

European Business in Korea

Business Confidence Survey 2015



© European Chamber of Commerce in Korea (ECCK)

All rights reserved

www.ecck.eu

PARTICIPATING CHAMBERS OF COMMERCE

Core Team



British Chamber of Commerce in Korea (BCKK)

Tel: +82 (0)2 2010 8963, Fax: +82 (0)2 2010 8991

Email: administrator@bckk.or.kr, Web: <http://bckk.or.kr>

Address: 15F, Kyobo Building, Jongno-1, Jongno-gu, Seoul 03154



European Chamber of Commerce Korea (ECCK)

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

Email: ecck@ecck.eu, Web: <http://www.ecck.eu>

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



French-Korean Chamber of Commerce and Industry (FKCCI)

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

Email: welcme@fkcci.com, Web: <http://www.fkcci.com>

Address: 11F, Joy Tower, Teheran-ro 37-gil 7, Gangnam-gu, Seoul 06142



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: <http://korea.ahk.de>

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



Italian Chamber of Commerce in Korea (ITCCK)

Tel: +82 (0)2 402 4379, Fax: +82 (0)2 505 409 4379

Email: itcck@itcck.org, Web: <http://www.itcck.org>

Address: #309, Keumsan Bldg., 750 Gukhoedae-ro, Youngdeungpo-gu, Seoul, 07236

Supporting Organizations



Belgian-Korean Business Forum (BKBF)

Email : info@bkbf.or.kr, Web: <http://www.bkbf.or.kr>



Dutch Business Council Korea (DBCK)

Tel: +82 (0)2 311 8600

Email : seo-ea@minbuza.nl, Web: <http://www.dbckorea.com>

Address: 10F, Jeongdong Bldg., 21-15 Jeongdong-gil, Jung-gu, Seoul 04518



Finland Chamber of Commerce and Industry in Korea (FINNCHAM)

Tel : +82 (0)31 283 0900

Email: korea@finncham.or.kr, Web: <http://finncham.or.kr>

Address: Cargotec Korea Ltd, Cargotec MCC Bldg., 371-2 Singal-Dong, Giheung-Gu, Yongin, Kyungki-Do 17093



Spanish Chamber of Commerce in Korea (ESCCK)

Tel: +82 2 (0)10 8448 4006

Email: info@escck.com, Web: <http://www.escck.com>

Address: 14F, Seoul Global Center, 38 Jongro, Jongro-gu Seoul 03188



Swedish Chamber of Commerce in Korea (SCCK)

Tel: +82 (0)2 739 1466

Email: scckinseoul@gmail.com, Web: <http://scckkorea.org>

Address: c/o Business Sweden, 11F, 131 Shinil bldg., Toegye-ro, Jung-gu, Seoul 04537



Swiss-Korean Business Council (SKBC)

Tel: +82 (0)2 542 5982

Email : info@skbckorea.org, Web: <http://www.skbckorea.org>

Address: 154-1, Seorin-dong, Jongro-gu, K.P.O Box 2164, Seoul 03187

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.

Address:

Roland Berger Ltd

Kyobo Bldg, 22F, 1 Jongno, Jongno-gu, Seoul 03154

Tel.: +82 (0)2 2288 0004

Fax: +82 (0)2 2288 0011

Web: <http://www.rolandberger.com>



Table of Contents

PARTICIPATING CHAMBERS OF COMMERCE	- 4 -
ABOUT ROLAND BERGER	- 6 -
SURVEY MOTIVATION AND DESIGN	- 10 -
EXECUTIVE SUMMARY (English)	- 11 -
EXECUTIVE SUMMARY (요약)	- 12 -
1. Operational status of European companies in Korea	- 13 -
1.1 Korea's importance in global strategy	- 13 -
1.2 Business development	- 14 -
1.3 Performance in Korea	- 15 -
1.4 Revenue and market share	- 16 -
1.5 EBIT and EBIT margin	- 18 -
1.6 Operation expansions	- 20 -
1.7 Human resources/hiring	- 21 -
1.8 Cost saving initiatives	- 23 -
2. Business outlook	- 24 -
2.1 Growth	- 26 -
2.2 Competition	- 27 -
2.3 Profitability	- 28 -
2.4 Productivity	- 29 -
2.5 Labour costs	- 30 -
3. Business challenges	- 31 -
3.1 Economy related & financing/costs	- 32 -
3.2 Regulations/political issues	- 33 -
3.3 Labour	- 34 -
3.4 Social/infrastructure	- 34 -
4. Performance drivers for the Korean economy	- 35 -
4.1 Regulation/policy	- 36 -
4.2 Social/infrastructure	- 37 -
4.3 Economy/trade	- 38 -
5. On Korea's legislative/regulatory environments and governments	- 39 -
5.1 Regulatory obstacles in Korea	- 39 -
5.2 Confidence and effectiveness of litigation and regulation	- 40 -
5.3 Opinion on government reforms	- 41 -
5.4 Opinion on European and Korean governments' actions	- 42 -

5.5 Government policies regarding business conditions.....	43 -
APPENDIX: RESPONDENT PROFILE.....	45 -

Table of Figures

Figure 1: Korea's importance in global strategy - YoY	13 -
Figure 2: Business development - YoY	14 -
Figure 3: Performance in Korea - YoY	15 -
Figure 4: Performance in Korea - Industry breakdown	15 -
Figure 5: Revenue and market share	16 -
Figure 6: Revenue - Industry breakdown	17 -
Figure 7: Market share - Industry breakdown.....	17 -
Figure 8: EBIT and EBIT margin	18 -
Figure 9: EBIT - Industry breakdown.....	18 -
Figure 10: EBIT margin - Industry breakdown.....	19 -
Figure 11: Plans for expansion in Korea	20 -
Figure 12: Plans for expansion in Korea - Industry breakdown	20 -
Figure 13: Responses for human resources/hiring	21 -
Figure 14: Changes in permanent positions - Industry breakdown.....	22 -
Figure 15: Turnover rate - Industry breakdown	22 -
Figure 16: Planned cost saving this year	23 -
Figure 17: Business outlook - Overview.....	24 -
Figure 18: Ranking of the business outlook Items	25 -
Figure 19: Growth - by industry	26 -
Figure 20: Competition - by industry	27 -
Figure 21: Profitability - by industry	28 -
Figure 22: Productivity - by industry	29 -
Figure 23: Labour costs - by industry	30 -
Figure 24: Top 5 Business challenges - 2015 and 2014.....	31 -
Figure 25: Economy related challenges	32 -
Figure 26: Regulations/political related challenges	33 -
Figure 27: Labour related challenges.....	34 -
Figure 28: Social/infrastructure related challenges	34 -
Figure 29: Top 5 Economic performance drivers in 2015 and 2014	35 -
Figure 30: Performance drivers - Regulation/policy	36 -
Figure 31: Performance drivers - Social/infrastructure.....	37 -
Figure 32: Performance drivers - Economy/trade	38 -

<i>Figure 33: Regulatory obstacles - YoY</i>	- 39 -
<i>Figure 34: Responses for regulation and litigation</i>	- 40 -
<i>Figure 35: Government reforms - YoY</i>	- 41 -
<i>Figure 36: Legislative/regulatory environment - YoY</i>	- 42 -
<i>Figure 37: Government policies regarding business conditions - YoY</i>	- 43 -

APPENDIX: Respondent profile:

<i>Figure 38: By industry</i>	- 45 -
<i>Figure 39: By number of years of operation in Korea</i>	- 45 -
<i>Figure 40: By ownership</i>	- 46 -
<i>Figure 41: By size</i>	- 46 -
<i>Figure 42: Ownership of R&D or production facilities</i>	- 47 -

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 year's 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 139 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 Spanish Chamber of Commerce in Korea, the Swedish Chamber of Commerce in Korea, and the Swiss-Korean Business Council supported the survey by distributing the questionnaire to their respective members.

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

- Overview and presentation of the 2015 collective response
- Year-on-year comparison of the 2015 collective response
- Overview and presentation of the 2015 response breakdown by industry^{1, 2}

¹ On selected questions only.

² In the breakdown by industry only industries with at least fifteen respondents have been included. Thus Pharmaceutical/Healthcare, with only five responses, are only included in the overall presentation and not in the industry breakdown.

EXECUTIVE SUMMARY (English)

In 2015 the Korean economy grew by a lower than anticipated 2.6%, compared to a growth rate of 3.3% in 2014. A result which was likely affected by the outbreak of MERS (Middle East Respiratory Syndrome), a setback in the shipbuilding industry, rising competition in the smartphone market, and other difficulties which Korea experienced throughout the year.

For European businesses, however, Korea is and will continue to be, an important market. Yet, it is still not easy to conduct business here. The Korean government has launched various initiatives, some of which look very promising but, it still remains to be seen if these new economic policies will be congruent and conclusive.

The initiative on deregulation is an important and crucial element which is fully supported by industry representatives. However, it appears that industry would like to see bolder progress in the reviews of rules and regulations leading to more operational freedom as well as less complexity in doing business in Korea. President Park Geun-Hye noted in February 2015, “that it is time now or never for change.” The European business community hopes that the Korean government will succeed in creating sustainable success factors as solid pillars for a strong Korean economy.

139 company executives, representing a combined workforce exceeding 35,000 employees and a total turnover of EUR 60 billion, answered the survey. Respondents confirmed that the Korean market is either of increasing, 44%, or unchanged, 46%, strategic importance. However, more than half, 52%, of the respondents indicated that doing business has become more difficult than in previous years. Yet the sentiment towards business performance varies among industrial sectors, the automotive and the machinery sectors appear most content with their operations and financial service companies more pessimistic.

Overall, the European business community believes in the Korean market and plans to further expand their operations within it. In line with the Korean paradigm shift from that of a manufacturing and export economy towards that of a more service and domestic demand driven economy, additional investment will flow into sales and service organizations rather than into production. Korea will remain an important business hub for production and exports, but the trend towards off-shore manufacturing processes will continue.

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

EXECUTIVE SUMMARY (요 약)

2015 년 한국경제는 예상을 밑도는 2.6% 성장을 기록하였다 (2014 년은 3.3% 성장). 이러한 결과는 메르스 사태와 조선사업의 불황, 스마트폰 시장에서의 경쟁 격화 등 각종 요인들에 기인한 것으로 풀이된다.

유럽기업들에게 한국은 지금까지는 물론 미래에도 계속 중요한 시장임에도 불구하고, 한국에서 사업을 영위하는 것은 여전히 쉽지 않다는 시각이 다수였다.

한국 정부는 투자유치에 도움이 될 것으로 기대되는 여러 정책들을 추진해왔지만, 이러한 정책들이 일관성을 가지고 충분히 집행되는 지에 대한 유럽기업들의 입장은 여전히 관망적이다. 이러한 정책 기조는 규제 완화 노력에 초점이 맞추어져야 하며, 설문에 참여한 유럽기업들의 응답도 이를 전적으로 지지하였다. 산업계에서도 법규 및 규제들에 대한 재검토를 통해 경영활동의 유연성을 높이고 사업환경상의 복잡성을 감소시켜야 한다는 목소리가 높았다. 실제 박근혜 대통령은 2015 년 2 월 “지금 아니면 결코 변하지 못한다”고 발언한 바 있다. 유럽기업들은 한국정부가 변화를 통해 지속적인 경제성장을 위한 건고한 기반을 마련할 수 있기를 기대하고 있다.

이번 기업환경인식 설문조사에는 139 명의 임원급 인사들이 참여하였으며, 이들이 대표하는 유럽계 회사들은 35,000 명 이상의 고용원인과 600 억 유로 이상의 매출을 기록하고 있다. 응답자들 중 44% 는 한국시장의 전략적 중요성이 증가했다는 답변을, 46%는 예전과 비슷한 수준이라는 답변을 내놓았다. 그러나 과반 이상인 52%의 응답자들은 한국의 사업환경이 최근 수년간에 비해 어려워졌다고 응답하였다. 운영실적에 대해서는 산업별로 다른 결과를 보여주었는데, 자동차와 기계분야는 실적에 대한 높은 만족감을 보인 반면, 금융업계는 가장 부정적인 시각을 드러냈다.

