

German Business in Korea

Business Confidence Survey 2020/2021

Contact

Yuna Ku, PR & Communications Manager

Korean-German Chamber of Commerce and Industry (KGCCI) – AHK Korea

8th Fl., Shinwon Plaza, 85, Dokseodang-ro, Yongsan-gu, Seoul 140-884, Republic of Korea

T. +82-2-3780-4652 | F. +82-2-3780-4655 | ynku@kgcci.com

www.kgcci.com | www.innovation-award.kr

www.facebook.com/kgcci | www.linkedin.com/company/kgcci

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Executive Summary

This publication is a compilation of the survey results provided by German companies who participated in the Joint Business Confidence Survey 2020 conducted by ECCK, KGCCI and ten further European chambers and councils in Korea in January 2021. In total, representatives of 127 European companies participated in the survey, among them 36 German companies. The overwhelming majority (94%) of German survey participants has been operating in Germany for over 10 years with profound knowledge of the local market. By industry, the most represented industries were automotive & auto parts, machinery, logistics and pharmaceuticals & medical devices.

The South Korean economy in the year 2020 was marked by the impact of the COVID-19 pandemic, resulting in disrupted supply chains, falling global demand and limited business operations. Faced with these difficulties, the Korean government's successful handling of the outbreak resulted in the economy to end the year with a real GDP decline of just 1%, the smallest among OECD member. Despite remaining economic uncertainties, the majority (55%) of German companies were content with their overall performance in the Korean market in 2020. The resilience of the domestic economy is shown in 50% of respondents characterizing the importance of Korea in their global strategy as increasing, a sharp improvement from only 28% in 2019. Accordingly, 39% (2019: 40%) of German companies plan to expand their operations in Korea.

However, their positive business performance and expectation has not translated into confidence in the general South Korean business environment, as now 69% of German firms are seeing doing business in Korea as having become more difficult over the past two years, a continuation of the downward trend over the last years. In particular, the majority of German companies expressed dissatisfaction with South Korea's legislative environment and regulations as well as their discretionary enforcement. Reflecting this, 53% of respondents perceive foreign companies to be treated unfavorably compared to domestic companies, a significant increase from 38% in the previous year. As 69% of firms are not confident that any meaningful reforms will be implemented this year, regulatory obstacles remain a persisting challenge to business activities of German firms in Korea.

South Korea's labor environment remained a contentious issue for German businesses given the country's strong unions and rising labor costs. Despite these grievances and the compounding impact of the COVID-19 pandemic, 75% of companies either maintained or expanded their workforce in 2020. For the next two years, the overall stable employment sentiment remains as 83% of firms plan to maintain (55%) or increase (28%) their number of permanent positions.

Looking towards 2021, a resurgence of COVID-19 was unsurprisingly the largest risk factor for German firms' business planning at 45%, followed by labor policy burden with 25%. From a macroeconomic perspective, the majority (53%) expect improved conditions for the South Korean economy as a whole in 2021. Meanwhile, 64% of German respondents anticipated their organization and industry condition to recover throughout the year, reflecting expectations of a rebound in business conditions on hopes of a gradual return to normality.

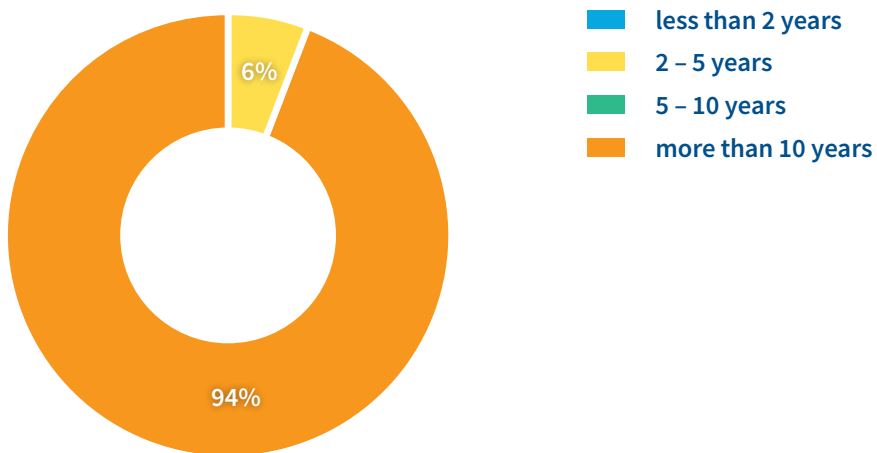
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01

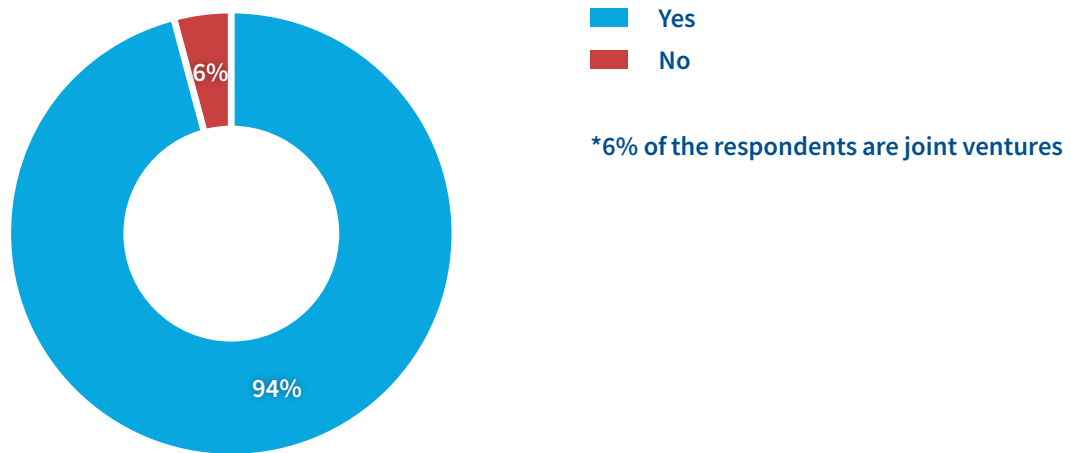
Company Profile

1 How long has your company been operating in Korea?



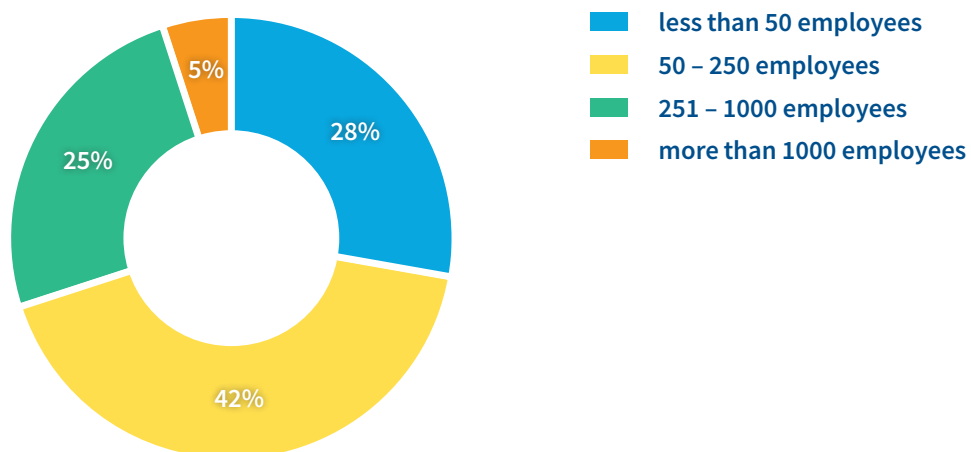
The overall majority of German respondents is already well established in the Korean market, with 94% of the responding companies having over 10 years of operating experience in Korea. The figures continued from 82% in 2019 and 79% in 2019. The companies long-term commitments to Korea indicates the country's strong position as a stable base for German business operation.

