German Business in Korea

Business Confidence Survey 2018/2019
Executive Summary

This summary of the Business Confidence Survey 2018/19 is a compilation of the survey results provided by German companies who participated in the joint Business Confidence Survey 2018 which was conducted by ECCK, KGCCI and ten further European chambers and councils in Korea. In total, 129 European companies took part in the survey, among them 53 German companies. German survey participants most commonly operate in the sectors of automotive and auto-components, chemicals, logistics and machinery. The vast majority (79%) has been operating in Korea for more than 10 years and has profound knowledge of the local market.

The South Korean economic growth rate slowed to 2.6% in 2018, 0.5 percentage points less than 2017. In this market environment, German companies remain fairly content about their performance in the Korean market, which 26% characterize as increasingly important, while 57% indicate that the level of importance remains unchanged. 49% of the respondents plan to expand their operations in Korea in 2019.

However, among German companies in Korea, regulatory obstacles such as ambiguous rules and their discretionary enforcement, economic nationalism as well as licensing and certification rules persist as severe business challenges. Furthermore, macroeconomic challenges such as slowing economic growth and rising labour cost impact German companies' business in Korea.

Reforms implemented by the Korean government have not succeeded to help German businesses in the Korean market. Moreover, the majority of the latter is not confident that any meaningful reforms will be implemented soon.

Concerning the business outlook for German respondents’ respective industry, the share of companies being optimistic about their industry’s growth has declined, while pessimism regarding the development of labour cost has further accelerated as compared to last year. The Korean government raised the minimum wage by 16.4% in 2018 and announced plans to further increase minimum wages in the coming years. 77% of the German respondents thus indicated to be pessimistic amid the future wage development.

Published in March 2019

Contact person:
Young-In Sun, 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 | yisun@kgcci.com
www.kgcci.com | www.innovation-award.kr
Contents

1. Company Profile 7

2. Business Performance and Outlook 10

3. Business Challenges 15

4. Regulatory Framework and Economic Policy 18
1. Company Profile

Which industry is your company active in?

- Automotive and auto-components: 23%
- Chemicals and petroleum: 15%
- Transportation, logistics, and distribution: 9%
- Machinery: 9%
- Pharmaceuticals and medical devices: 8%
- Utilities, primary energy, and other commodities: 4%
- IT and telecommunications (services, infrastructure): 4%
- Financial services (incl. insurance): 4%
- Civil engineering and construction: 4%
- (Non-legal) professional services: 4%
- Test, inspection, certification: 2%
- Specialty chemicals and consumer products for homecare and personal care: 2%
- Semiconductor: 2%
- Industrial equipment mainly for chemicals: 2%
- Fashion and textile: 2%
- Cosmetics: 2%
- Automotive, Construction, Metal, Wood, Industry in general: 2%
- Automation industry: 2%
- Other: 2%
How many employees do you have in Korea in 2018?

- < 50 employees: 51%
- 50-250 employees: 28%
- 251-1,000 employees: 13%
- > 1,000 employees: 8%

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

- < EUR 1 million (m): 8%
- EUR 1 m - EUR 10 m: 25%
- EUR 11 m - EUR 50 m: 28%
- EUR 51 m - EUR 250 m: 15%
- EUR 251 m - EUR 1 billion (bn): 17%
- > EUR 1 bn: 8%

What proportion of global revenues is generated in Korea in 2018?

- < 1%: 28%
- 1-5%: 60%
- 5-10%: 6%
- > 10%: 6%

The share of companies generating at least 5% of their global revenue in the Korean market has dropped to 12% in 2018 from 37% in the previous survey.
The vast majority of 79% has been operating in Korea for more than 10 years.

Does your company have R&D facilities in Korea?

- Yes: 81%
- No: 19%

Does your company have production facilities in Korea?

- Yes: 77%
- No: 23%

How long has your company been operating in Korea?

- 79% > 10 years
- 6% > 5-10 years
- 9% 2-5 years
- 6% < 2 years

The vast majority of 79% has been operating in Korea for more than 10 years.
2. Business Performance and Outlook

Compared to last year's survey, the share of companies being optimistic regarding growth prospects declined from 69% to 39%. Moreover, pessimism concerning the development of productivity (2018/19: 29%; 2017: 11%) and labour cost (2018/19: 77%; 2017: 57%) is increasing.