전반적으로 유럽기업들은 한국시장의 잠재력과 중요성에 대해 인식하고 향후 사업 확장을 계획하고 있다. 제조업 및 수출 중심에서 서비스와 내수중심의 경제로의 변화를 꾀하고 있는 한국의 노력과 맞물려, 한국에서 활동하고 있는 유럽기업들도 향후 영업 및 서비스 조직들에 대한 투자 확대를 계획하고 있는 것으로 보인다. 이러한 기조 속에서 한국은 여전히 중요한 생산과 수출의 거점으로 남겠지만, 역외생산의 추세 역시 계속될 전망이다

주지하다시피, 한국 경제가 직면한 도전은 상당할 것이며, 한국기업 및 외국계기업 모두에게 영향을 미칠 것으로 예상된다. 이러한 배경에서 설문에 참여한 유럽기업들은, 금번

기업환경인식 조사가 정책결정자들 및 기업가들에게 향후 기업환경을 이해하는 데 큰 도움이 될 것으로 기대한다.

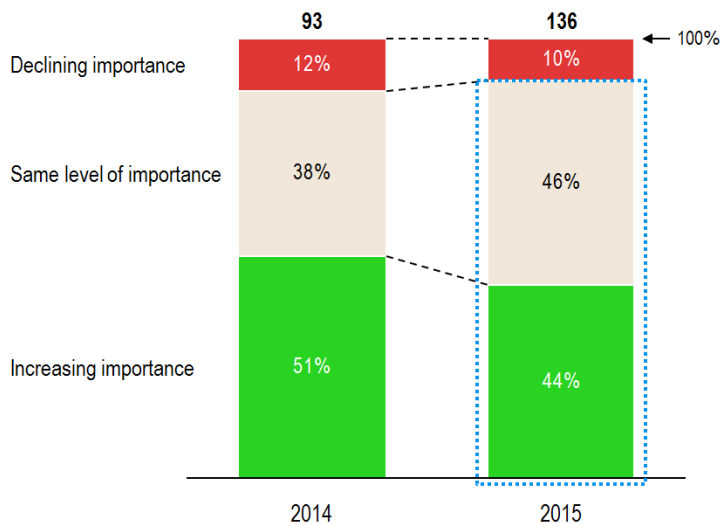
1. Operational status of European companies in Korea

To determine the operational status, the survey asked questions regarding Korea's position compared to global operations, overall business conditions/satisfaction, and plans for expansion/cost cutting. The performance in Korea was measured through questions about revenue, market share, EBIT/EBIT margin, and headcount status/plans.

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?

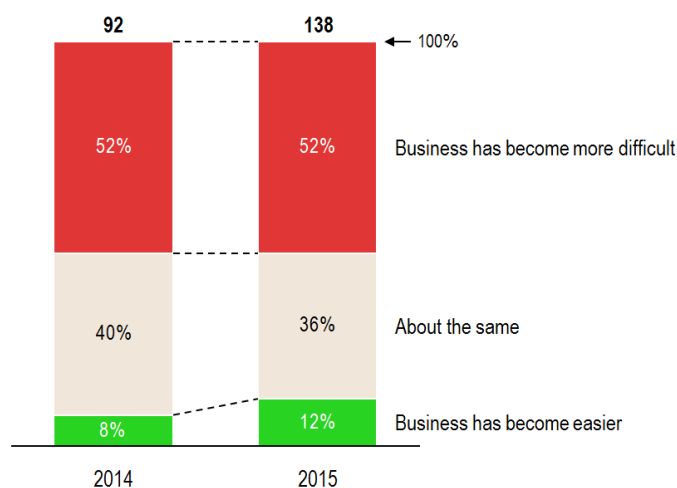


Korea remains an important market for European companies. 46% of the companies responded that the Korean market had the same level of importance in their firms' global strategy and 44% replied that the Korean market has been of increasing importance. For 10% of the companies, the Korean market is of declining relevance. The overall evaluation in 2015 is similar to that of 2014, although less companies confirmed Korea's increasing importance and more firms now evaluate the market as the same level of importance.

1.2 Business development

Figure 2: Business development – YoY

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

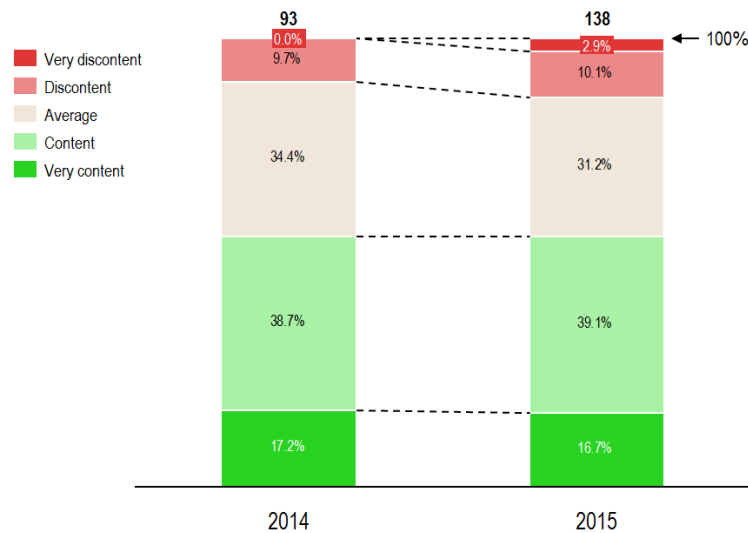


Doing business in Korea has been, and still remains, challenging. 52% of companies indicated that conducting business has become more difficult, while only 12% saw positive changes. 36% felt that doing business was as challenging as the previous year.

1.3 Performance in Korea

Figure 3: Performance in Korea – YoY

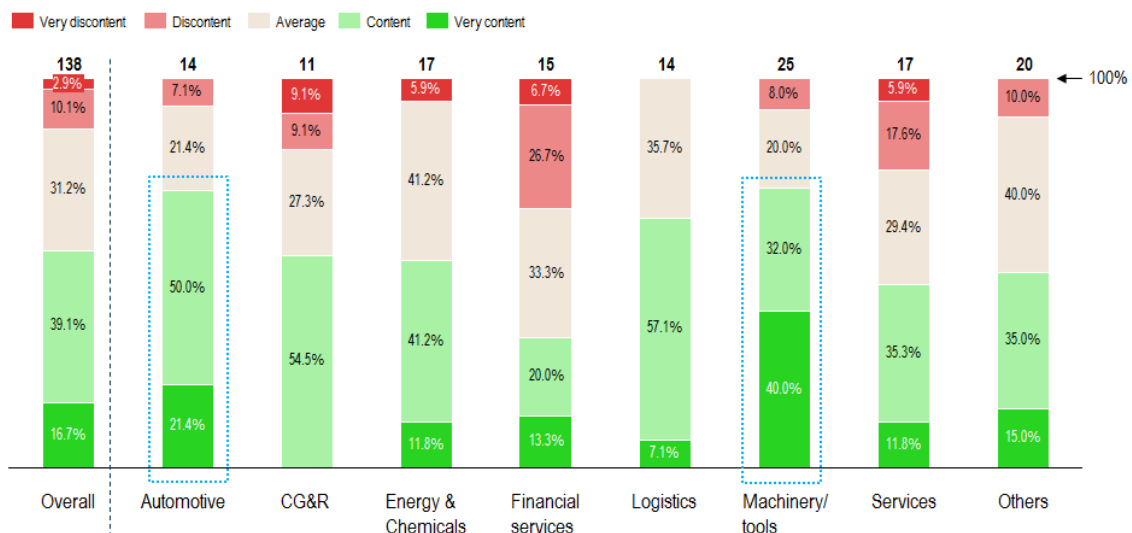
How do you view your company's performance in Korea?



56% of respondents were content with their performance with 17% very content. 31% of the companies evaluated their performance as adequate. 10% expressed discontent with the result of their business operations and 3% were very discontented.

Figure 4: Performance in Korea – Industry breakdown

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



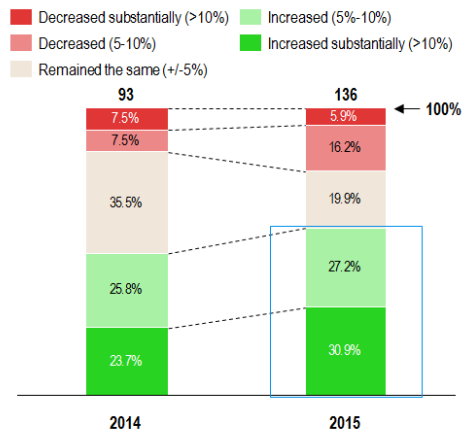
Business performance satisfaction differed considerably among industry sectors. More than 70% of the respondents from the automotive and Machinery & Tools industry replied that they were content or very content. In contrast, only 35% of the Financial Services sector shared the same view with 34% expressing their discontent.

1.4 Revenue and market share

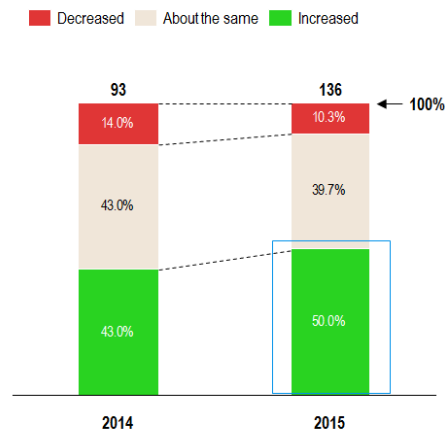
Figure 5: Revenue and market share

On revenue and market share growth

How did your company's revenue in Korea change in 2015 compared to that of 2014?



How did your market share evolve in 2015 versus 2014?

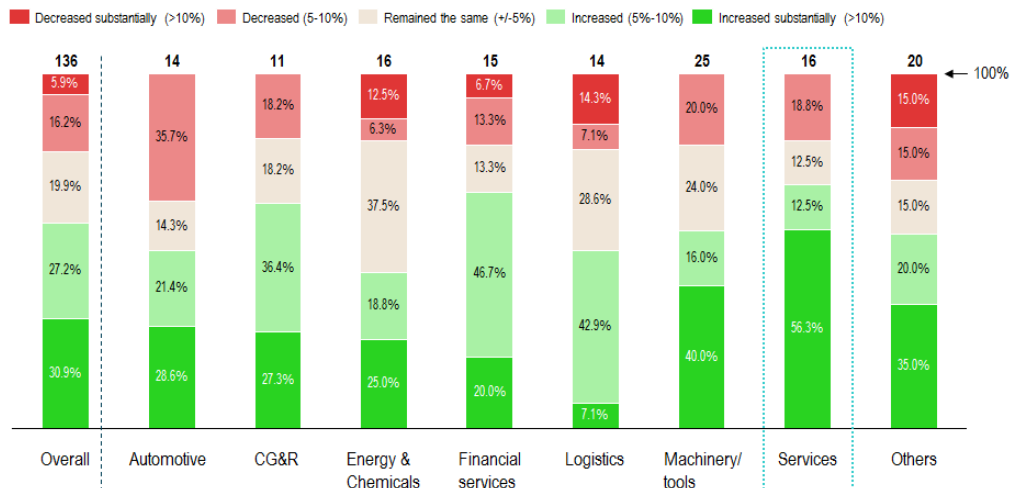


58% of the companies saw their sales increasing with 20% reporting more or less the same revenue. However, 22% of the responding companies experienced lower turnover, with 6% showing a substantial reduction of revenue in excess of 10%. Comparison to the previous year shows that positive responses (increased and increased substantially) grew from 49% in 2014 to 58% in 2015. Negative responses (decreased and decreased substantially) were at 22% versus 15% in 2014.