2 Is your company fully owned by a German company?



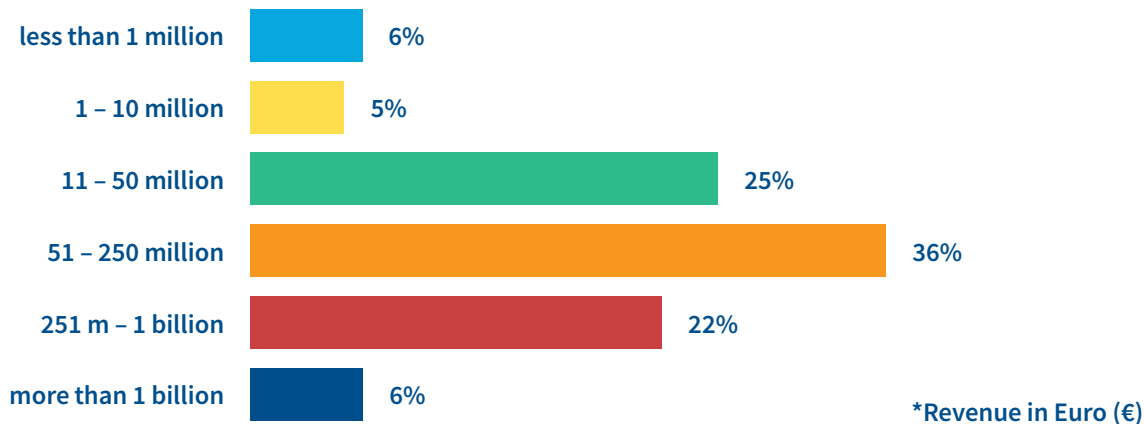
The large majority (94%) of responding German companies in 2020 are fully owned by German firms, indicating that their given opinions reflect their business position from a German perspective. The remaining companies are engaging in the Korean market under a joint venture business operation.

3 How many employees do you have in Korea in 2020?



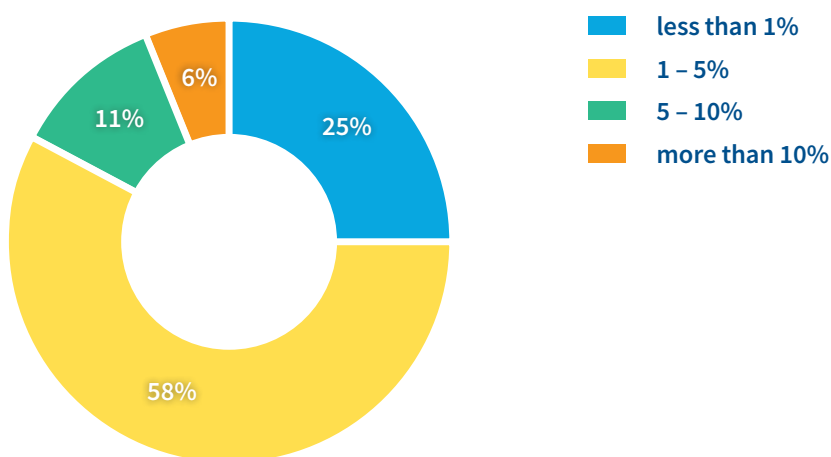
In this year's survey, 70% of the participating German companies have less than 250 employees. Only 5% of the companies have a workforce of more than 1,000 employees. 25% of the survey participants employ between 251 and 1,000 employees. The composition of survey participants remains relatively consistent with the respondents from the survey for 2019.

4 What is the total revenue of your company in Korea in 2020?

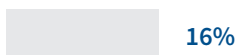


In total, 11% of the participating German companies in 2020 had revenues in Korea below 10 million EUR, contrasted with 6% of firms with revenues exceeding 1 billion EUR. The majority of companies (36%) reported the total revenue in between 51 million EUR and 250 million EUR, which is 18% up from the last year, reflecting the stable nature of German businesses in Korea. 25% of respondents answered revenues between 11 million EUR and 50 million EUR (2019: 22%) and 22% of company revenues between 251 million EUR and 1 billion EUR. (2019: 22%)

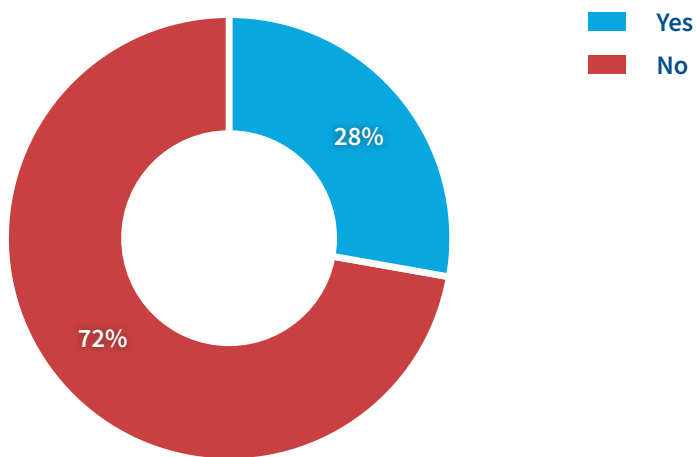
5 What proportion of global revenue is generated in Korea in 2020?



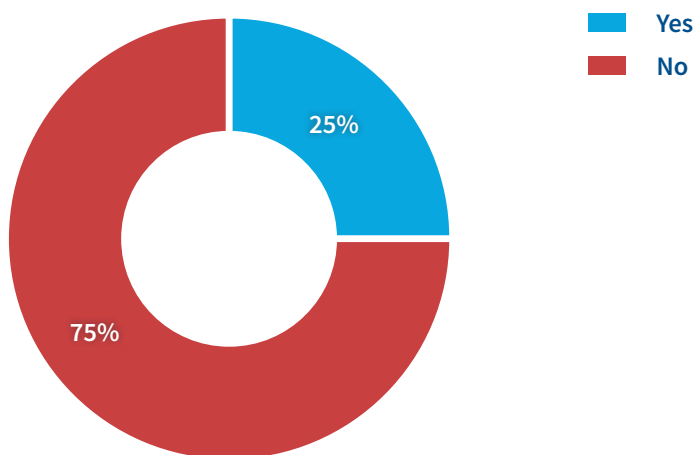
The share of German companies generating at least 5% and more percent of their total global revenue in Korea reached 17% in 2020, down from 22% in 2019. With the revenue share for 83% of companies still falling below 5% in 2020 (2019: 78%), the figures show that there is still room for growth in the Korean market.

6 In what industry is your company active in?**Automotive and auto-components****Chemicals and petroleum****Financial services (incl. Insurance)****(Non-legal) Professional services****IT and Telecommunications (services, infrastructure)****Machinery****Pharmaceuticals and Medical Devices****Retail****Transportation, Logistics and Distribution****Others**

The majority of the participating German companies are active in automotive and auto-components sector, also showing a considerable presence in the field of machinery (19%), transportation, logistics and distribution (14%) as well as pharmaceuticals and medical devices (11%). The result reflects Germany's traditional strength in manufacturing in the Korean market.

7 Does your company have R&D facilities in Korea?

For 2020, 28% of participating German firms are operating R&D facilities in Korea. The figure marked an increase from 24% in the previous year (2018: 19%), showing the growing interest of German companies to engage in research and development activities in the Korean market.

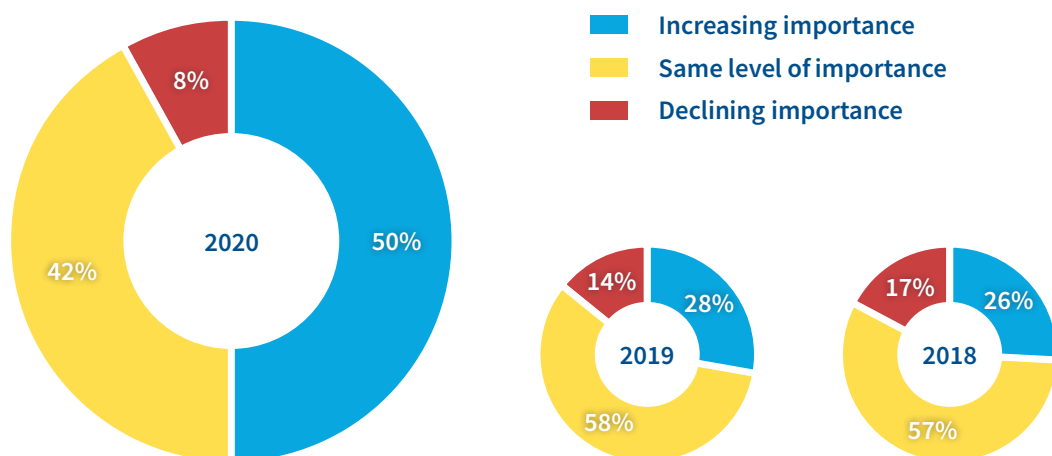
8 Does your company have production facilities in Korea?

With 25% of German companies operating production facilities in Korea, around one fourth of respondents are engaging in production processes directly in Korea for domestic consumption or export into third countries. The figure shows a decrease from 38% in 2019; however, it is an increase from 23% in 2018.

