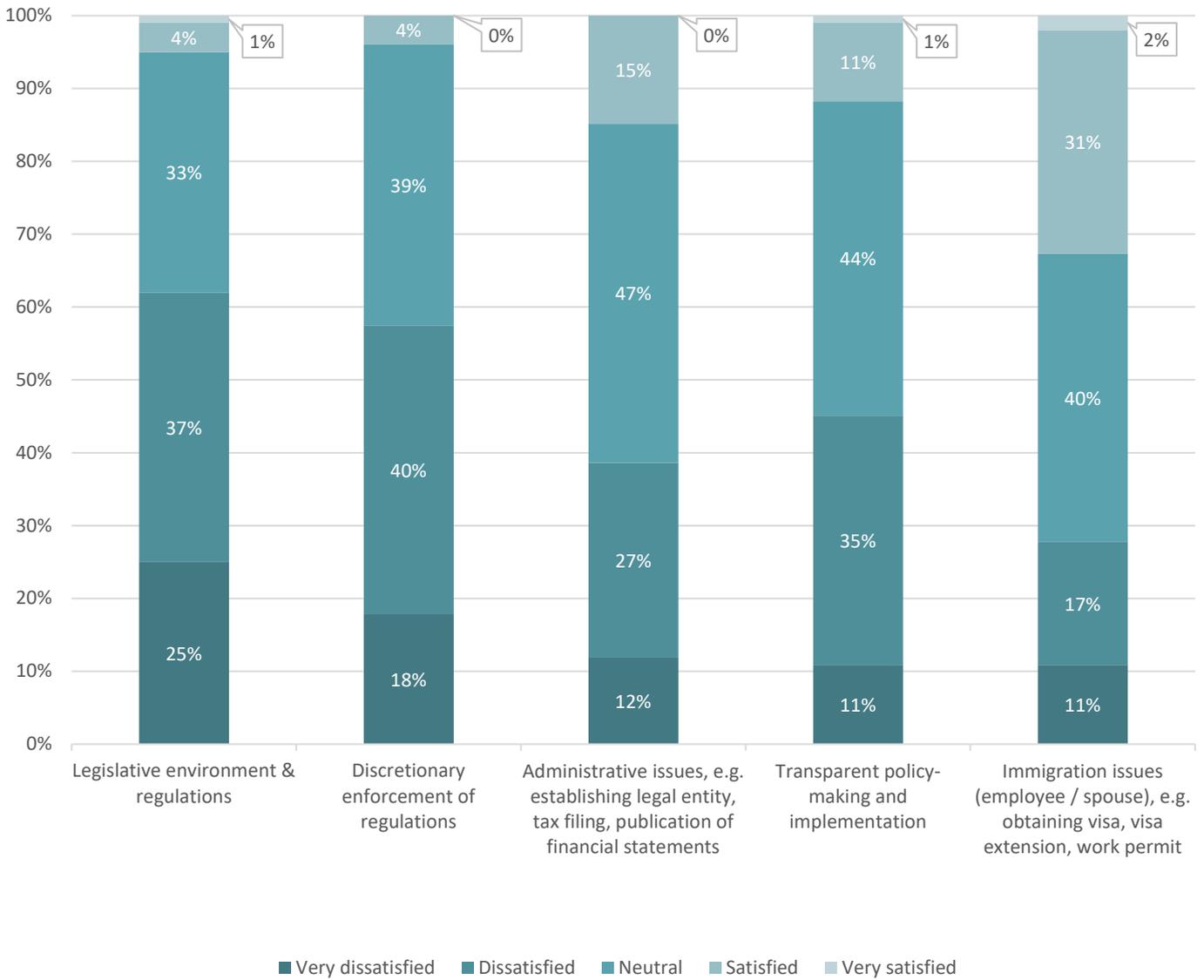


Respondents perceive the potential for economic growth and capacity for innovation to be satisfactory for their industry in Korea.