The turnover development was reflected in the evolvement of market share: 50% of the respondents saw their market share increasing from 2014, 40% reported more or less the same market share with and 10% experienced declining market share.

Figure 6: Revenue - Industry breakdown

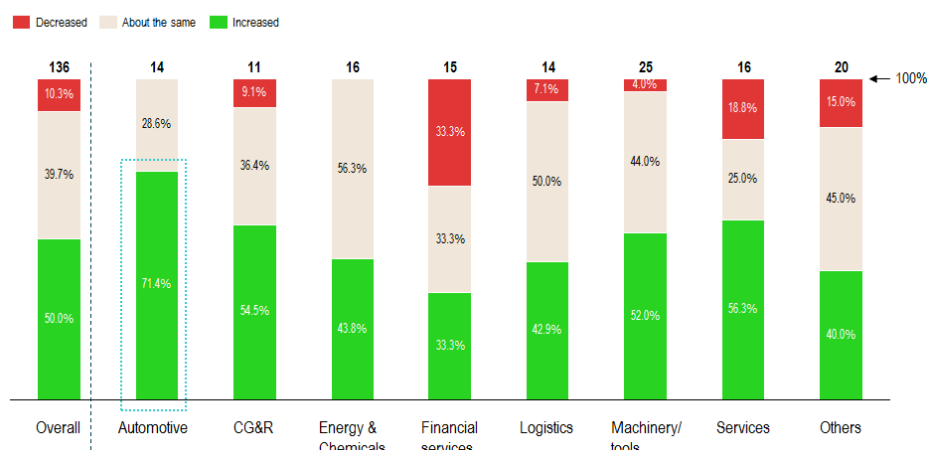
How did your company's revenue in Korea change in 2015 compared to that of 2014?



Sales development in 2015 was very positive for companies active in Services; more than half, 56%, reported a sales growth of 10% or more. Financial Services and Consumer Goods & Retail demonstrated substantially better turnover (increased and substantially increased) showing 77% and 64% respectively. In the Automotive sector, approximately half of the participating companies enjoyed a sales growth rate of 5% or more, while about 35% experienced decreasing sales. Other industry sectors with sales decreases (decreased and decreased substantially) were Logistics at 21%, Financial Services at 20%, Machinery & Tools at 20%, Energy & Chemicals at 19% and Services at 19%; some Energy & Chemicals, 13%, and Logistics, 14%, companies experienced double-digit sales decreases.

Figure 7: Market share- Industry breakdown

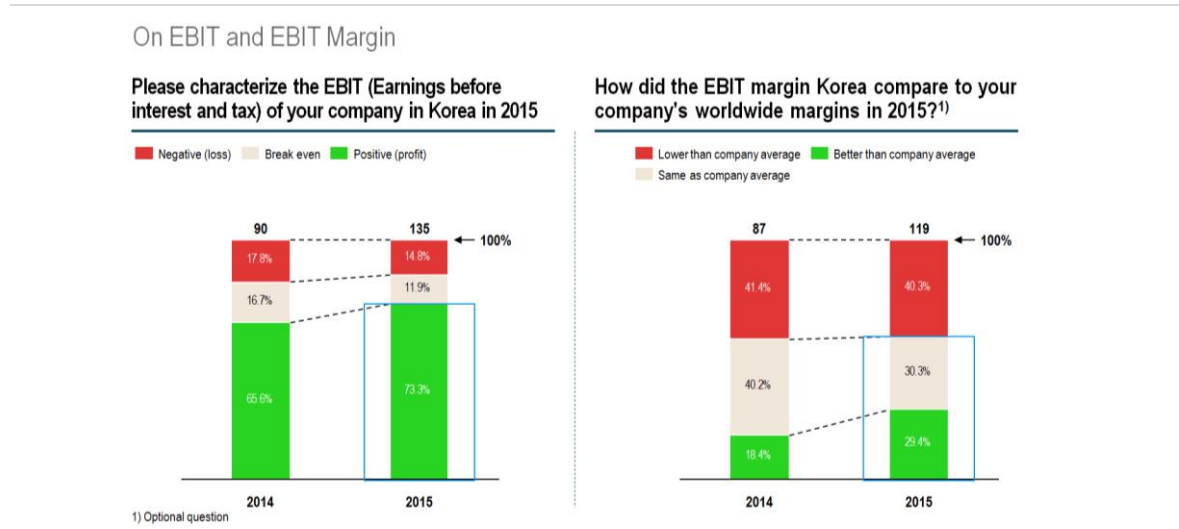
How did your market share evolve in 2015 versus 2014?



The most successful industry sectors, in respect to market share development, were Automotive at 71% followed by Services at 56%, Consumer Goods & Retail at 54%, and Machinery & Tools at 52%. On the other hand, 33% of companies in Financial Services and 19% of other Service companies had to accept a decreased market share.

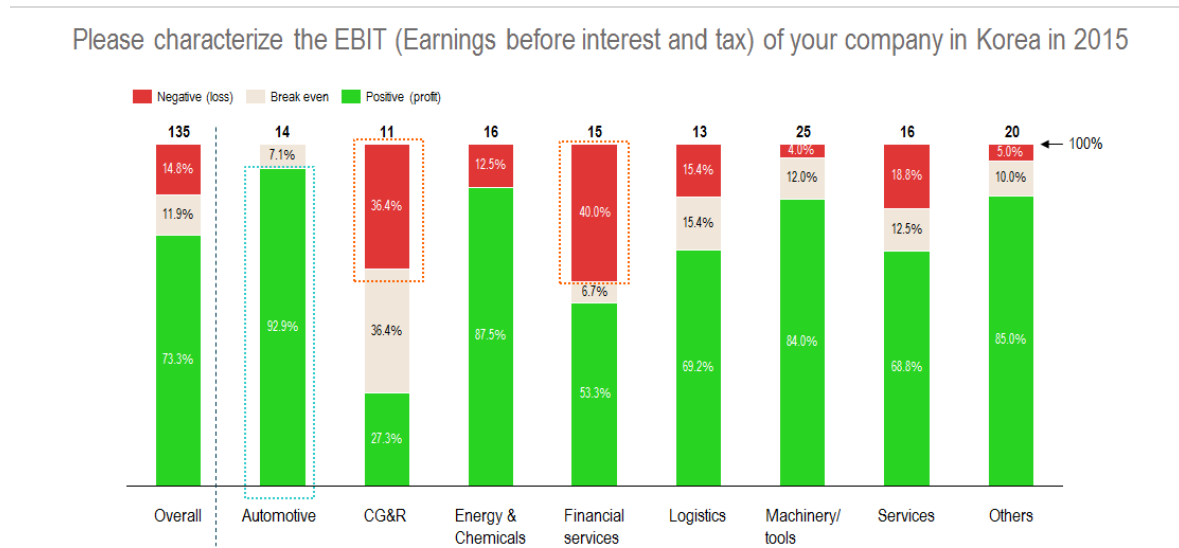
1.5 EBIT and EBIT margin

Figure 8: EBIT and EBIT margin



The majority of companies, 73%, reported positive earnings before interest and tax (EBIT); 12% broke even and 15% recorded a negative EBIT. In respect to EBIT margin, about 40% did not reach their group's average, 30% reached more or less the same profitability, and 30% generated higher profitability.

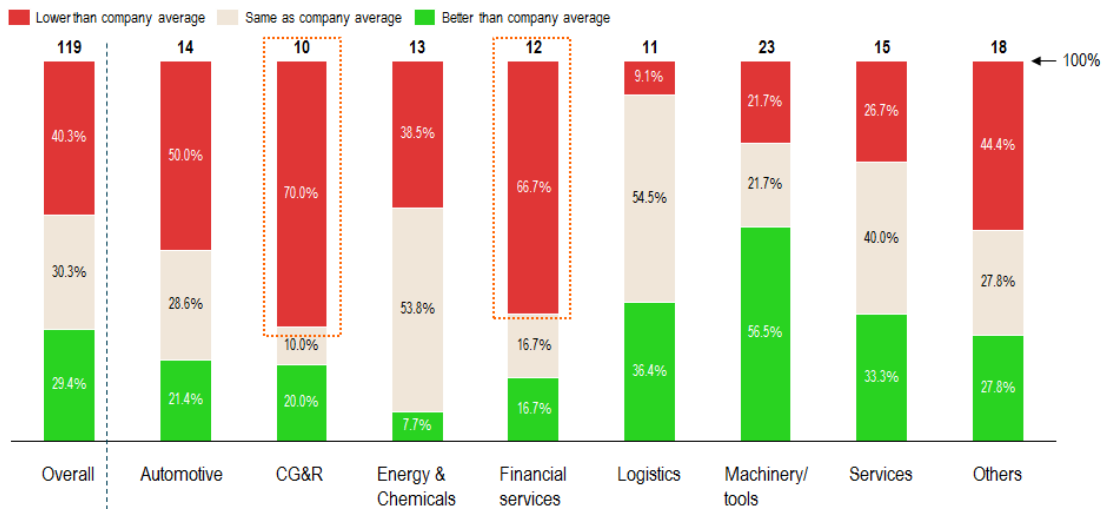
Figure 9: EBIT– Industry breakdown



The Automotive industry did quite well in 2015 with 93% reporting a positive EBIT; other industry sectors with positive developments were Energy & Chemicals at 87% and Machinery & Tools at 84%). Profitability remained a challenge for some respondents, especially in the area of Financial Services and Consumer Goods & Retail. For Financial Services, 40% of the participating companies posted a negative EBIT with 60% either breaking even or generating profit. The situation at Consumer Goods & Retail also seemed tense with 36% of the companies experiencing a loss, 36% breaking even, and only 27% finishing with a positive EBIT.

Figure 10: EBIT margin- Industry breakdown

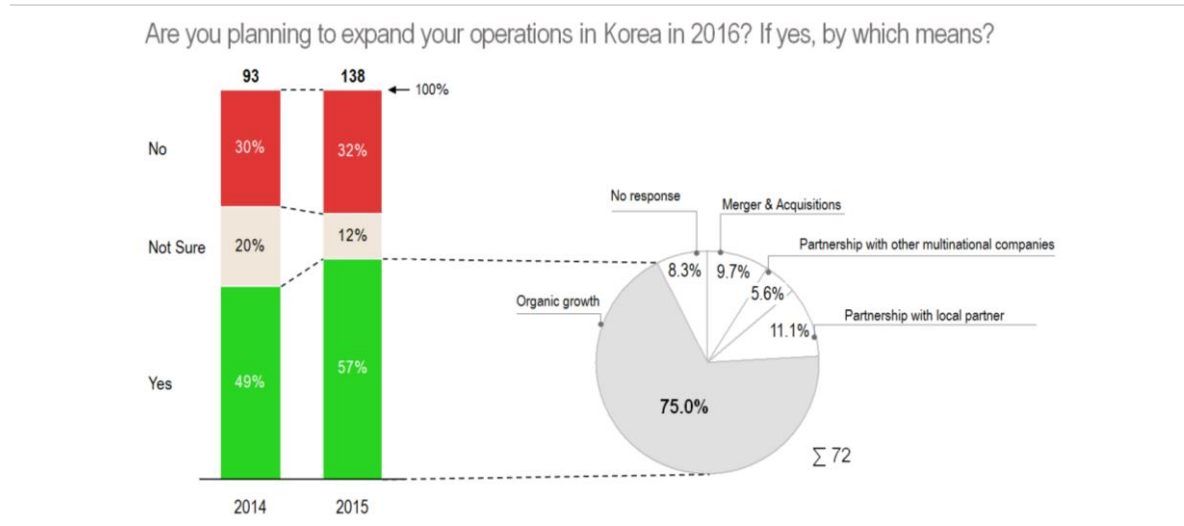
How did the EBIT margin of your Korean operations compare to your company's worldwide margins in 2015?