02

Business Performance

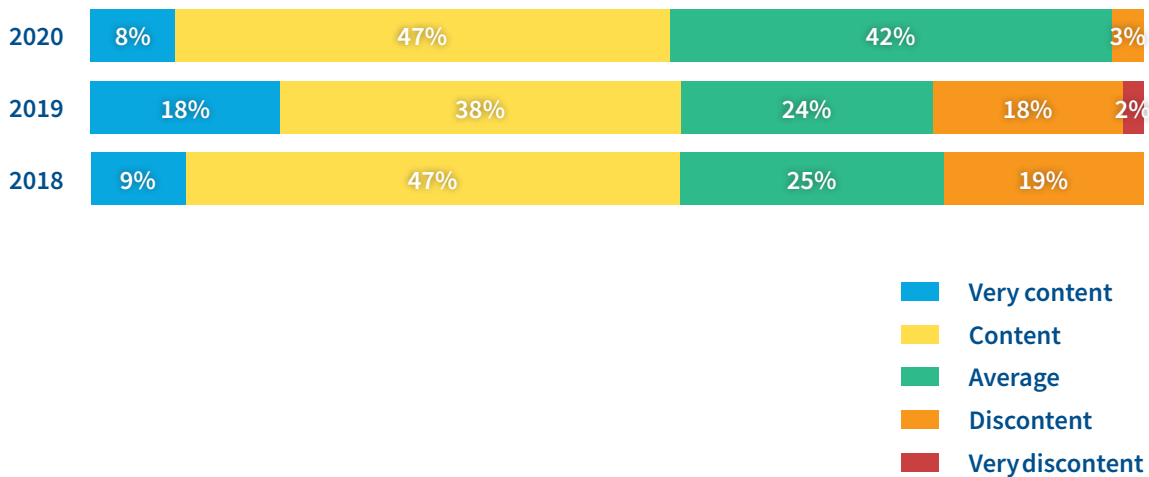
- 1 How would you characterize the importance of Korea in your company's overall global strategy?



As the world's 10th largest national economy in terms of last year's nominal GDP estimated by the Organization for Economic Cooperation and Development (OECD) and Germany's third largest trading partner in Asia, Korea is a market of key importance for German companies. The percentage of German companies in Korea seeing the increasing importance of the country marked a surprising leap to 50% from 28% in 2019. 42% of firms value Korea's importance for their company's global strategy as consistent. Only 8% see the importance declining.

The results confirm the increasing importance of Korea for German companies overall. Comparing to the previous results in which the majority of participants weighed the importance of Korea to remain consistent (2019: 58%, 2018: 57%), this year's result seems to be largely affected by the relatively strong economic performance of the country following the successful management of COVID-19. The share of German companies seeing the Korean market as declining in importance stood at only 8% in 2020 compared to 17% in 2018 and 14% in 2019.

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



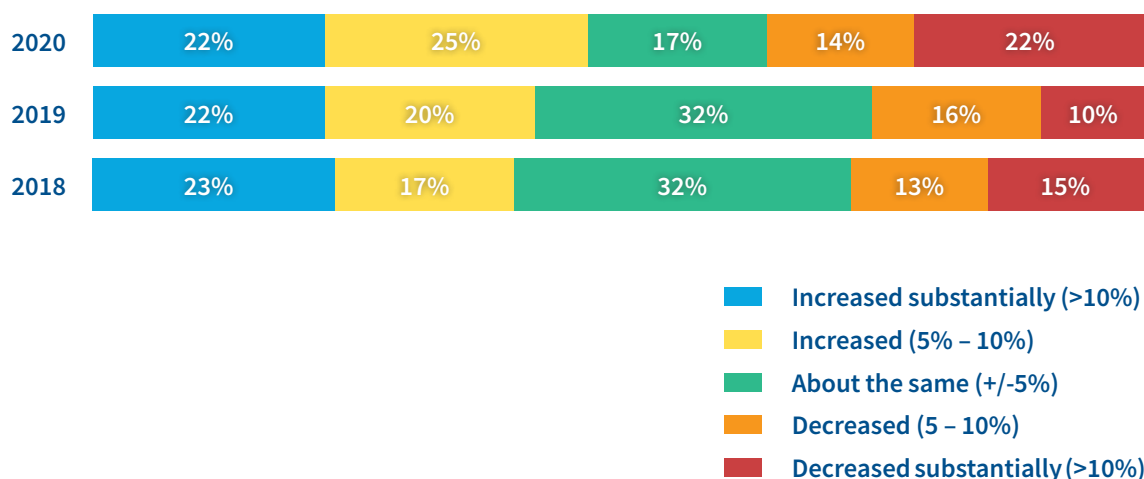
The majority (55%) of participating German companies are either content or very content with their performance in Korea. 42% see their performance as average, whereas 3% are discontent with the outcomes.

In comparison, participants viewing their company's performance as positive (very content and content) made up 56% (9% very content, 47% content) of total responses in 2018 and the number continued in 2019 as well (18% very content, 38% content).

The percentage of companies with a more neutral perspective regarding their overall performance showed a sharp increase to 42%, compared to 24% in 2019 and 25% in 2018.

On the other hand, the percentage of participants with a negative (discontent and very discontent) view on their performance in the Korean market showed a significant decrease to 3%. The number was 19% in 2018 and 20% in 2019 (18% discontent, 2% very discontent).

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

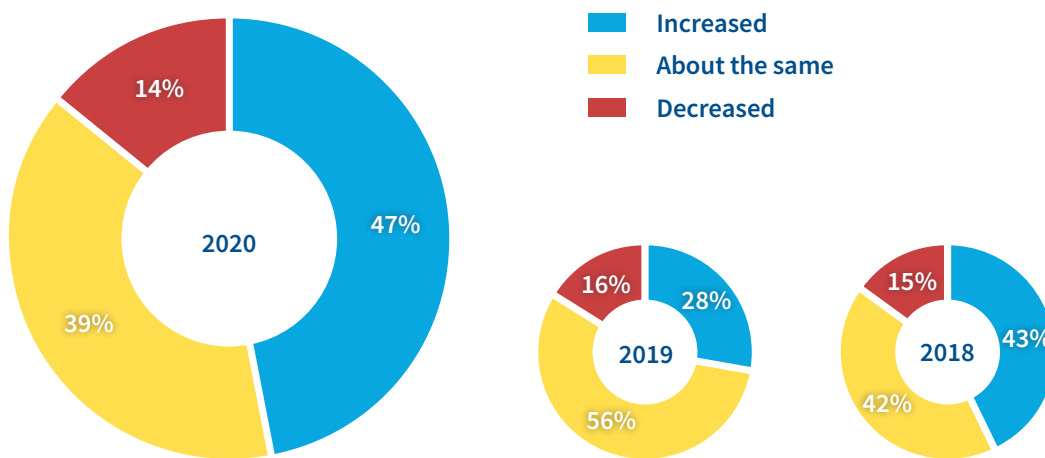


47% of German companies in Korea were successful in increasing their revenue by at least 5% on-year in 2020. Of the total figure, 22% increased their revenue by above 10% with 25% of companies showing revenue growth between 5% and 10%. Companies that saw their revenue remain stable (+/-5%) stood at 17%. In contrast, 36% of respondents reported a decline in their firm's revenue in Korea of which 22% saw revenue decreasing substantially by over 10%.

Comparing the figures to previous years, the positive (increased and increased substantially) responses of 47% were higher than 40% (23% increased substantially, 17% increased) in 2018 and 42% (22% increased substantially, 20% increased) in 2019. The number of companies that saw their revenue relatively unchanged in 2020 (17%) showed a sharp decrease compared to previous years.

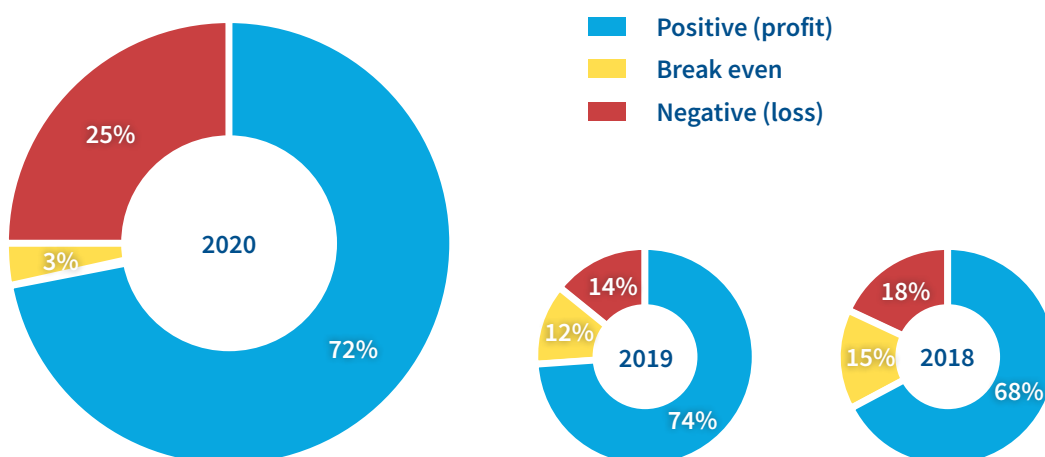
At the same time, with 36% negative responses in 2020 (decreased and decreased substantially), German companies saw an increased rate of their revenue falling, as the numbers stood at only 28% in 2018 (13% decreased, 15% decreased substantially) and 26% in 2019 (16% decreased, 10% decreased substantially).