Business Environment

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

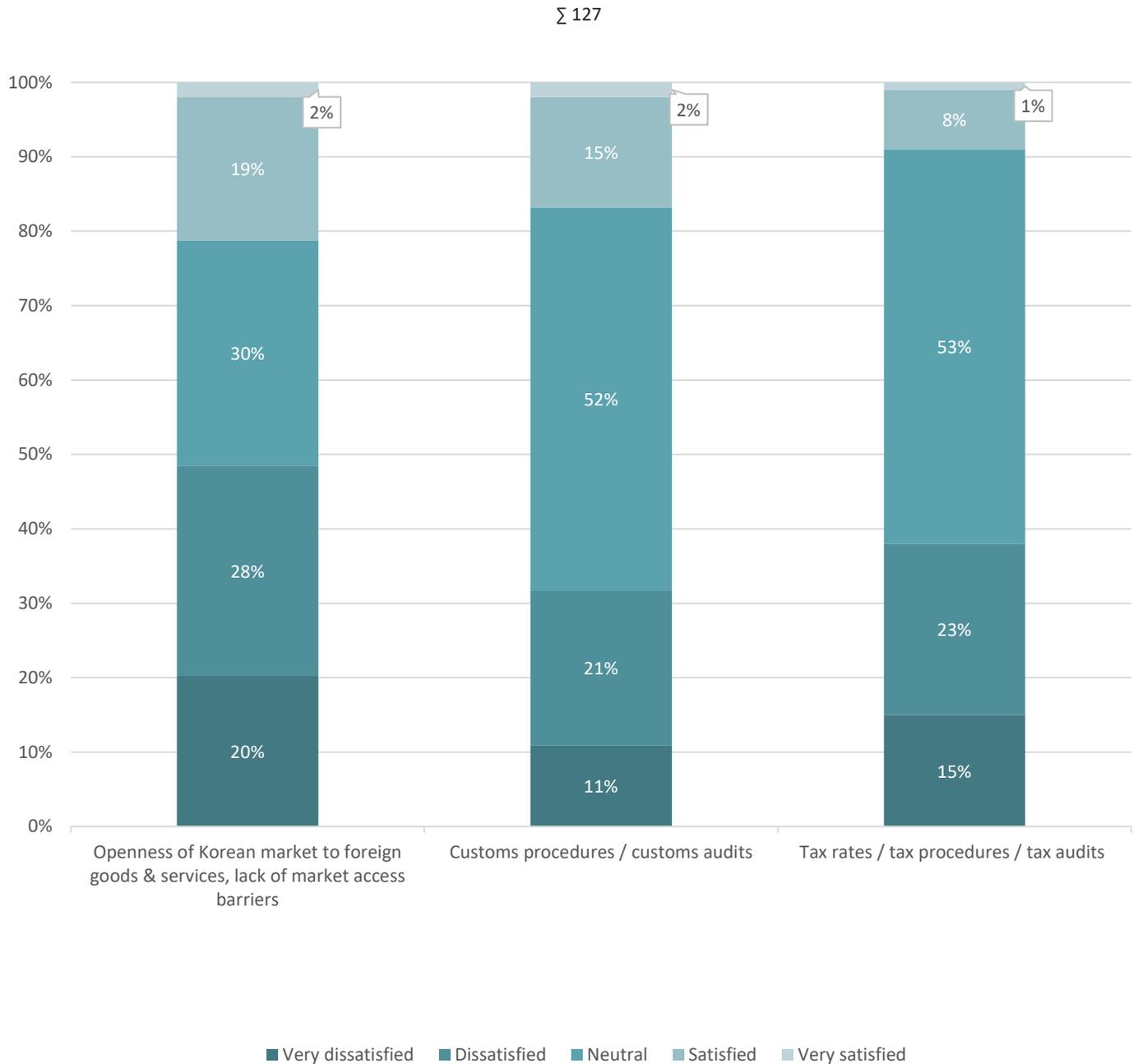
Σ 127



European companies evaluate especially the legislative environment and regulations, the discretionary enforcement of regulations as non-satisfactory. Administrative Issues and the transparency policymaking fares a bit better but still far from being evaluated positively. The only parameter here with a certain positive perception is Immigration uses.