In the area of Machinery/tools, the EBIT margin achieved locally was, at 56% of replying companies, better than their group's worldwide margin. 22% of the companies reported that their profitability ratio fell behind the global average. 81% of respondents reporting either the same or better profitability ratios, Logistics fared well. On the other hand, Consumer Goods & Retail and Financial services fell considerably behind their group's average. 70% of the Consumer Goods & Retail respondents contributed lower than average to their group's profitability and 67% reported the same result for the Financial services sector.

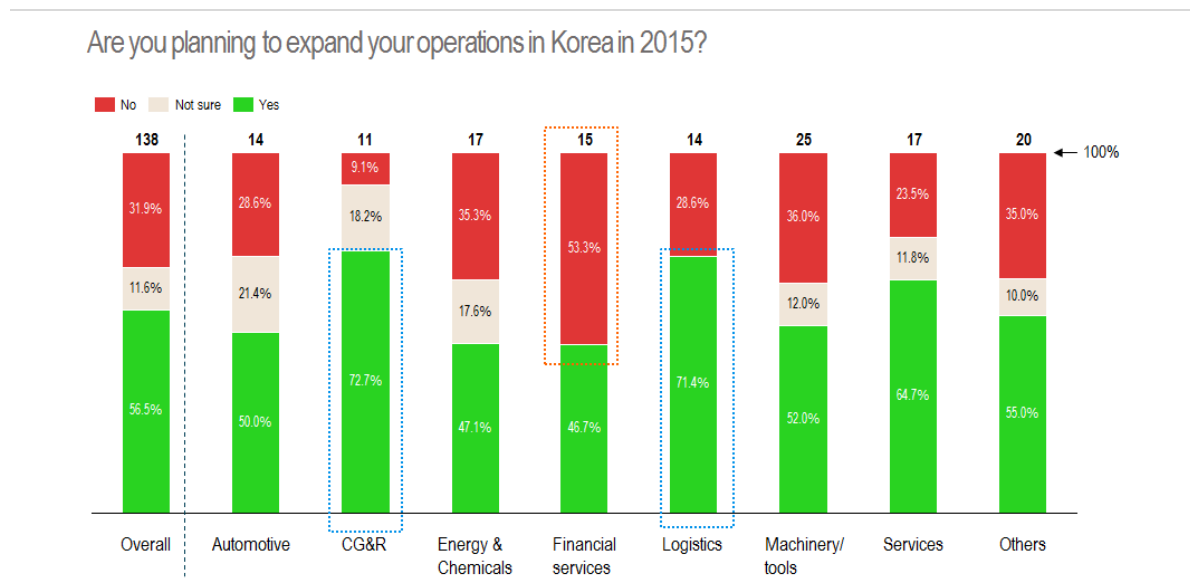
1.6 Operation expansions

Figure 11: Plans for expansion in Korea



57% of European companies planned to expand their operations in Korea, compared to 49% in 2014; 32%, up from 30% in 2014, of the respondents this year do not plan to expand their operations in Korea. 12% of the company representatives were unsure of future investment plans. Among those planning further expansion, 75% expressed a preference for organic growth followed by Partnership with 11% and Mergers & Acquisitions at nearly 10%.

Figure 12: Plans for expansion in Korea– Industry breakdown

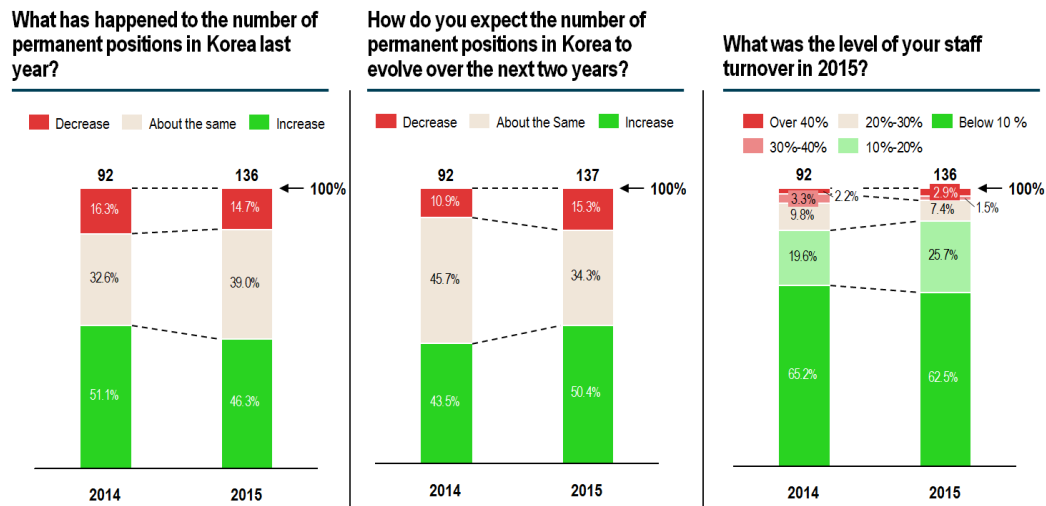


73% of Consumer Goods & Retail and 71% of Logistics companies responded positively to plans for expanding their business operations in Korea. Plans for expansion also existed among all other industries. Financial Services alone stood out with 53% of company representatives clearly stating they had no future plans for expansion.

1.7 Human resources/hiring

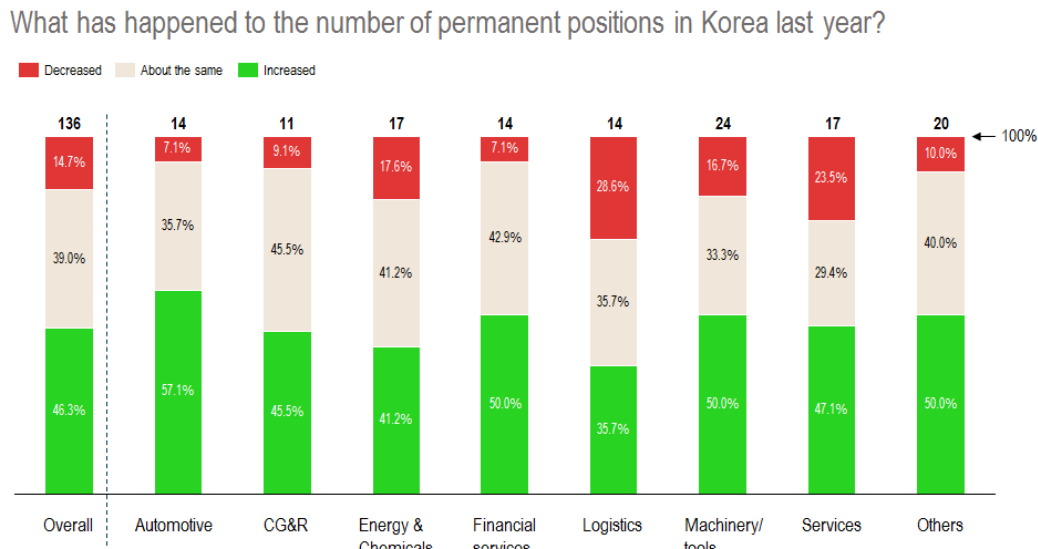
Figure 13: Responses for human resources/hiring

On human resources related matters



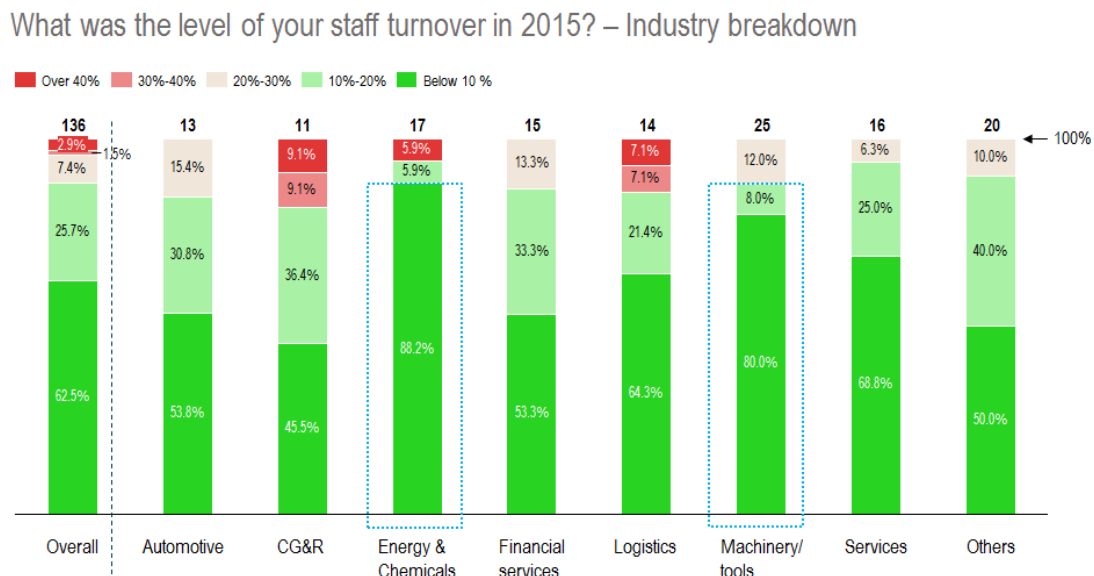
46% of the companies, down from 51% in the previous year, increased their permanent positions, while 39% of the companies remained the same. A reduction of the workforce was carried out at 15% of surveyed companies, down from 16% in 2014. Those numbers were in line with the workforce plans for the next two years. The turnover of staff was not critical at 88% (62% with a staff turnover of below 10%, and 26% with a staff turnover between 10% and 20%). This number is more or less in line with 2014 where the ratio stood at 85%. Staff turnover of less than 10% decreased from 65% in 2014 to 62% in 2015 as the percentage for the bracket from 10% to 20% increased from 20% to 26%. 12% of the companies surveyed experienced staff turnover in excess of 20%.

Figure 14: Changes in permanent positions– Industry breakdown



The following represented industries increased their permanent positions as follows: Automotive at 57%, Financial Services at 50%, Machinery & Tools at 50%. For Consumer Goods & Retail at 46%, Financial Services at 43% and Energy & Chemicals at 41%, the workforce remained steady. However, companies in Logistics at 29% and Services at 24% considered reducing their workforces.

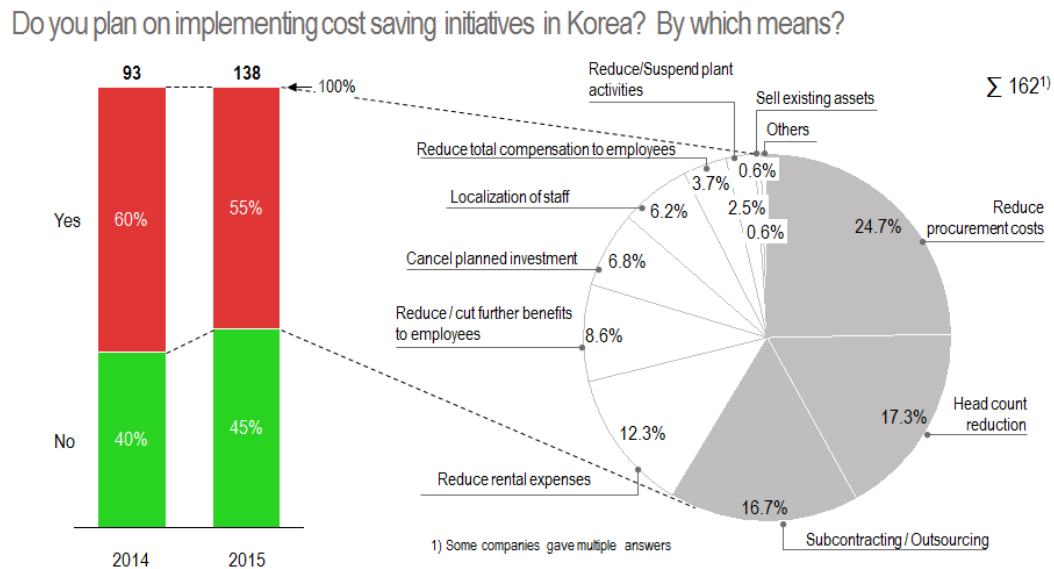
Figure 15: Turnover rate - Industry breakdown



The staff turnover for Energy & Chemicals and Machinery & Tools were low with a rate of less than 10% at 88% and 80% of companies, respectively. Including the bracket of 10% to 20%, it can be stated that the majority of respondents had no issues. The situation looked a bit different for Consumer Goods & Retail and Logistics. For 18% of the companies active in this sector, the turnover rate was 30% or more; the brackets 30-40% and over 40% both stood at 9%. A similar but slightly lower result can be observed for Logistics at 14% and also, surprisingly, for Energy & Chemicals at 12%.