4 How did your market share in Korea evolve in 2020 versus 2019?



The biggest percentage (47%) of respondents saw their market share in Korea increased in 2020 versus 2019, showing a significant improvement compared to 28% in the 2019 survey. The number of German companies who reported their market share to remain relatively unchanged stood at 39%. A decrease in market share was recorded in 14% of participating companies with only minor changes compared to the figures from 2018 (15%) and 2019 (16%). Thus, more than 80% of German companies overall managed to either expand or maintain their market share in Korea.

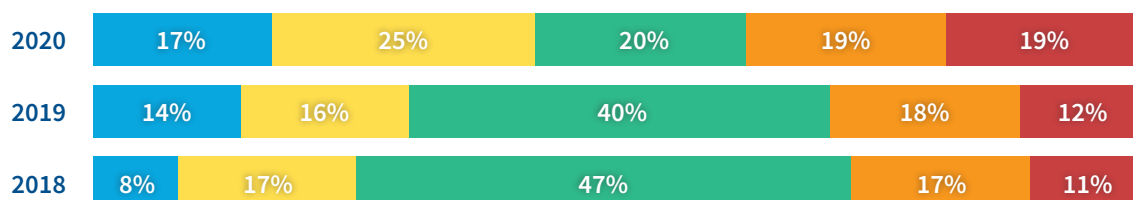
5 Please characterize the EBIT (Earnings before interest and tax) of your company in Korea in 2020.



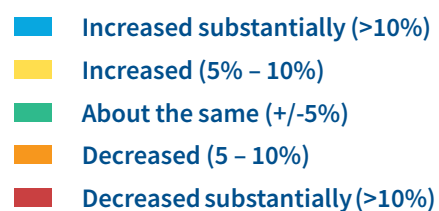
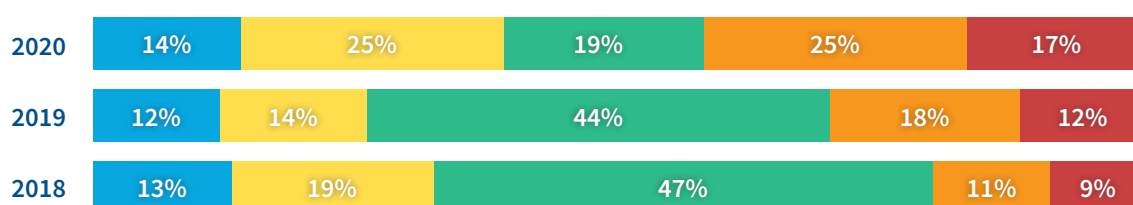
In 2020, 72% of German companies achieved positive earnings before interest and tax (EBIT) with 3% breaking even and 25% reporting a negative EBIT. Compared to previous years, the number of companies profitable in terms of their EBIT in 2020 demonstrates an improvement from 2018 (68%) and a small decline from 2019 (74%).

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

EBIT



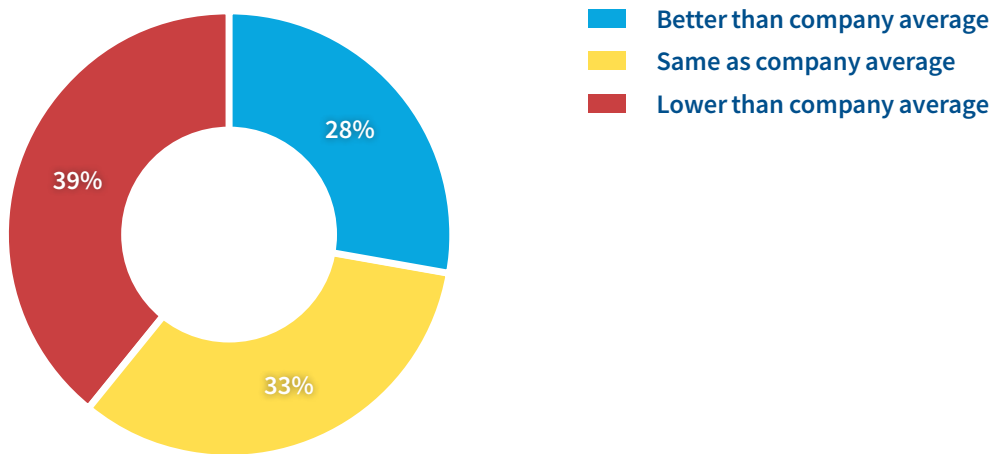
EBIT Margin



For both, EBIT and EBIT margin, the group of companies which substantially increased or decreased their EBIT and EBIT margin has grown over the years. The percentage of companies that reported “about the same” has decreased, showing a sharp decline in 2020 survey in particular.

As a result, we see a higher volatility of EBIT and EBIT margin among the participating companies. Uncertainty and risk have increased and the percentage of stable / stagnating businesses was reduced.

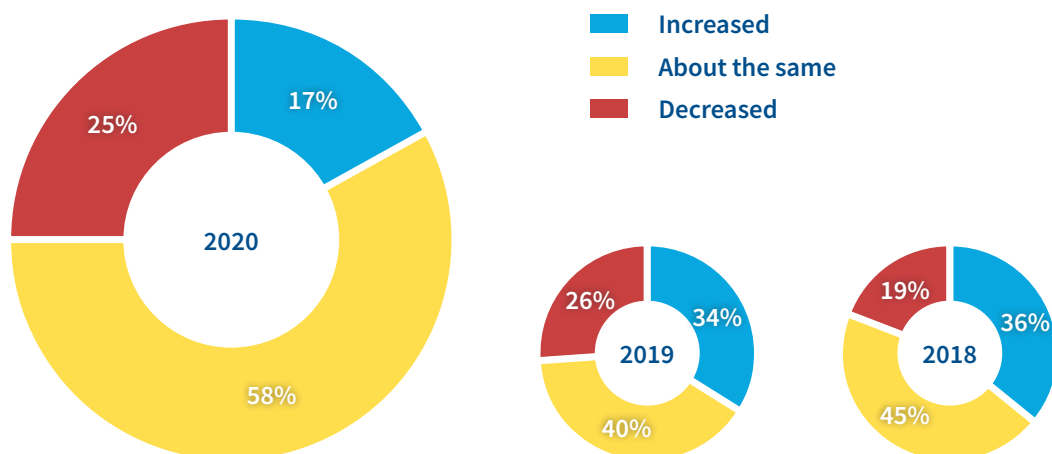
7 How does the EBIT margin of your Korean operation compare to your company's worldwide margins in 2019?



For the 2020 survey, 28% (2018: 26%, 2019: 28%) of German companies reported their EBIT margin in Korea as exceeding their company's worldwide margin, remaining relatively stable over time. 33% (2018: 42%, 2019: 38%) saw no difference and 39% (2018: 32%, 2019: 32%) listed their EBIT margin in the Korean market as falling below the worldwide average.