Business Environment

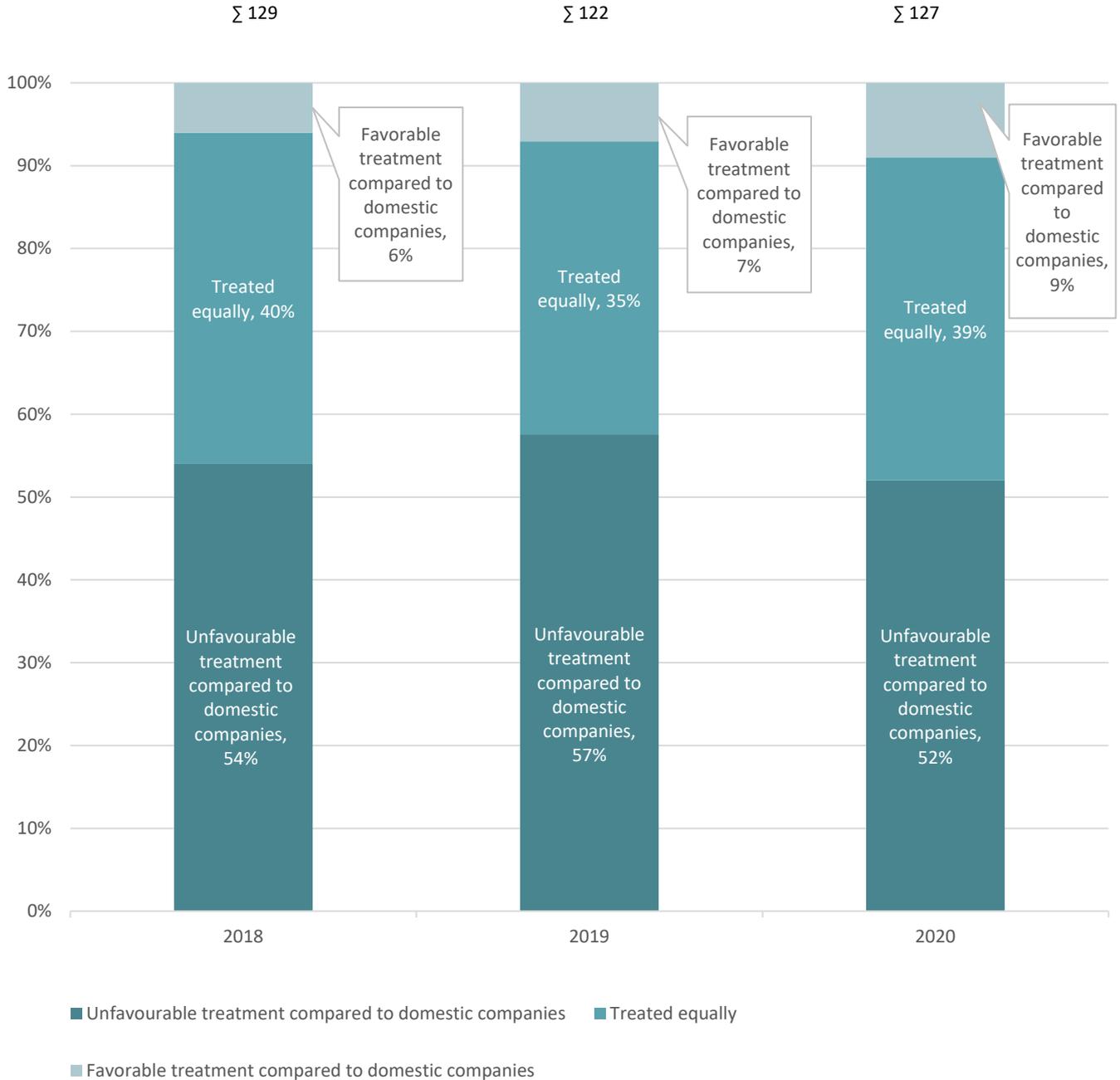
How do you perceive the following market parameters in your specific business in Korea?



Company representatives have a certain concern about free market access for foreign products as 48% express a non-positive view on that. With respect to custom procedures / custom audits and tax rates, tax procedures / tax audits a bigger share of responding companies have a more neutral or even positive view – although the ratio of negative evaluation of 32% and 38%, respectively cannot be easily neglected.