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Highly optimistic</th>
<th>Partially optimistic</th>
<th>Neutral</th>
<th>Partially pessimistic</th>
<th>Highly pessimistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>13%</td>
<td>26%</td>
<td>28%</td>
<td>21%</td>
<td>11%</td>
</tr>
<tr>
<td>Profitability</td>
<td>32%</td>
<td>32%</td>
<td>25%</td>
<td>11%</td>
<td></td>
</tr>
<tr>
<td>Productivity</td>
<td>28%</td>
<td>43%</td>
<td>25%</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td>13%</td>
<td>38%</td>
<td>42%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>Labour Cost</td>
<td>23%</td>
<td>62%</td>
<td>15%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
How did your company's revenue in Korea change in 2018 compared to 2017?

How did your company's EBIT and EBIT margin in Korea for 2018 compared to 2017 results?

How did your market share evolve in 2018 versus 2017?
What has happened to the number of permanent positions in Korea in 2018 and how do you expect the number of permanent positions in Korea to evolve over the next two years?

<table>
<thead>
<tr>
<th>Year</th>
<th>Increased</th>
<th>About the same</th>
<th>Decreased</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>36%</td>
<td>45%</td>
<td>19%</td>
</tr>
<tr>
<td>Expectation 2019 and 2020</td>
<td>30%</td>
<td>43%</td>
<td>26%</td>
</tr>
</tbody>
</table>

Relatively few companies expect an increase of permanent positions for the coming years, while the share of those, expecting to reduce their permanent positions rises to more than a quarter (26%).

In last year’s survey, 54% expected an increase in permanent positions in 2018 and 2019, while 34% expected a decrease.
What is the level of your staff turnover in 2018?

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

A year-on-year increase of companies indicating a declining importance of Korea in their overall global strategy can be observed. (2017: 3% ➤ 2018: 17%)
Meanwhile, only 26% state an increased importance of Korea in 2018. (2017: 31%)
How do you view your company's performance in Korea?

- **Very content**: 9%
- **Content**: 47%
- **Average**: 25%
- **Discontent**: 19%

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

- **Yes**: 49%
- **Not sure**: 19%
- **No**: 32%
3. Business Challenges

How important do you consider the following factors of Korea's economic performance in the coming years?

For German businesses, fair competition, regulatory transparency and market access are ranked as most significant factors of Korea's economic performance in the upcoming years.
Please indicate how significant you perceive the following challenges are to your specific business in Korea.

- **Economic growth of Korea / Economic growth of your market segment in Korea**: Highly significant: 42%, Partially significant: 36%, Neutral: 15%, Highly insignificant: 8%, Neutral: 8%, Partially insignificant: 6%
- **Ambiguous rules & regulations**: Highly significant: 32%, Partially significant: 30%, Neutral: 25%, Highly insignificant: 8%, Neutral: 6%, Partially insignificant: 6%
- **Discretionary enforcement of regulations**: Highly significant: 30%, Partially significant: 30%, Neutral: 25%, Highly insignificant: 8%, Neutral: 9%, Partially insignificant: 9%
- **Economic nationalism / anti foreign business sentiment**: Highly significant: 30%, Partially significant: 23%, Neutral: 30%, Highly insignificant: 8%, Neutral: 9%, Partially insignificant: 9%
- ** Licensing and certification rules**: Highly significant: 30%, Partially significant: 19%, Neutral: 34%, Highly insignificant: 9%, Neutral: 8%, Partially insignificant: 8%
- **Rising labour costs**: Highly significant: 28%, Partially significant: 42%, Neutral: 15%, Highly insignificant: 11%, Neutral: 11%, Partially insignificant: 11%
- **Market access barriers**: Highly significant: 28%, Partially significant: 25%, Neutral: 30%, Highly insignificant: 11%, Neutral: 4%, Partially insignificant: 4%
- **Customs procedures / customs audits**: Highly significant: 25%, Partially significant: 17%, Neutral: 43%, Highly insignificant: 11%, Neutral: 6%, Partially insignificant: 6%
- **Tax rates / tax procedures / tax audits**: Highly significant: 21%, Partially significant: 34%, Neutral: 36%, Highly insignificant: 8%, Neutral: 2%, Partially insignificant: 2%
- **Labour disputes**: Highly significant: 21%, Partially significant: 17%, Neutral: 40%, Highly insignificant: 23%, Neutral: 2%, Partially insignificant: 2%
- **Global economy growth**: Highly significant: 19%, Partially significant: 49%, Neutral: 17%, Highly insignificant: 13%, Neutral: 2%, Partially insignificant: 2%
- **Corruption**: Highly significant: 15%, Partially significant: 25%, Neutral: 32%, Highly insignificant: 21%, Neutral: 8%, Partially insignificant: 8%
- **Cyber and data security vulnerability**: Highly significant: 15%, Partially significant: 21%, Neutral: 45%, Highly insignificant: 11%, Neutral: 8%, Partially insignificant: 8%
- **Lack of sufficient & qualified talents / mismatch of education and industry needs**: Highly significant: 13%, Partially significant: 34%, Neutral: 34%, Highly insignificant: 7%, Neutral: 2%, Partially insignificant: 2%
- **Public procurement policies**: Highly significant: 13%, Partially significant: 21%, Neutral: 38%, Highly insignificant: 21%, Neutral: 8%, Partially insignificant: 8%
- **Uncertainty in the use of anti-trust rules**: Highly significant: 13%, Partially significant: 19%, Neutral: 47%, Highly insignificant: 17%, Neutral: 4%, Partially insignificant: 4%
- **Risks to intellectual property**: Highly significant: 11%, Partially significant: 25%, Neutral: 43%, Highly insignificant: 15%, Neutral: 6%, Partially insignificant: 6%
- **Attracting & retaining talents**: Highly significant: 9%, Partially significant: 47%, Neutral: 36%, Highly insignificant: 6%, Neutral: 2%, Partially insignificant: 2%
- **Investment restrictions**: Highly significant: 9%, Partially significant: 11%, Neutral: 49%, Highly insignificant: 23%, Neutral: 9%, Partially insignificant: 9%