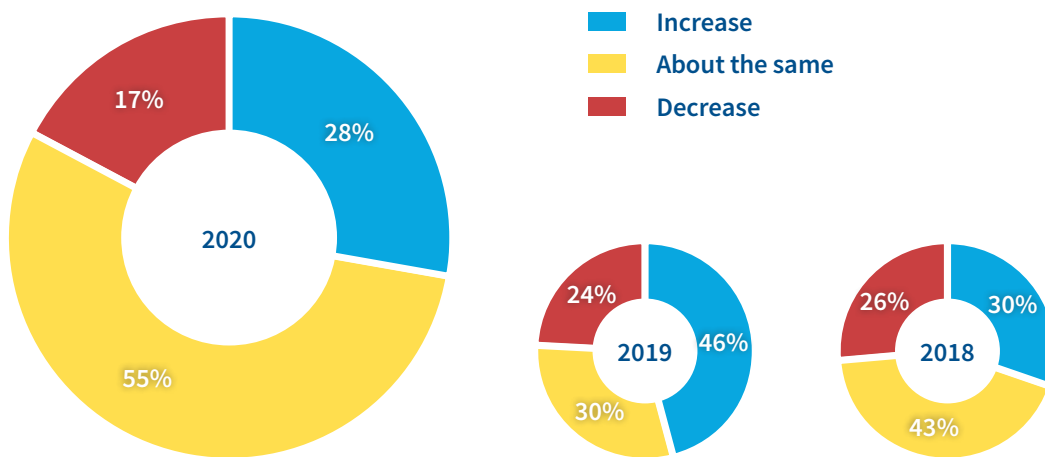
03

HR / Labor

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

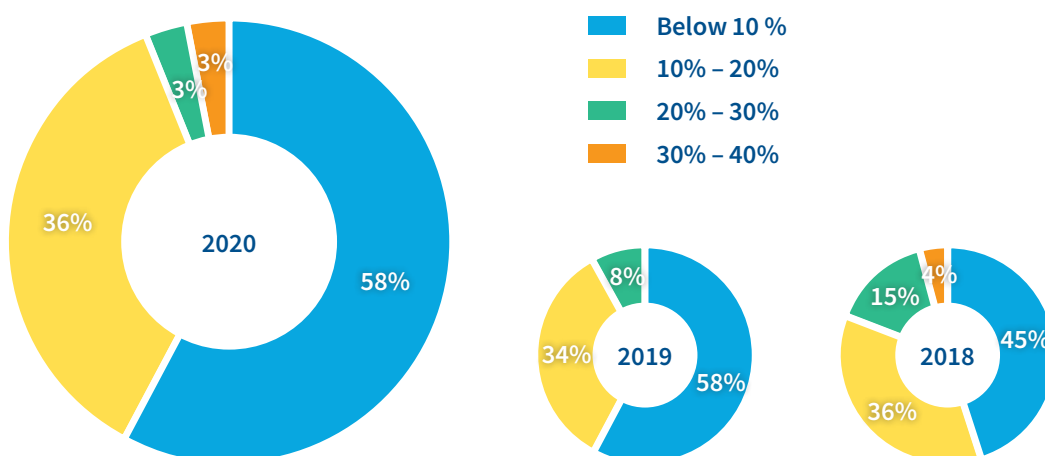
More than half (58%) of the companies managed to maintain their workforce during the COVID-19 year. 17% of German participating companies even expanded the number of permanent positions in 2020, compared to 36% in 2018 and 34% in 2019. 25% of participants answered that they had downsized their permanently employed positions, which is an increase from 19% in 2018 but a slight decrease from 26% in 2019.

2 How do you expect the number of permanent positions in your company in Korea to evolve over the next 2 years?



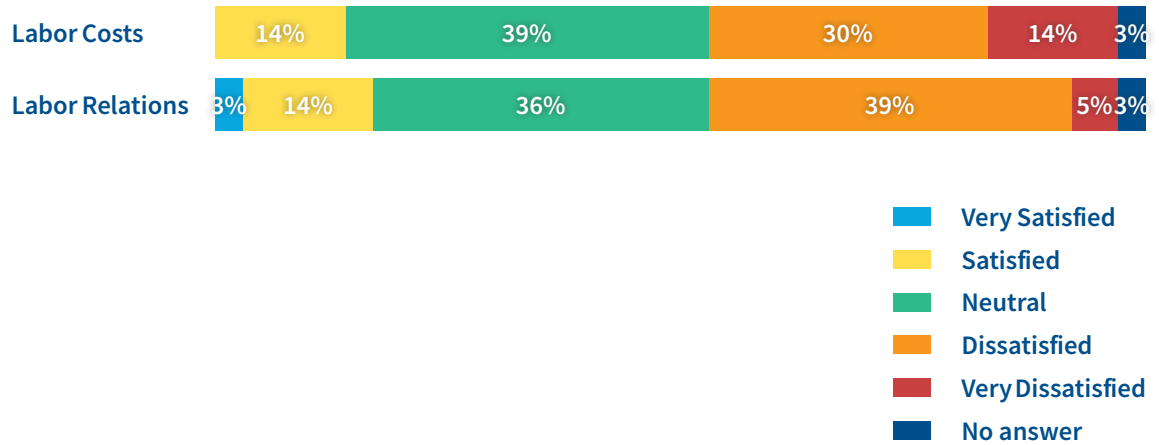
The majority of German companies (55%) expect the number of permanent positions in their company in Korea to remain the same over the next 2 years, which is a significant increase in number compared to 43% in 2018 and 30% in 2019. Faced with volatile market situation due to COVID-19, only 28% companies expect increase in the number of permanent employees in the future, compared to 30% in 2018 and 46% in 2019.

3 What is the level of your staff turnover in 2020?



The overall majority (58%) of participating German firms had a low staff turnover of below 10% in 2020, which is a noticeable increase from 45% in 2018 and in line with 58% in 2019. Following, a turnover rate between 10% and 20% was recorded at 36% of companies, up from 34% in 2019 (2018: 36%). The staff turnover between 20% and 30% decreased from 8% in 2019 (2018: 15%) to 3% in 2020. However, 3% of companies 2020 reported a turnover rate between 30% and 40% while no company in 2019 fell under the category.

4 Please indicate how you perceive the labor environment parameters in your specific business in Korea.

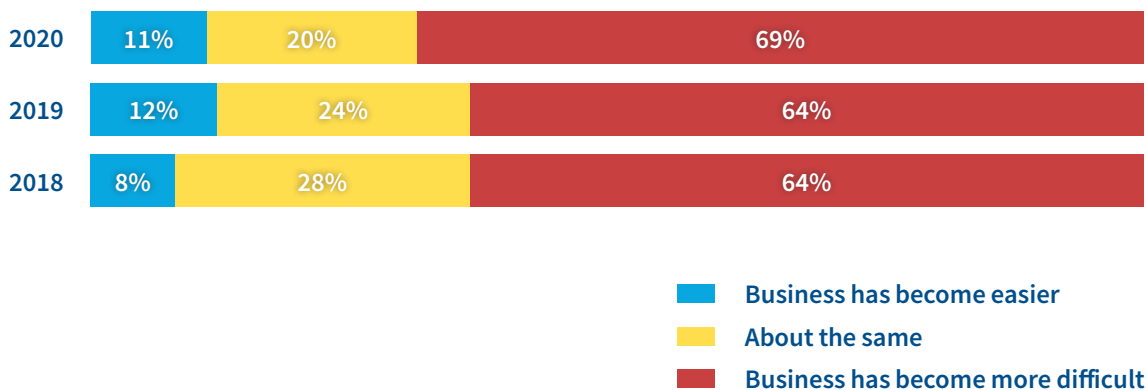


German companies participating in the survey revealed more reluctance to the labor environment of Korea in terms of labor costs and labor relations. 44% of the participating companies are not satisfied (dissatisfied and very dissatisfied) with the cost of labor, whereas 14% are satisfied (very satisfied and satisfied) with it. Similarly, as of labor relations, 44% are negative about the issue compared to 17% who remain positive.

04

Business Challenges

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



The perception that doing business in Korea provides an increasing challenge remains the overwhelming opinion among participating German companies. In 2020, 69% of respondents evaluate the local business environment as more difficult, which is an increase from 64% in both 2018 and 2019. Only 11% said that business has become easier, which is an increase from 8% in 2018 but a slight decrease from 12% in 2019. 20% of firms saw no significant change in the difficulty of doing business in Korea (2018: 28%, 2019: 24%).

2 Please indicate how you perceive the following market parameters in your specific business in Korea.

◆ Economy / market growth

1) Economic growth in Korea / Economic growth of your market segment in Korea



2) Capacity for innovation



◆ Legislative / infrastructure related

1) Legislative environment & regulations



2) Discretionary enforcement of regulations



3) Administrative issues, e.g., establishing legal entity, tax filing, publication of financial statements



4) Transparent policy-making and implementation



5) Immigration issues (employee / spouse), e.g., obtaining visa, visa extension, work permit



◆ Trade / customs

1) Openness of Korean market to foreign goods & services; lack of market access barriers



2) Customs procedures / customs audits



3) Tax rates / tax procedures / tax audits



The participating German companies operating business in Korea revealed their thoughts on 10 important market parameters, which can be categorized into 1) economy and market growth 2) legislative and infrastructure and 3) trade and customs.

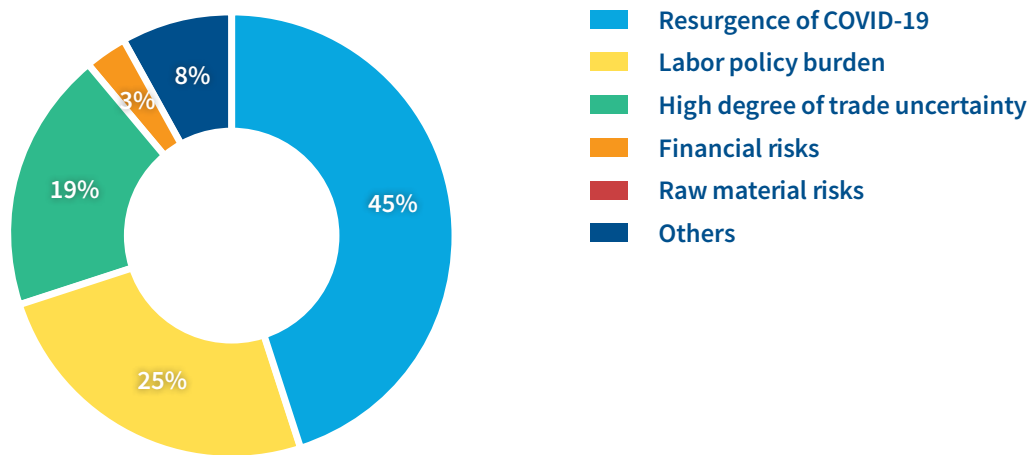
Regarding the economic situation, 31% of respondents are either very satisfied (3%) or satisfied (28%) with the economic growth in Korea, overtaking pessimistic opinions (dissatisfied 19%, very dissatisfied 5%).