Business Environment

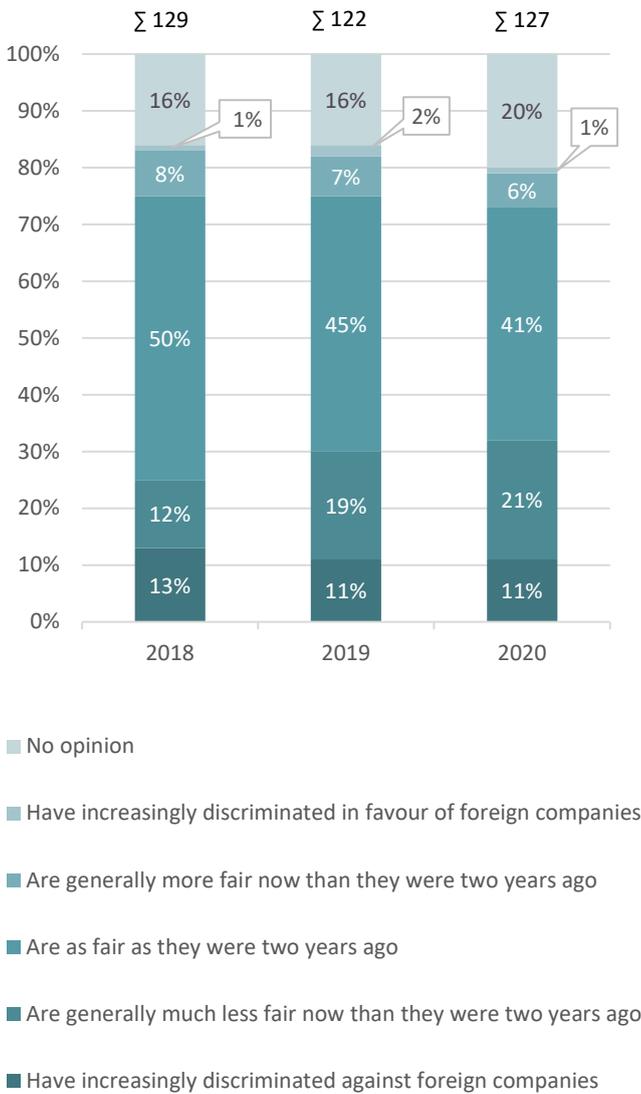
Do you perceive any unfair or unfavourable handling of foreign companies in Korea by the Korean government?



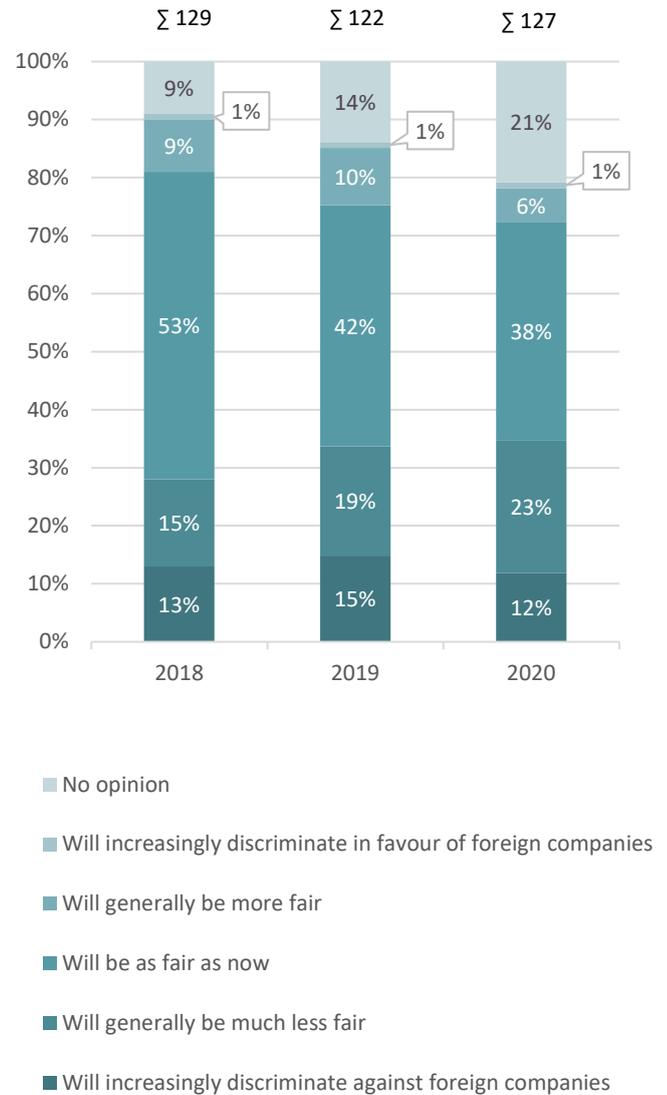
The issue of unfavorable handling of foreign companies has not been improved in 2020; it remains more or less on a similar level as in previous years.