The performance of Korea’s economy constitutes the most significant challenge to German businesses. Moreover, regulatory challenges are abundantly ranked as highly significant challenges by a large share of German companies.
How has doing business in Korea for your company developed over the last couple of years?

Almost two-thirds perceived business as becoming more difficult within the last years.

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

- **Licensing requirements / registration processes for products**: 28% highly significant, 25% partially significant, 25% neutral, 13% partially insignificant, 9% highly insignificant.
- **Discretionary enforcement of regulations**: 26% highly significant, 34% partially significant, 28% neutral, 9% partially insignificant, 2% highly insignificant.
- **Unpredictable legislative environment**: 25% highly significant, 32% partially significant, 28% neutral, 13% partially insignificant, 2% highly insignificant.
- **Discrimination against foreign multinational companies**: 19% highly significant, 34% partially significant, 25% neutral, 17% partially insignificant, 6% highly insignificant.
- **Administrative issues, e.g. obtaining visa, work permit, establishing legal entity**: 6% highly significant, 15% partially significant, 45% neutral, 26% partially insignificant, 8% highly insignificant.
4. Regulatory Framework and Economic Policy

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

43% of the respondents rate the handling of foreign companies by the Korean government as unfavourable as compared with domestic companies.

Is there a case that your company has missed out any business opportunity in Korea because of market access or regulatory barriers?

Almost half of German companies report to have lost business opportunities due to regulatory barriers.
51% of German respondents are not confident that the Korean government will implement meaningful reforms. Similarly, 64% stated that previously implemented reforms have not succeeded to help German companies in the Korean market.
On market access and trade related issues, do you believe that the position of the European institutions [European Free Trade Association, European Union or European Union Delegation (Korea), European states' ministries or embassies]:

- 34% is overall well balanced/about right
- 23% could benefit further from
- 20% is too passive
- 19% don’t know

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

- 42% have increasingly discriminated in favour of foreign companies
- 20% are generally more fair now than they were two years ago
- 17% are as fair as they were two years ago
- 11% are generally much less fair now than they were two years ago
- 8% have increasingly discriminated against foreign companies
- 7% are generally much less fair now than they were two years ago
- 5% don’t know

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

- 47% will increasingly discriminate in favour of foreign companies
- 17% will generally be more fair
- 15% will be as fair as now
- 13% will generally be much less fair
- 5% will increasingly discriminate against foreign companies
- 0% will generally be much less fair
- 2% don’t know

No opinion

No opinion
How confident are you in Korea's litigation and arbitration processes for settling commercial disputes?

- Confident: 29%
- Unsure: 47%
- Not confident: 25%

How do you rate the effectiveness of Korea's IPR laws and regulations?

**The enforcement of laws and regulations**
- Highly Effective: 6%
- Partially Effective: 13%
- Neutral: 60%
- Partially Ineffective: 19%
- Highly Ineffective: 2%

**The written laws and regulations themselves**
- Highly Effective: 30%
- Partially Effective: 55%
- Neutral: 13%
- Partially Ineffective: 2%
AHK Korea

About KGCCI (AHK Korea)

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 and is the second biggest foreign Chamber in Korea with about 500 members.

KGCCI is the voice of the Korean-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 entering the German and Korean markets through their global service brand “DEinternational”. Services include market studies, business partner search, business trip support, tradeshow support and the like.

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

AHK Korea

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 to foreign countries.