Similarly, 33% see there is a room for innovation (5% very satisfied, 28% satisfied) whereas 20% remain doubtful about it.

However, German companies found out to be largely unsatisfied with legislative and infrastructure issues in Korea. 55% of German firms in Korea are either dissatisfied (33%) or very dissatisfied (22%) with the legislative environment and regulation. With 61%, the overwhelming majority of companies show discontent with discretionary enforcement of regulations, followed by 56% dissatisfaction rate in regard of transparent policy-making and implementation. In contrary, 42% satisfy with immigration issues such as visa extension and work permit. Of note, 42% satisfy with immigration issues such as visa extension and work permit.

The participating German companies perceive that Korean market has an entry barrier for foreign firms. 39% of respondents evaluate that Korean market somehow lacks openness to foreign goods and services. 44% show dissatisfaction (39% dissatisfied, 5% very dissatisfied) in terms of tax, including tax rates, tax procedures and tax audits. The participants are either dissatisfied (28%) or very dissatisfied (3%) regarding customs procedures and custom audits.

3 What are the difficulties in business planning for 2021?

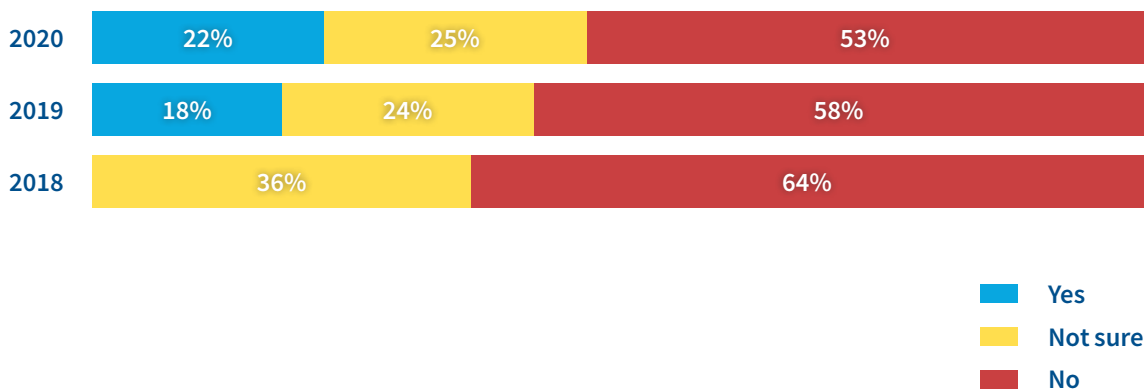


For most of the German companies in Korea, accounting for 45% of responses, resurgence of COVID-19 is the biggest difficulty in planning business for 2021. Following the COVID-19, labor policy burden (25%) and high degree of trade uncertainty (19%) are also considered as major problems ahead. Other opinions include restrictive government policies, competitive landscape, shortage of components (materials) and more.

05

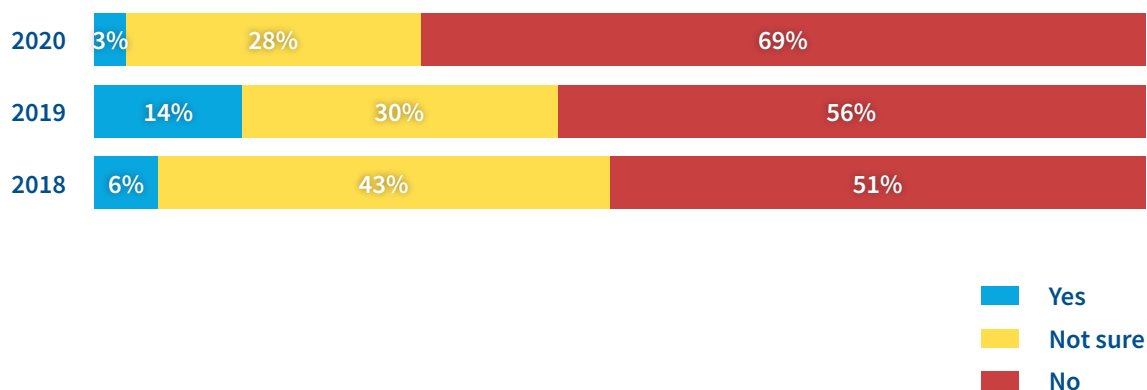
Regulatory Framework and Policies

1 Do you believe that reforms implemented in 2020 have helped your business?



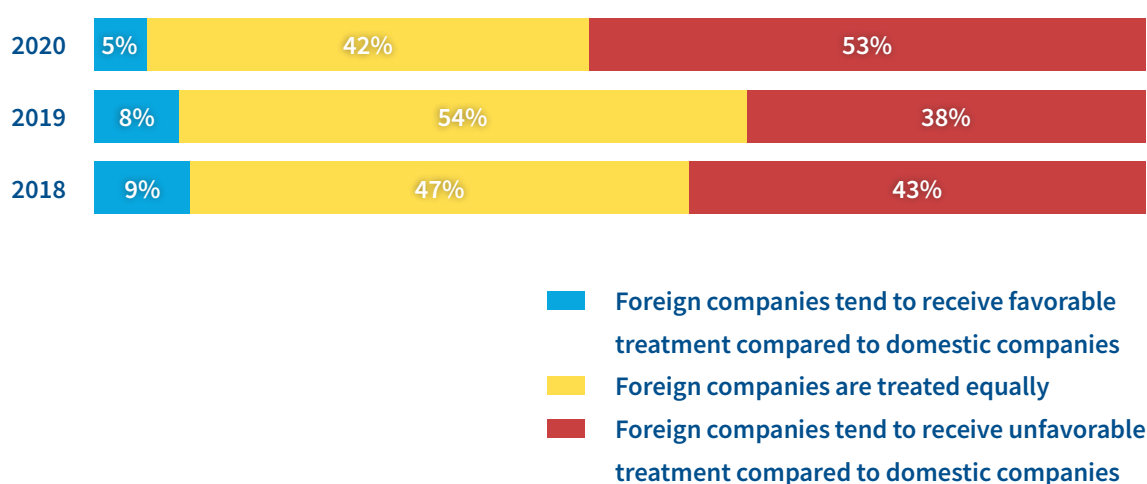
One of the key government tasks is providing the necessary legal and legislative framework to strengthen the economy by enabling businesses to further develop and grow. Regarding the reforms implemented in 2020 by the Korean government, the majority (53%) of participating German companies do not perceive them as not beneficial to their business activities in Korea. However, the figure still mark a decline from 58% in 2019 and 64% in 2018, showing a slightly less negative perception. In particular, 22% of respondents believe that the reforms in 2020 helped their business, an increase from 18% in 2019 and 0% in 2018.