Business Environment

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



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



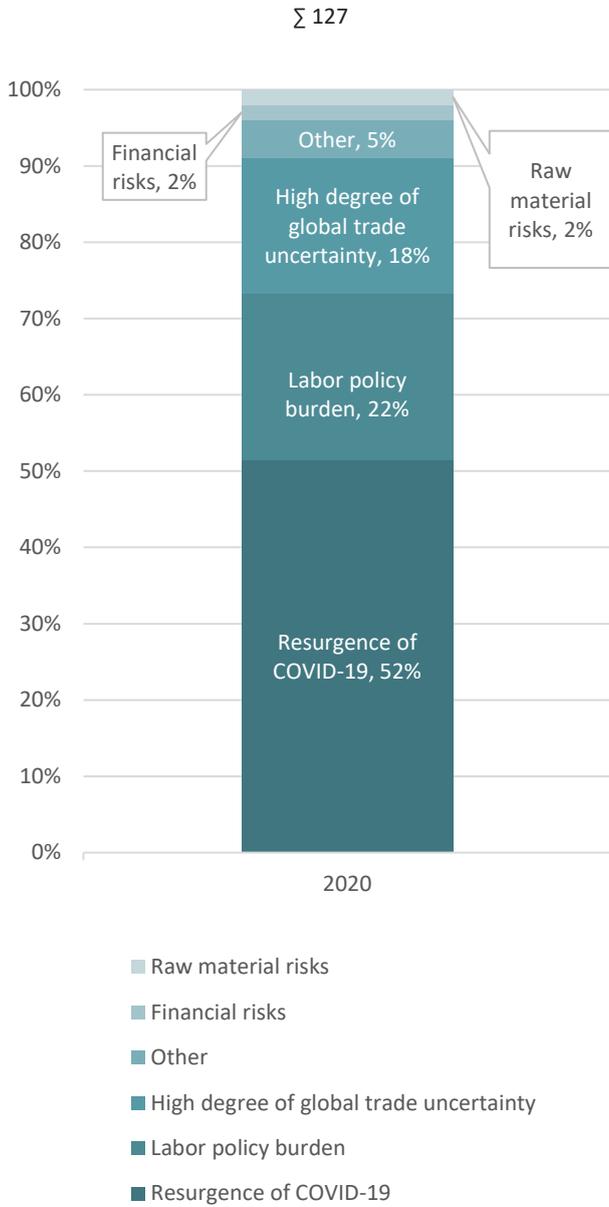
The majority of European companies stated that government policies have been as fair as they were two years ago and perceives it will be as fair as now over the next two years. About one third of companies believe that Korean government policies regarding foreign companies' business environment have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

COVID-19

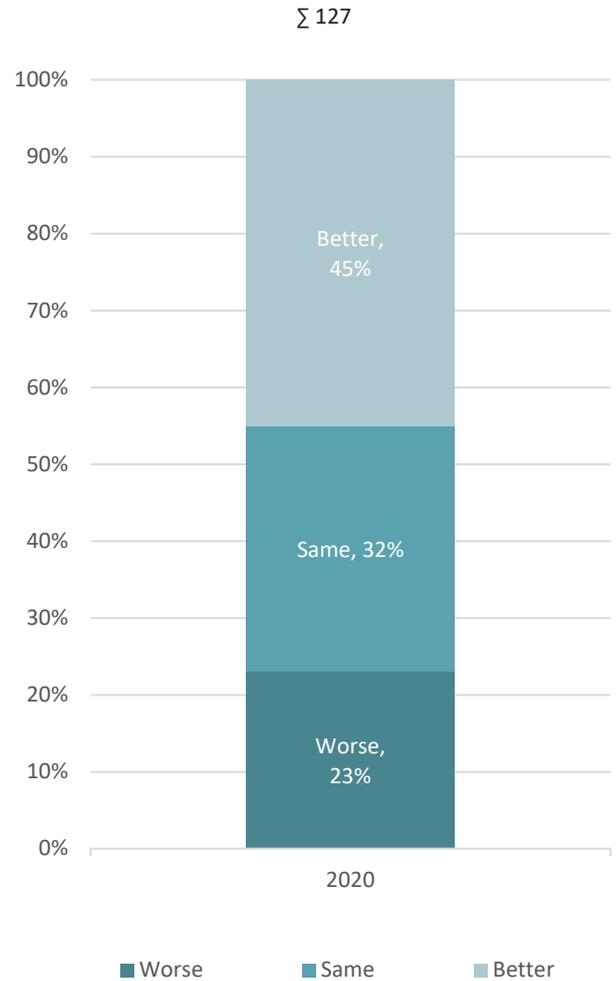


COVID-19

What are the difficulties in business planning for 2021?



What are your expected conditions for the global economy for 2021?