1.8 Cost saving initiatives

Figure 16: Planned cost saving this year



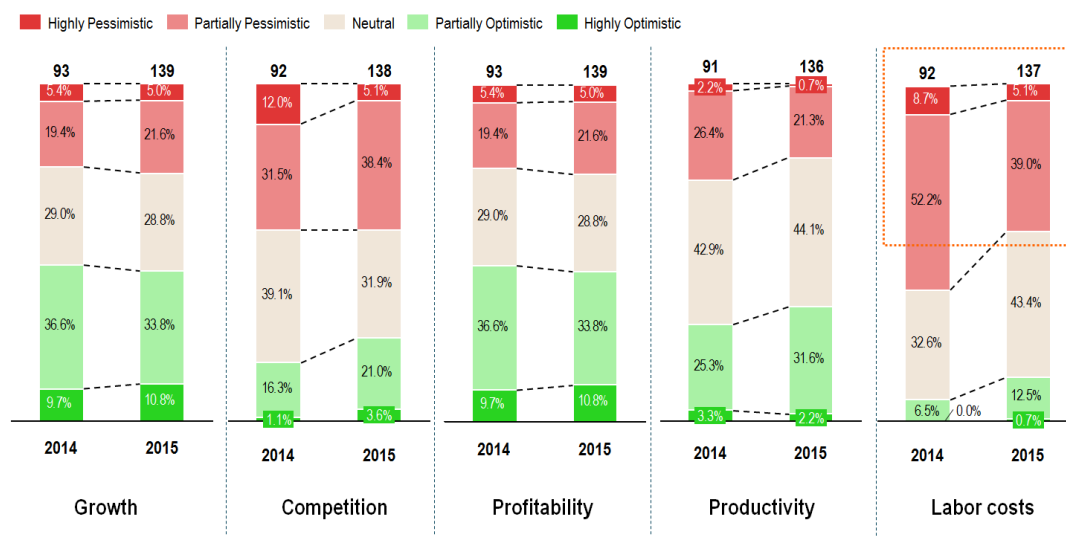
55% of the companies stated they were planning to conduct cost saving initiatives this year, which was slightly lower than the 60% stated in 2014. 25% of those planning to conduct cost saving initiatives intend to do so by focusing on reducing procurement costs, 17% by head count, and 17% through subcontracting/outsourcing. Other notable cost saving initiatives were reductions in rental expenses at 12% and reduction of employee benefits at 9%.

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 labour costs.

Figure 17: Business outlook - Overview

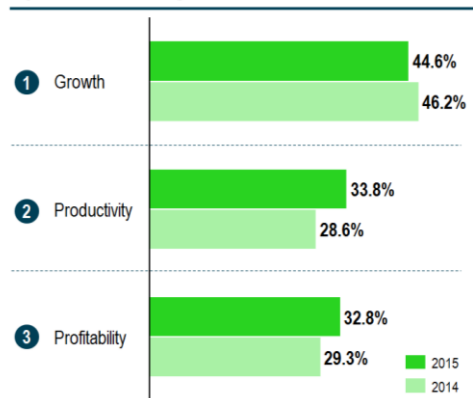
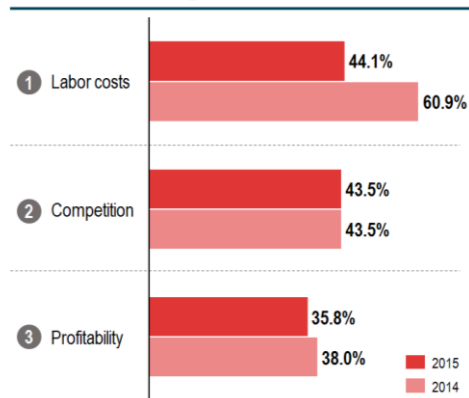
How would you describe the business outlook for your industry in Korea within the next 2 years?



Overall, 45% of the companies viewed their growth potential optimistically, while 26% of them described it as highly or partially pessimistic. In the area of competition, optimism grew from 17% in 2014 to 24% as the number of companies who held a neutral outlook decreased from 39% to 32%. The pessimistic view on competition did not change from 43% but a substantial reduction of highly pessimistic views from 14% in 2014 to only 5% in 2015 was observed. The responses on profitability outlook showed that 44% of respondents were optimistic, 29% neutral and 27% pessimistic. In 2014, 28% of company representatives were either partially or highly optimistic in regard to productivity. In 2015, the figure jumped to 33% while pessimistic responses dropped from 28% to 22%. The most noticeable changes were seen in the area of labour costs. In 2014 it was an area of concern with 61% pessimistic responses above the neutral responses at 33% and the positive outlook at 6%. Labour costs are still an issue but pessimistic responses have decreased at 44% while neutral responses at 43% and positive responses at 13% have increased.

Figure 18: Ranking of the business outlook items

Ranking of the outlook items by optimistic and pessimistic responses

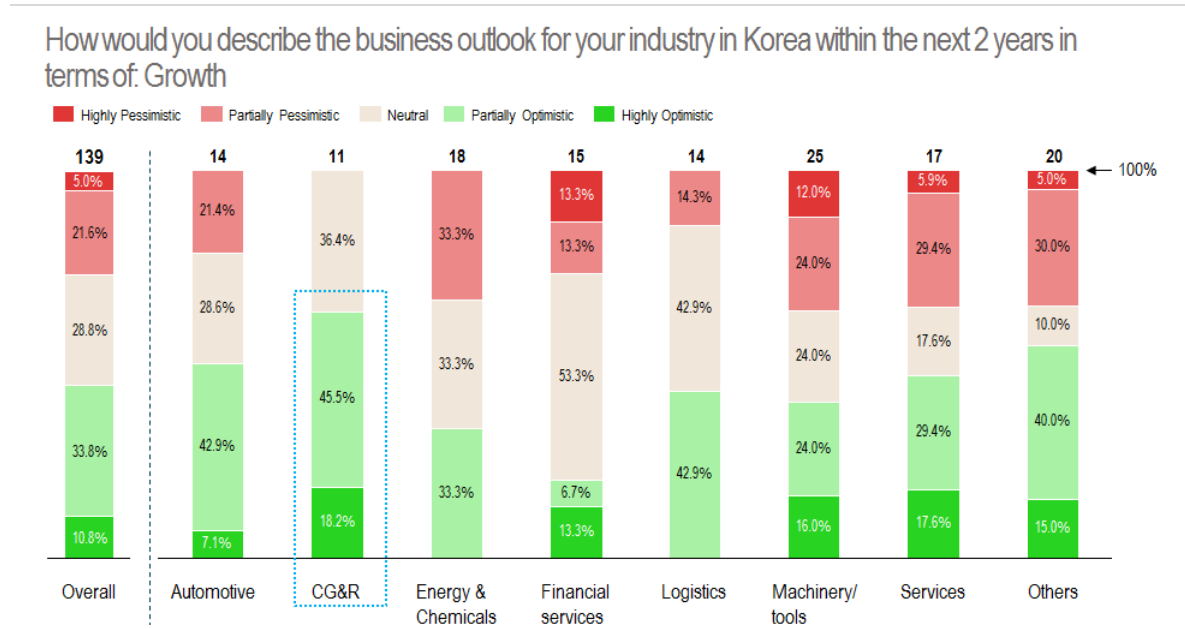
Optimistic ranking¹⁾Pessimistic ranking²⁾

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

European companies are still mostly optimistic regarding growth. It seems that optimism has grown in the areas of productivity and profitability, where the respective values moved from 29% to 34% and from 29% to 33%. 44% of respondents expressed pessimism regarding labour costs down from 61% in 2014. Despite the huge drop in pessimism, labour cost remains the main issue of concern followed by competition. Profitability also appears in the pessimistic range at 36%.

2.1 Growth

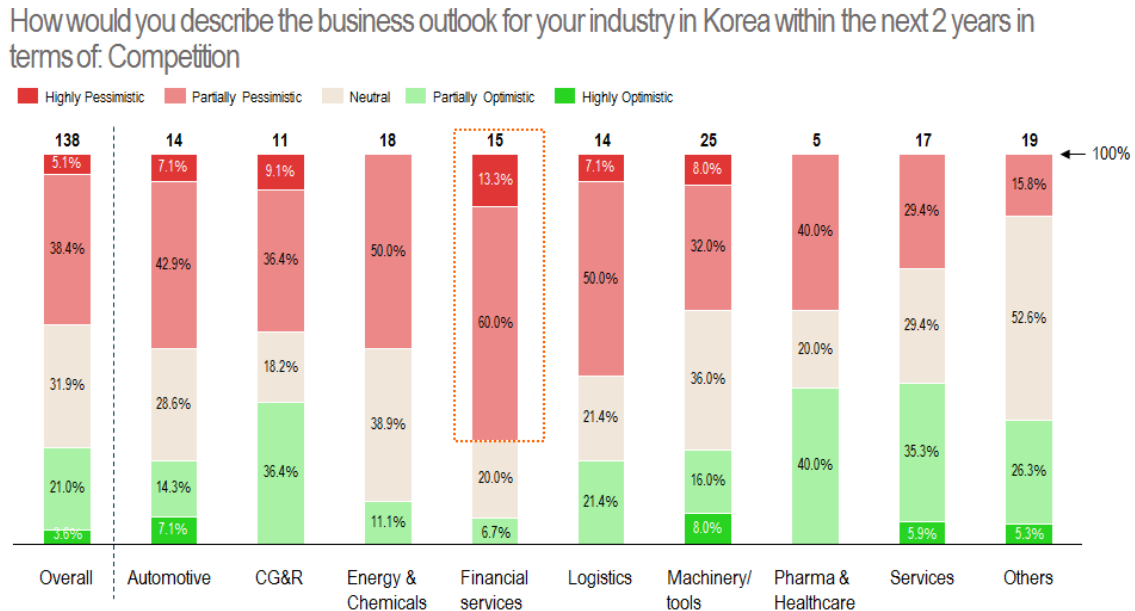
Figure 19: Growth – by industry



Consumer Goods & Retail turned out to be the most optimistic sector with 64% of companies responding positively and 36% with a neutral, and no pessimistic, outlook. The most pessimistic responses have been received from Machinery & Tools and Service industries where 36% and 35% of company representatives were pessimistic. The Financial Service industry showed a diverse picture: 20% of companies were either partially or highly optimistic; 53% neutral; and 27% either partially or highly pessimistic.