2 Do you believe the Korean government will implement meaningful reforms in 2021?



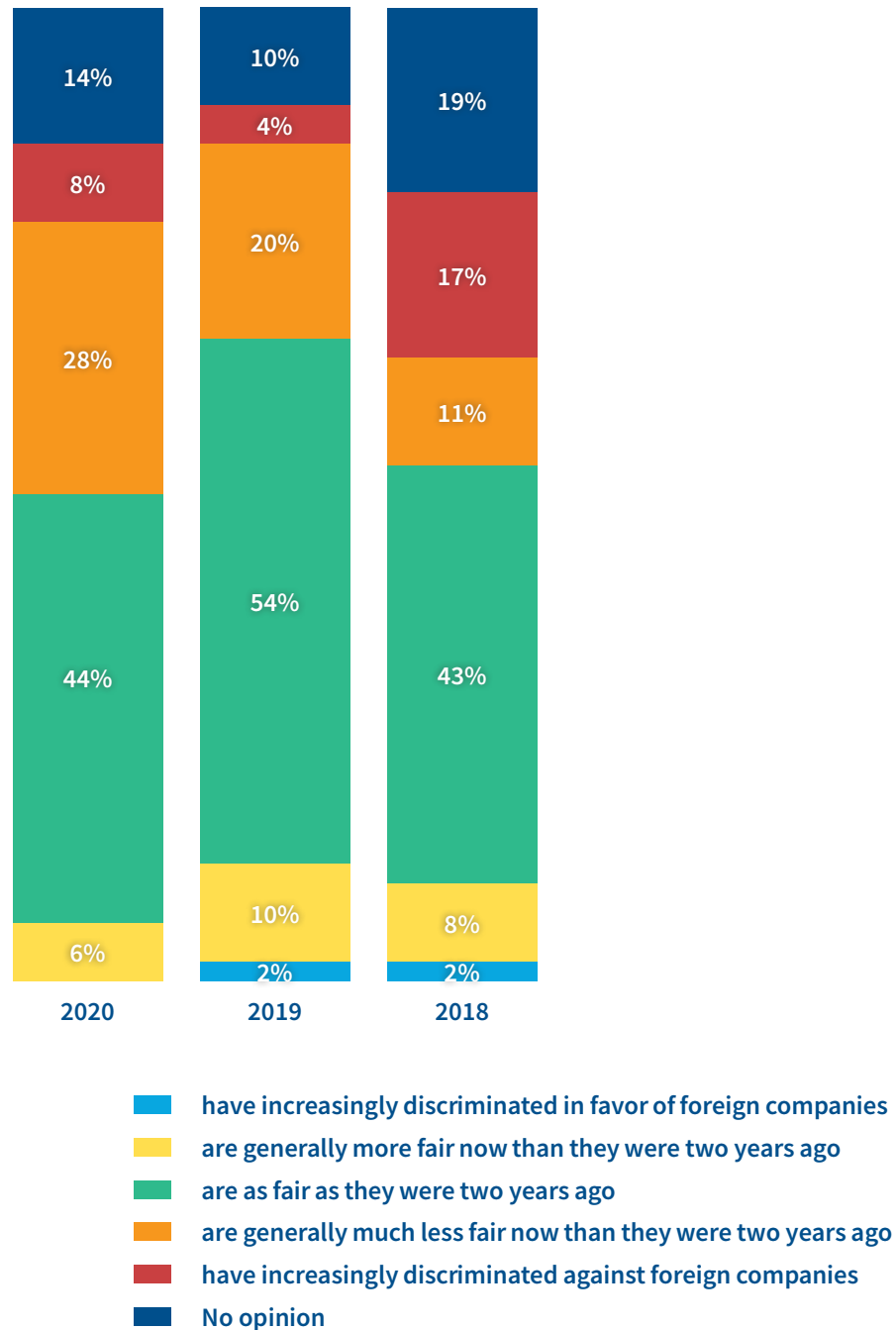
69% of participating German companies expect no meaningful legislative changes, which is a significant increase compared to 56% in 2019 and 51% in 2018. The number of positive expectations also plummeted to 3% from 14% in 2019 and 6% in 2018, while less companies claim uncertainty about future government reform plans at 28%. (2018: 43%, 2019: 30%)

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



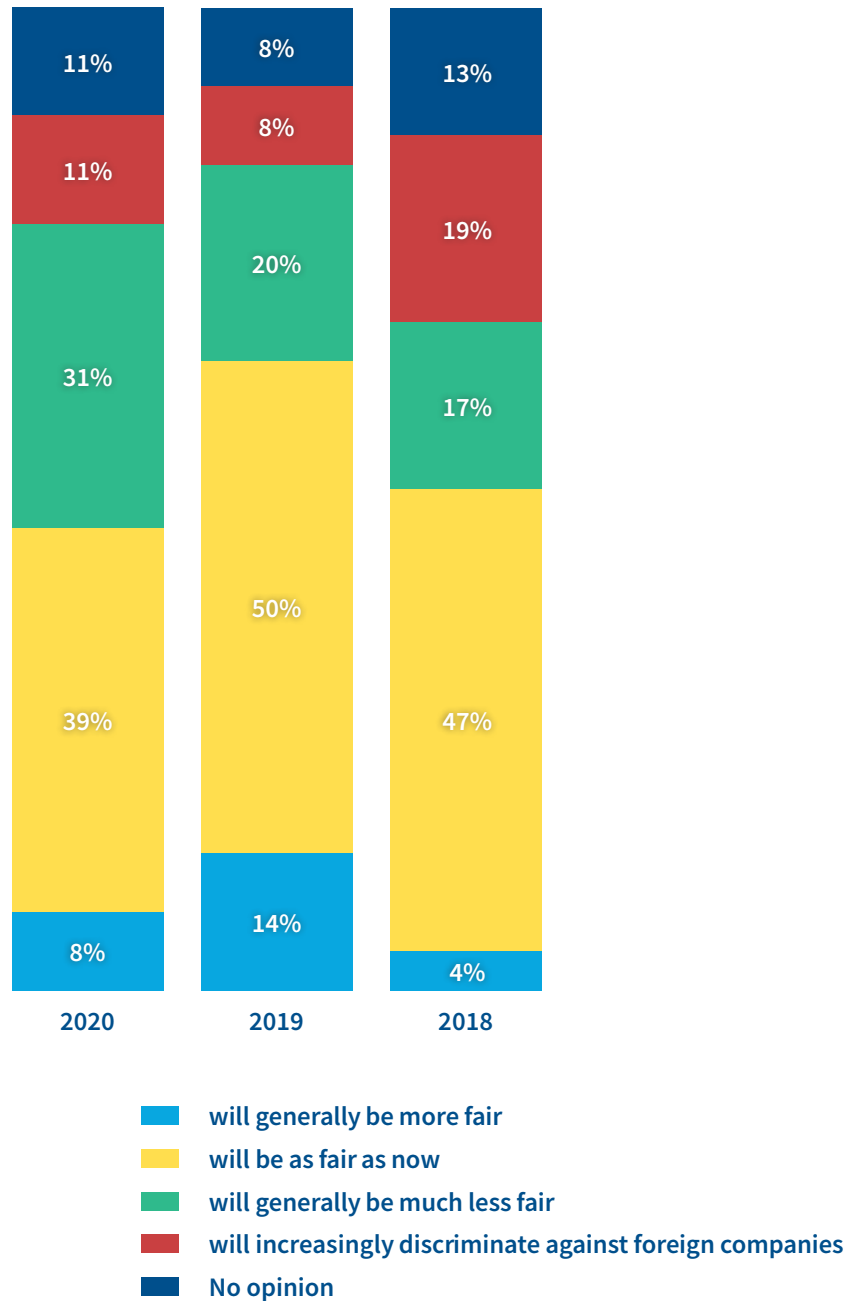
When asked about unfair or unfavorable treatment by the Korean government, 53% of participating German companies perceive an unfavorable treatment of foreign companies compared to domestic companies, up from 43% in 2018 and 38% in 2019. On the other hand, a smaller number of firms see an equal treatment of foreign companies with 42% in 2020. (2018: 47%, 2019: 54%)

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



44% of German firms in Korea see relevant government policies as generally as fair as two years ago, although down from 54% in 2019. (2018: 43%) However, simultaneously, 28% believe them to be generally less fair than two years ago, showing a steady increase from 11% in 2018 and 20% in 2019. In terms of discriminatory policies, 8% feel that policies have increased discrimination against foreign companies compared to 17% in 2018 and 4% in 2019.

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

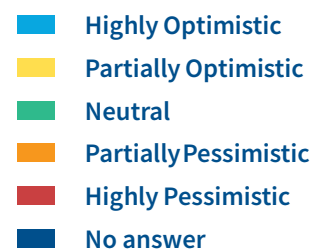
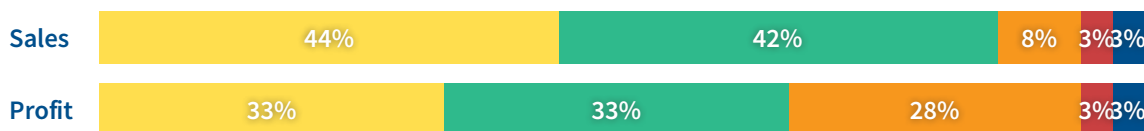


When asked about the outlook for government policies relevant to foreign business activities in Korea, 47% of respondents expect them to be either as fair as now (39%) or generally more fair (8%), down from 51% in 2018 and 64% in 2019. 31% expect them to be generally less fair (2018: 17%, 2019: 20%), with the figure of companies expecting increased discrimination against foreign companies showing a little rise from 8% in 2019 but down from 13% in 2018.