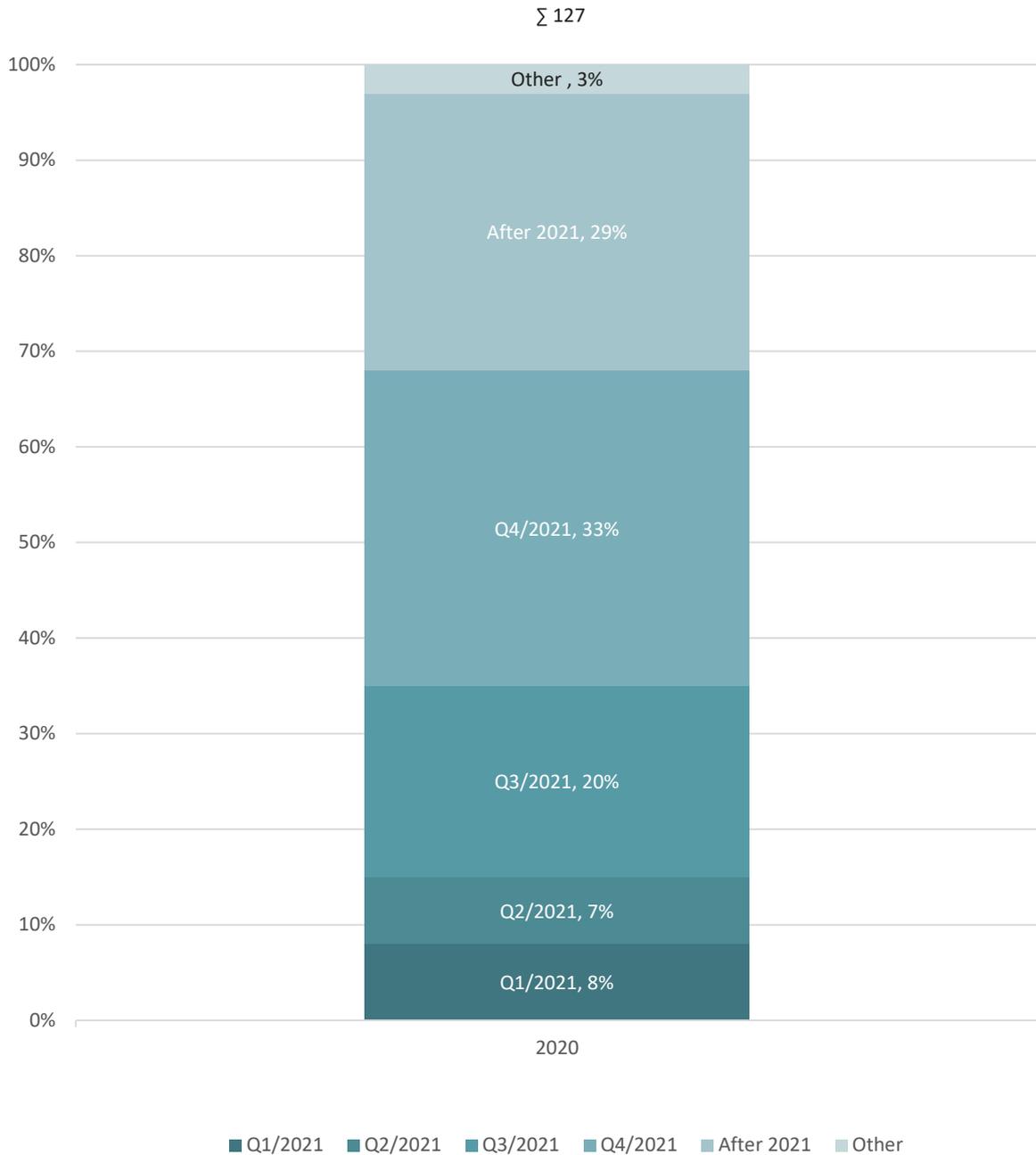


Business planning and executing naturally has become more difficult in 2021; more than half (52%) state that a resurgence of COVID-19 will be present the biggest challenge followed by labour policy (22%) and uncertainty in global trade (18%).

The outlook for 2021 is a bit mixed with 45% being positive and 23% being negative.

COVID-19

When do you expect for your organization/industry to recover from the novel coronavirus outbreak?



Most respondents expect businesses and industry to recover from COVID-19 either in Q4/2021 or after 2021.

Contact

European Chamber of Commerce in Korea (ECCK)

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

Roland Berger Ltd.

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

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