2.2 Competition

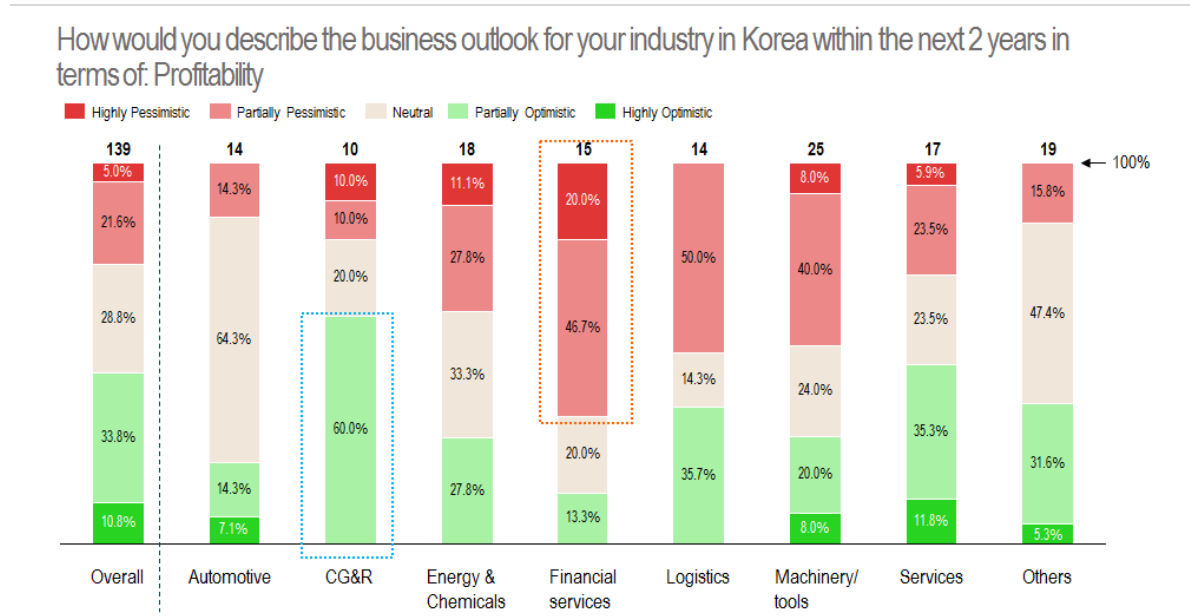
Figure 20: Competition – by industry



The Financial Services sector is particularly pessimistic about the competition outlook for the next two years with 73% of respondents answering either partially or highly pessimistic. Competition, nevertheless, is also an issue of high concern at Logistics with 57% being partially and/or highly pessimistic, Automotive at 50%, Energy & Chemicals at 50%, Consumer Goods & Retail at 45%, and Machinery & Tools at 40%. The sector most optimistic seems to be that of Services where 41% of respondents are positive and only 29% are pessimistic.

2.3 Profitability

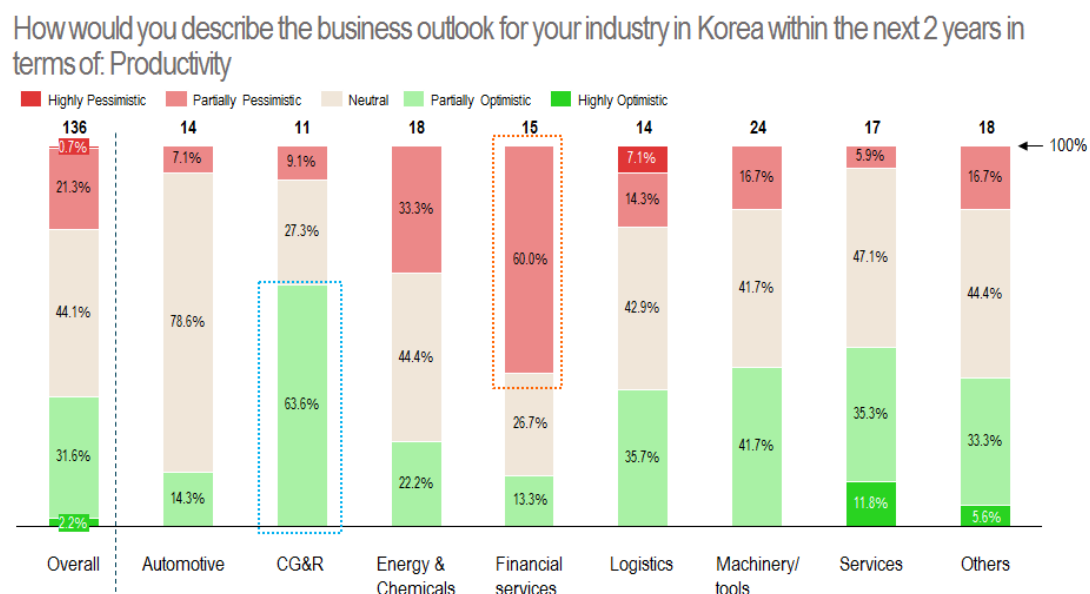
Figure 21: Profitability – by industry



The most optimistic industry sector is the Consumer Goods & Retail industry. 60% of representatives stated that they are partially optimistic, 20% are neutral, 10% are partially pessimistic and 10% highly pessimistic. The Service Industry came next in this ranking with 46% of respondents expressing optimistic views. Financial Services seem to be experiencing difficult times with 20% expressing highly pessimistic views, 46% partially pessimistic and a mere 13% somewhat optimistic.

2.4 Productivity

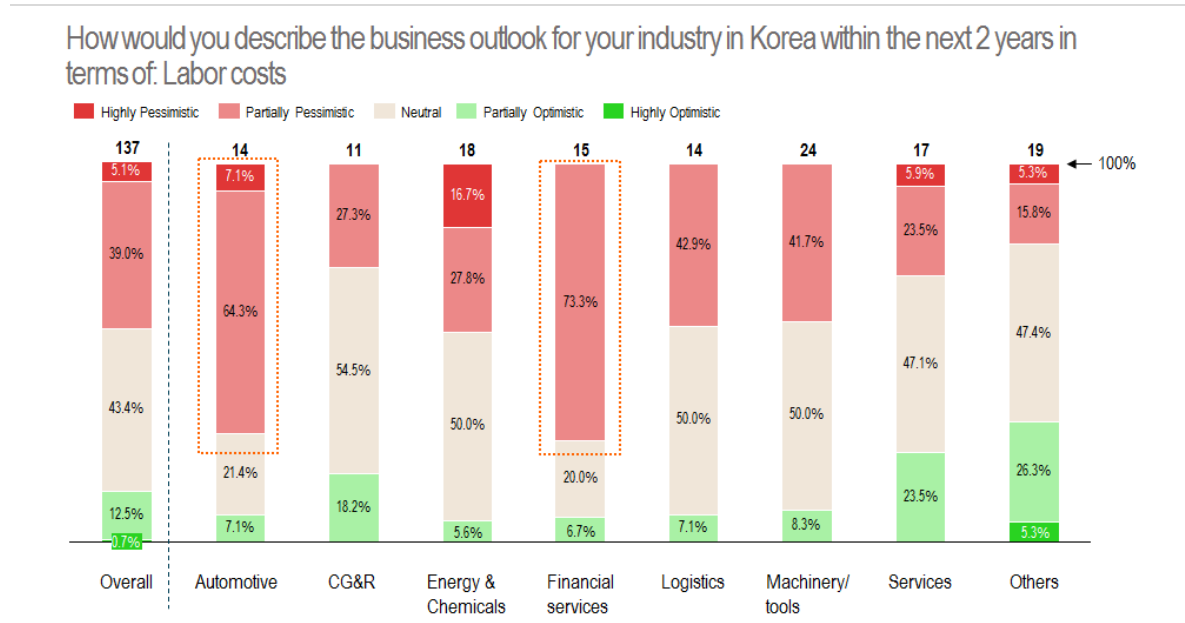
Figure 22: Productivity – by industry



The majority of industries are rather neutral when it comes to productivity development over the next two years. In the Automotive industry, neutral responses were considerably higher at nearly 80% than other sectors. Companies from the Consumer Goods & Retail industry, at 64%, were also optimistic. The Financial Service industry were the most pessimistic in terms of productivity development.

2.5 Labour costs

Figure 23: Labour costs – by industry



The Automotive and the Financial Services industries were most concerned about the outlook for labour costs in the next two years with 71% and 73%, respectively, expressing pessimism. Although expectations are slightly more positive in other industries, such as Logistics at 43%, it is evident that labour related issues are a concern across all industries.

3. Business challenges

Business challenges were measured through 21 different elements in the areas of economy, finance/cost, regulation, politics, legal, and social/infrastructure. Respondents were given five options to choose from: Highly insignificant, Partially Insignificant, Neutral, Partially Significant and Highly Significant.

The responses were mostly in-line with responses from 2014 with challenges in the Economy and Regulations remaining more significant than others. Specific to this year, local currency appreciation/depreciation became a noticeably more significant challenge, becoming the third most significant business challenge out of the 21 elements.

Figure 24: Top 5 Business challenges – 2015 and 2014

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

Top 5 business challenges by order of significance¹⁾ – Item comparison YoY

2015		2014	
1 Economic growth of Korea	73.2%	1 Economic growth of Korea	76.4%
2 Global economy growth	71.7%	2 Global economy growth	74.7%
3 Local currency appreciation / depreciation ²⁾	63.8%	3 Ambiguous rules & regulations	63.3%
4 Rising labor costs	63.8%	4 Rising labor costs	62.0%
5 Discretionary enforcement of regulations	58.7%	5 Discretionary enforcement of regulations	58.9%

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

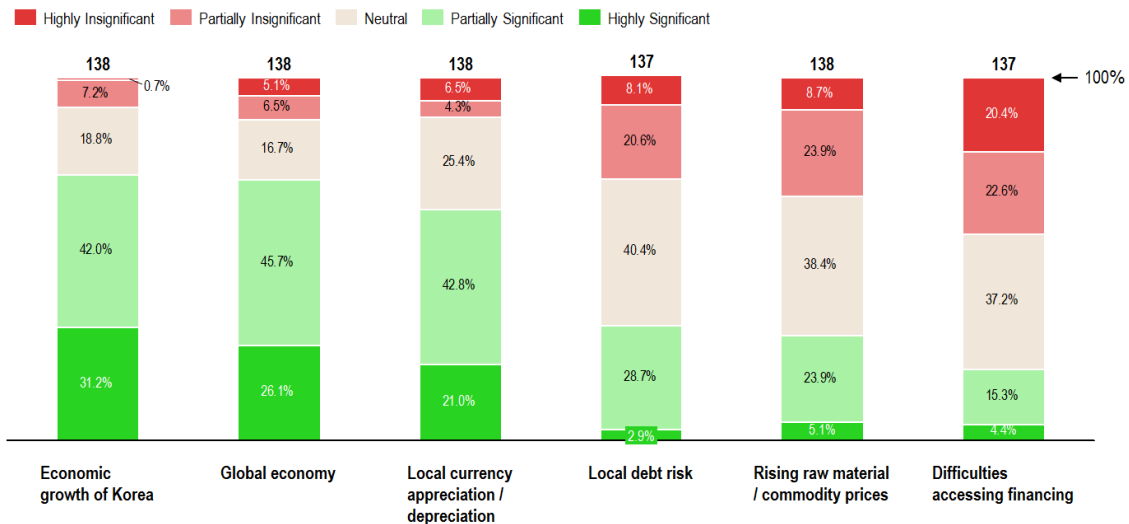
The economic growth of Korea, the global economy, and local currency appreciation/depreciation are considered to be significant business challenges. Ambiguous Rules & Regulations, which was ranked third in 2014, does not appear in the top 5 challenges this year.