06

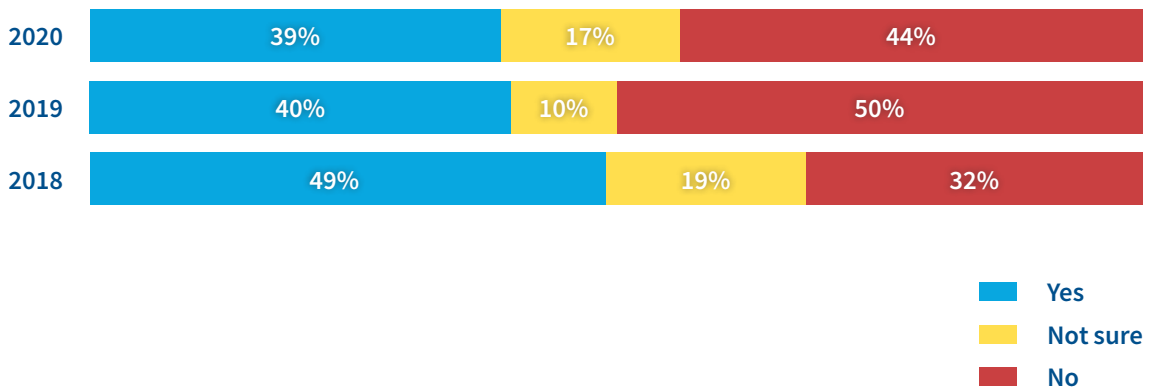
Business Outlook 2021

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



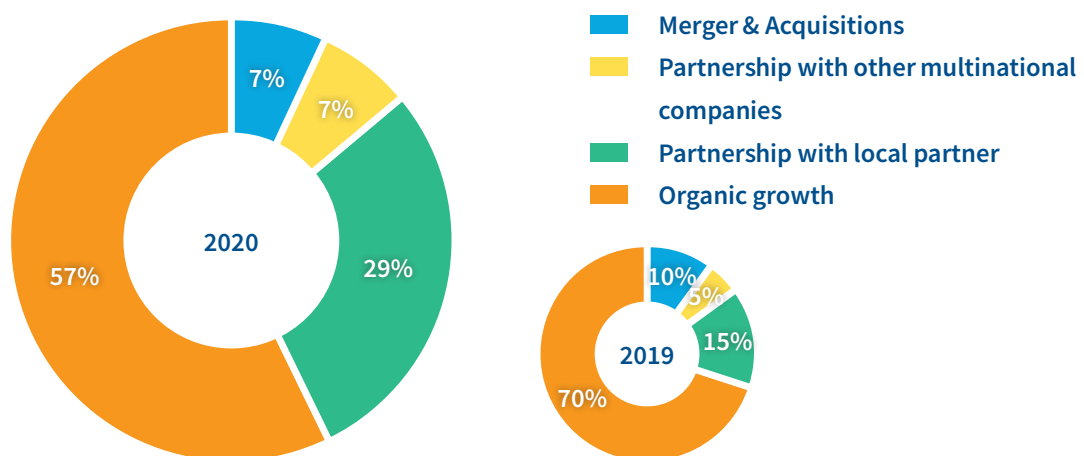
44% of German company representatives are partially optimistic about their industry's business outlook in terms of sales for the next two years. With 42% staying neutral, only 11% are pessimistic (8% partially pessimistic, 3% highly pessimistic) for the years ahead. However, in comparison to sales, the participants of the survey are more pessimistic towards profit prospects. Although 33% are partially optimistic, as much as 31% are negative (28% partially pessimistic, 3% highly pessimistic) about the outlook. 33% of respondents are neutral.

2 Are you planning to expand your operations in Korea in 2021?



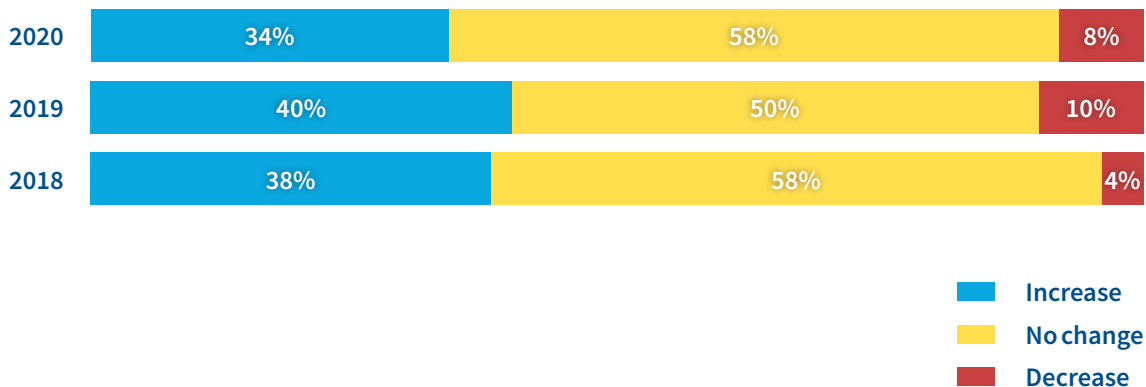
Overall, German participants in the survey are more positive (39%) about their business expansion in 2021 compared to 2020. Although 44% are not planning to expand their business operations in Korea in 2021, it is a significant decrease compared to 50% in 2019, considering COVID-19 situation in particular. Seen the global economic uncertainty, 17% have not yet decided on possible expansion plans, which is up from 10% in 2019 and down from 19% in 2018.

2-1 If yes, via what means are you planning to expand in 2021?



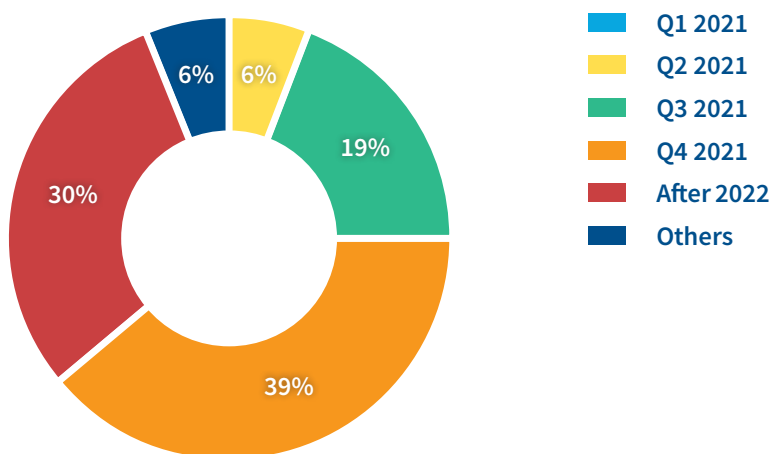
The majority (57%) of those German companies with expansion plans are aiming to expand in 2021 through organic growth, followed by partnership with local partners (29%), partnership with other multinational companies (7%) and M&A (7%). This is a similar pattern compared to the survey result from the last year.

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



For 2020, 34% of German firms intend to increase their investment or operational expenses, down from 38% in 2018 and 40% in 2019, indicating that German firms are less willing to increase their expenses due to volatility and uncertainty of the market situation. However, at the same time, the companies planning to decrease their expenses take up 8% of the total, which is a little down from 10% in 2019 but up from 4% in 2018. 58% foresee their expenses to remain unchanged.

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



With the distribution of COVID-19 vaccines in 2020, the majority of German companies operating business in Korea are expecting a recovery of their organization or industry within this year. The biggest number of respondents (39%) are foreseeing a recovery in Q4, followed by Q3 (19%) and Q2 (6%). Also, a considerable number (30%) of participants are expecting a recovery in or after 2022. Other opinions include that their business have already been recovered to some extent.

KGCCI

The Korean-German Chamber of Commerce and Industry (KGCCI) is the first contact in Korea for Korean-German business activities. The Chamber has been promoting economic relations between both countries since its foundation in 1981, celebrating its 40th anniversary in 2021. It is the second largest foreign Chamber in Korea with about 500 members.

KGCCI is the voice of the German business community in Korea and a bridge between German companies and Korean governmental bodies. The chamber provides a wide range of services supporting companies and organizations in accessing the German and Korean markets through their global service brand “DEinternational”. Services include market research, business partner matching, trade fair business, delegation trips, investment promotion and the like. Additionally, KGCCI supports governmental initiatives such as the Korean-German Energy Partnership.

KGCCI strongly promotes topics of joint interest between Korea and Germany, such as Ausbildung (dual vocational training), business innovation, SME and startup cooperation, energy transition and female leadership development.

Member of the worldwide German Chamber Network

At 140 locations in 92 countries around the world, the members of the network of the German Chambers of Commerce (AHK, short for Auslandshandelskammer in German) offer their experience, connections and services to German and foreign companies. AHKs are located in all countries which are of special interest for German companies and they are closely connected to the Chambers of Industry and Commerce (IHKs) in Germany. Together, they support German companies in setting up and extending their business in foreign countries.