3.1 Economy related & financing/costs

Figure 25: Economy related challenges

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

Economy related



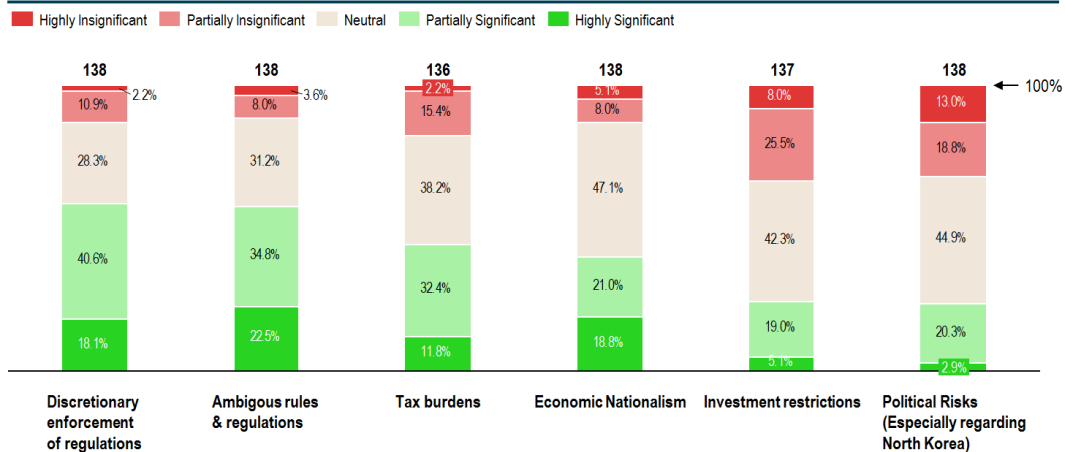
73% of European companies operating in Korea see Korean economic growth as a partial or highly significant challenge followed closely by the influence of the global economy at 72%. The recent appreciation of the Korean Won and related volatility represents a partially or significantly higher challenge for 64% of companies.

3.2 Regulations/political issues

Figure 26: Regulations/Political related challenges

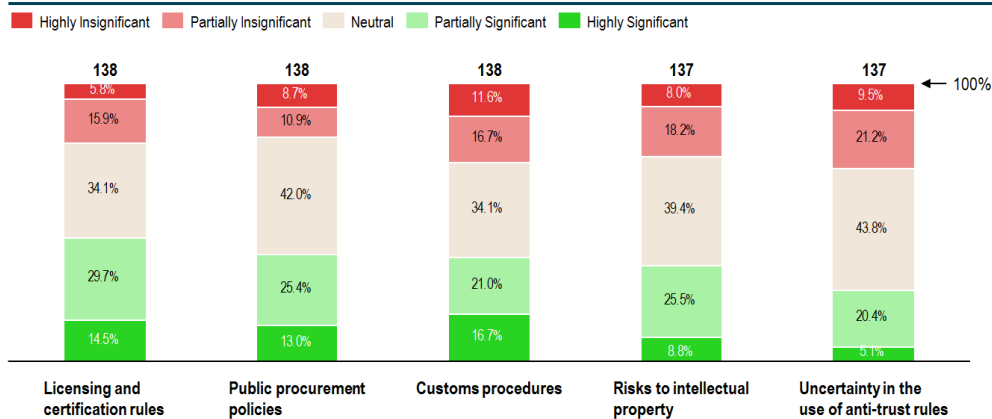
How significant you perceive the following challenges are to your specific business in Korea?

Regulatory/Political (1/2)



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

Regulatory/political (2/2)



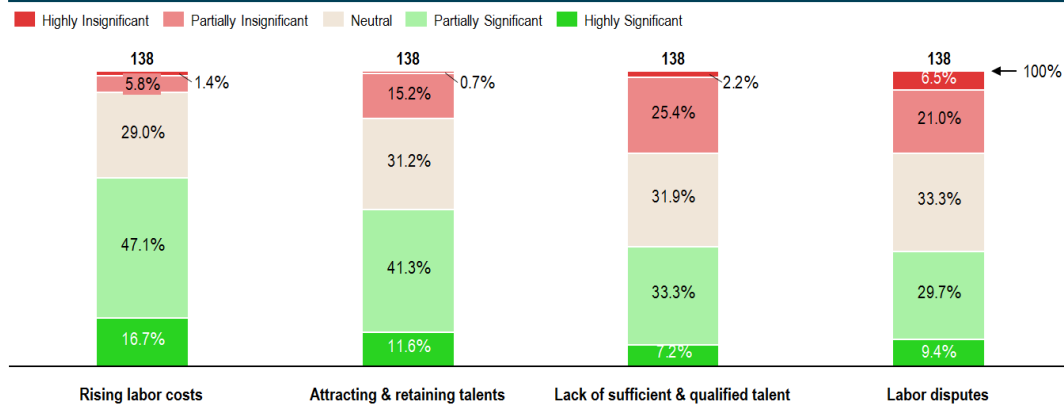
Discretionary enforcement of regulation and ambiguous rules and regulations remain the most significant business challenges as indicated by 58% and 57% of the respondents. Copyright, customs and licensing issues are considered much less significant compared to those of economy and regulations. Political risks, especially regarding North Korea, are not considered to be a significant business challenge.

3.3 Labour

Figure 27: Labour related challenges

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

Labor related



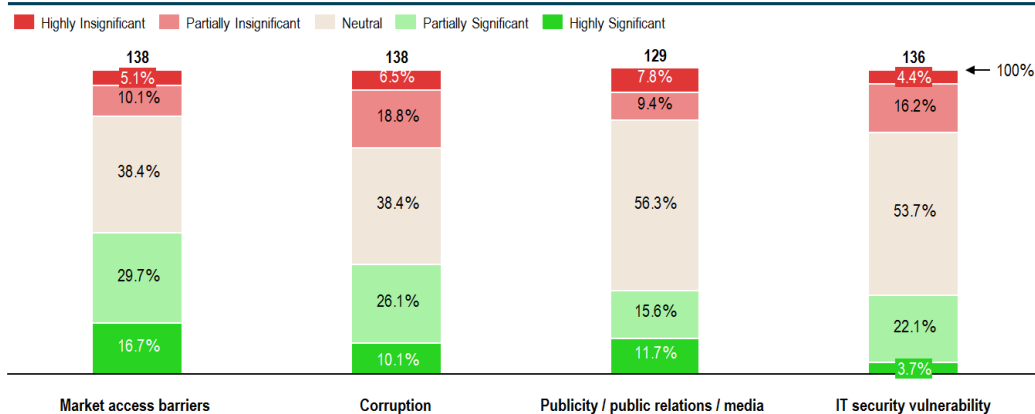
Rising labour costs are the most significant challenge with 47% of companies stating it was partially significant and 17% stating high significance. 55% of companies stated that attracting and retaining talent is a significant challenge; the lack of sufficient qualified talent, as well as labour disputes, are also considered a significant challenge.

3.4 Social/infrastructure

Figure 28: Social/infrastructure related challenges

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

Social/Infrastructure related



Market access barriers are regarded as a significant challenge by 47% of those surveyed, with 38% showed a neutral view and 15% considered them insignificant. As for corruption, 36% found it a significant business challenge and 25% did not.

4. Performance drivers for the Korean economy

Performance drivers were measured through 12 different elements in the areas of Regulation/Policy, Social/Infrastructure and Economy/Trade. Business Challenges were measured through 21 different items in areas of Economy, Finance/Cost, Regulation, Politics, Legal, and Social/Infrastructure. Respondents were given five options to choose from: Highly insignificant, Partially Insignificant, Neutral, Partially Significant and Highly Significant.

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

Figure 29: Top 5 Economic performance drivers in 2015 and 2014

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

Top 5 economic perf. drivers by order of significance¹⁾ — Item comparison YoY

2015		2014	
1 Rule of law/Transparent policy-making and implementation	74.3%	1 Promote more fair competition	70.0%
2 Promote more fair competition	67.6%	2 Domestic consumption	69.0%
3 Productivity growth	65.9%	3 Rule of law/Transparent policy-making and implementation	67.4%
4 Capacity for innovation	64.0%	4 Productivity growth	64.0%
5 Ageing society ²⁾	62.5%	5 Capacity for innovation	61.1%

1) Combined percentage of "Significant" and "Partially significant"; 2) New entry for 2015 Survey

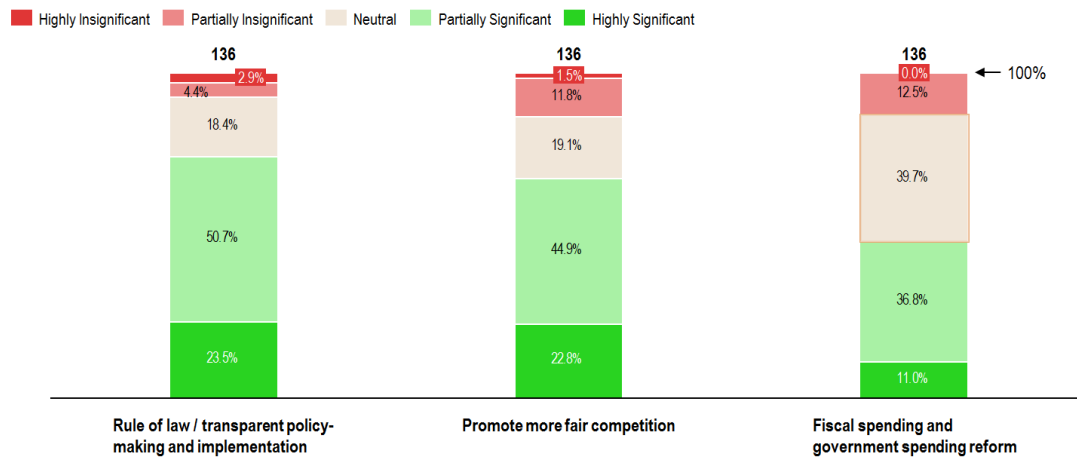
The most significant performance driver of 2015, with 74%, is Rule of Law/Transparent Policy Making and Implementation followed by Promote More Fair Competition at 68%. Productivity Growth at 66%, Capacity for Innovation at 64% and Aging Society at 63% were also considered important performance drivers. Domestic Consumption has dropped out of the top 5 items in 2015.

4.1 Regulation/policy

Figure 30: Performance drivers- Regulation/policy

How important are the following drivers for economic performance of Korea in the coming years?

Regulation/policy



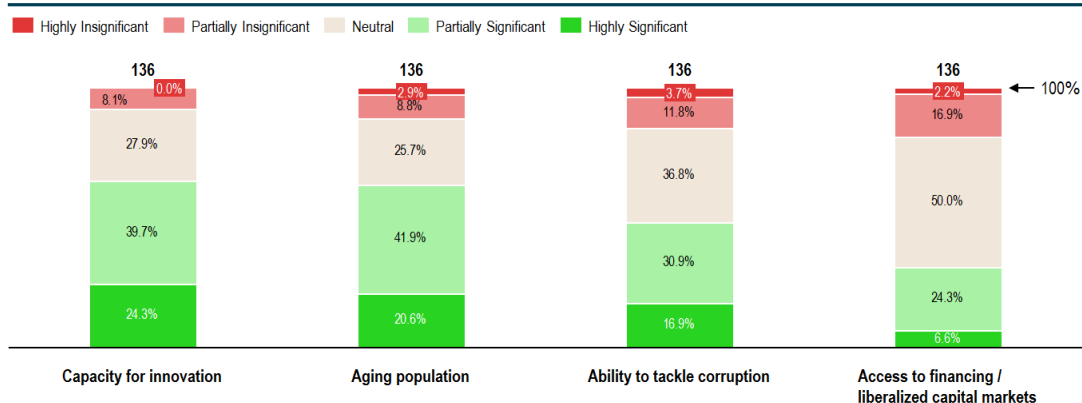
Rule of Law / Transparent Policy Making is a very significant economic driver with 74% of respondents finding it highly significant or partially significant. In contrast only 18% responded neutrally and 7% responded as partially insignificant or highly insignificant. Promoting More Fair Competition is rated as a significant driver by 67% of respondents with 18% responding neutrally and 13% responding as either partially insignificant or highly 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



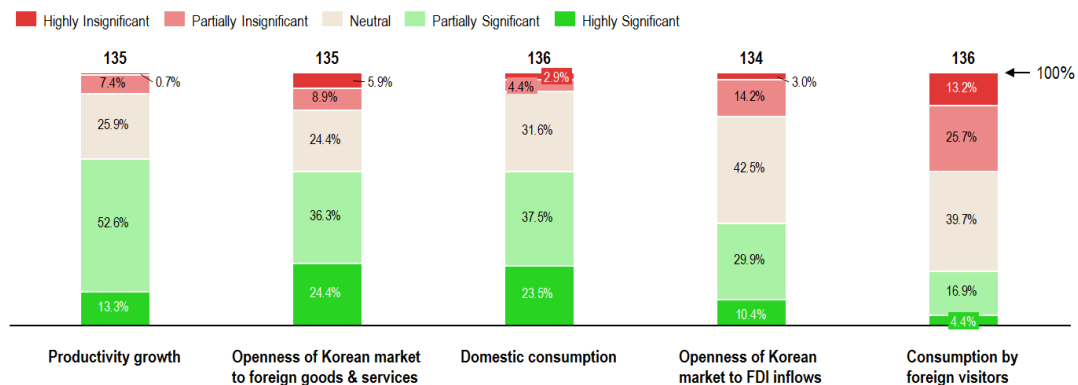
Capacity for Innovation and Aging Population are the main areas of concern here with 64% and 62%, respectively, stating it is either partially or highly significant. Ability to Tackle Corruption comes in at 47% significant, 37% neutral and 15% insignificant. Access to Financing/Liberalized Capital Markets is the lowest area of concern with 30% evaluating it as significant and the remaining majority as neutral or insignificant.

4.3 Economy/trade

Figure 32: Performance drivers - Economy/trade

How important are the following drivers for economic performance of Korea in the coming years?

Economy/trade



In the area of economy and trade, significant economic drivers included Productivity growth, Openness of Korean Market to Foreign Goods & Services, and Domestic consumption. Openness of Korean Market to Foreign Goods & Services and Domestic Consumption are the most significant drivers as stated by around 25% of respondents.

Productivity Growth also comes in, when viewing partially significant and highly insignificant as one evaluation class. A combined total of 66% of company representatives see this is an important as the Openness of Korean Market to foreign goods & services as well as the Domestic consumption follow each with about 61%. Openness of Korean market to foreign direct investment inflows (FDI) as well as Consumption by foreign visitors instead are considered not that significant visible in a more neutral evaluation. Around 70% of European company representatives value the Openness of Korean market to foreign direct investment inflows (FDI) either as neutral at 43% or partially insignificant at 14% and highly insignificant at 3%. The expected business contribution through consumption by foreign visitors could not be confirmed as only 20% of respondents found it either partially significant or highly significant as the vast majority rather interprets this neutral at 40% or even partially insignificant or highly insignificant at 40%.

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

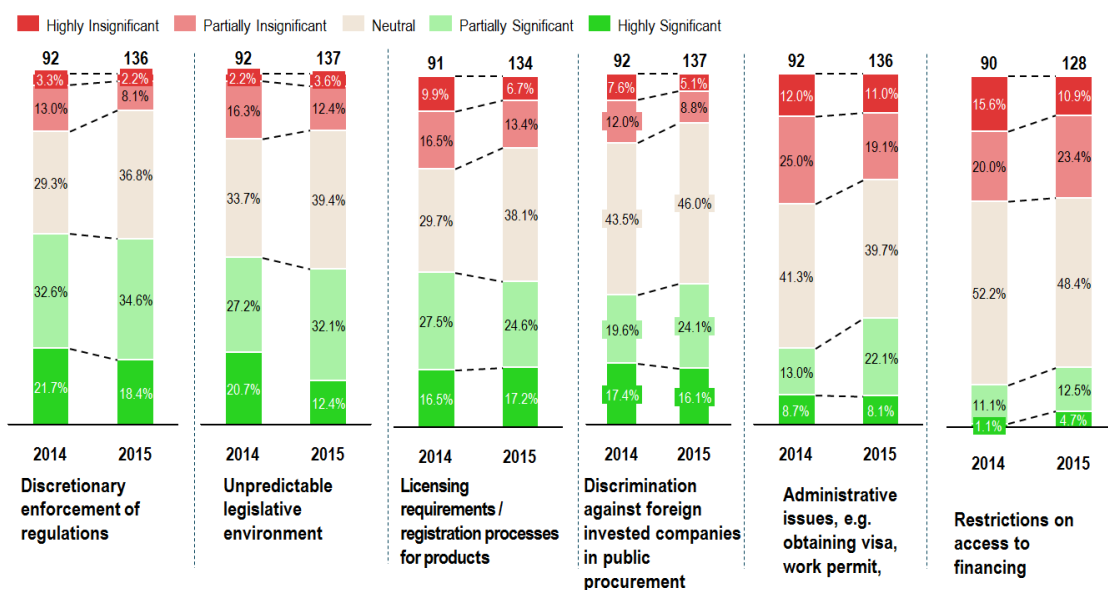
To measure European companies' position towards Korea's legislative and regulatory environment, questions on regulatory obstacles, confidence in Korea's litigation systems and views on Korean and European governments' actions were asked.

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

5.1 Regulatory obstacles in Korea

Figure 33: Regulatory obstacles YoY

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

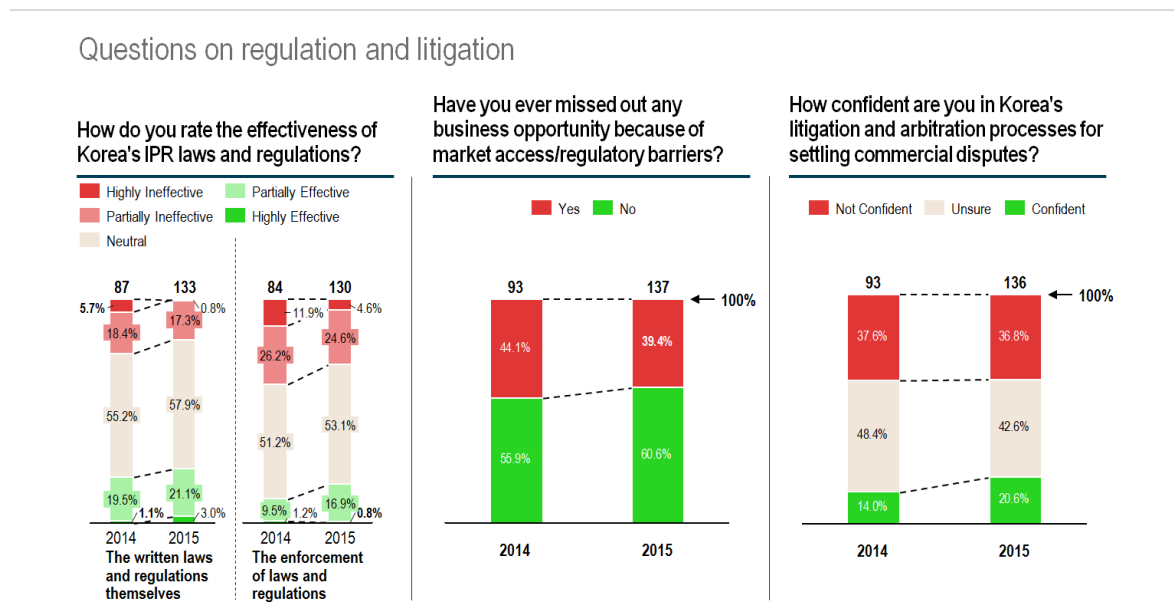


Discretionary Enforcement of Regulations, Unpredictable Legislative Environment and Licensing Requirement/Registration Process for Products are the top three obstacles for European companies doing business in Korea. 53% of respondents named Discretionary Enforcement of Regulations as either partially or highly significant, 37% had a neutral stance and 10% see this as either partially or highly insignificant. It might be a positive indicator that less companies see this as significant than in 2014, 18% as opposed to 22%. The Unpredictable Legislative Environment was considered by 44% of company representatives as partially or highly significant, by 40% as neutral and by 16% as insignificant. About 40% of companies seem to have discriminative issues in the area of public procurement which represents a slight increase from 37% in 2014. This value can be interpreted as critical as not all companies participating in the survey are involved in public procurement activities. Administrative Issues was considered by 30% as either partially or highly significant, a relatively low value. The comparison to 2014, where the respective value stood at 22%,

shows that the situation in this area has worsened to a certain degree. The Restrictions on access to financing instead is not an area of concern for the majority of correspondents.

5.2 Confidence and effectiveness of litigation and regulation

Figure 34: Responses for regulation and litigation



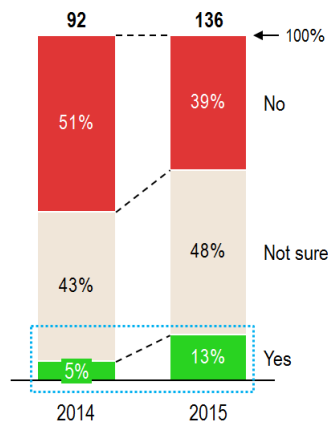
In the area of regulation and litigation, the overall situation appears to have improved with responses more positive than in 2014. 24% of respondents found written laws and regulations partially effective or highly effective, 58% held a neutral view and 18% considered them ineffective. Compared to 2014 the combined rate for neutral and effective responses increased by 7%, from 75% in 2014 to 82% in 2015. As a consequence, negative sentiment stood at 18%, considerably lower than the 24% seen in 2014. Enforcement of laws and regulation stands at 18% partially effective or highly effective, up from 10% in 2014; 53% neutral, up from 51% in 2014; 29% either partially ineffective or highly ineffective, down from 38% in 2014. Approximately 40% of all companies experienced a loss of business opportunities, due to either market access or regulatory barriers; it should be noted that this was an improvement from 44% in 2014. Regarding confidence in the litigation and arbitration processes; 21% of respondents expressed confidence, up from 14% in 2014; 43% were unsure, down from 48% in 2014; 37% were not confident, slightly down from 38% in 2014. Based on these figures it is clear that further efforts are needed to improve this area.

5.3 Opinion on government reforms

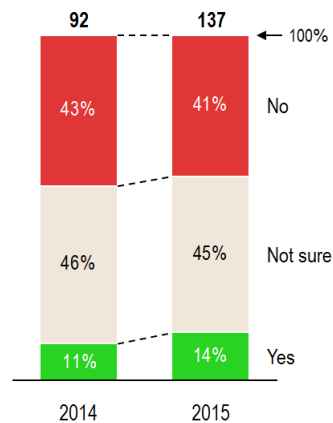
Figure 35: Government reforms - YoY

Questions on government reforms

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



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



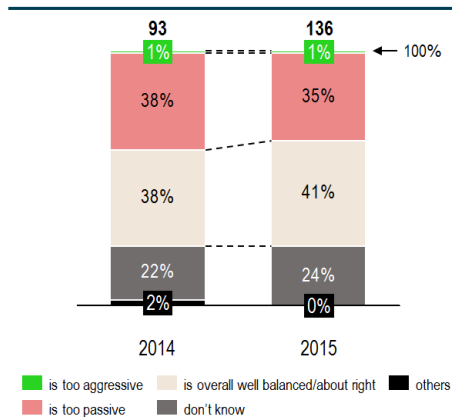
The Korean government initiated a number of reforms in 2015 but only 13% of surveyed consider these to have been effective. Although responses in 2015, at 13%, were more positive than those in 2014 at 5%, 48% of respondents were unsure of the impact and 39%, down from 51% in 2014, saw no positive impact at all. A similar message can be derived from the feedback on how confident company executives are that the Korean government will launch meaningful reforms. 14% of participants responded positively with 45% unsure and 41% not believing so.

5.4 Opinion on European and Korean governments' actions

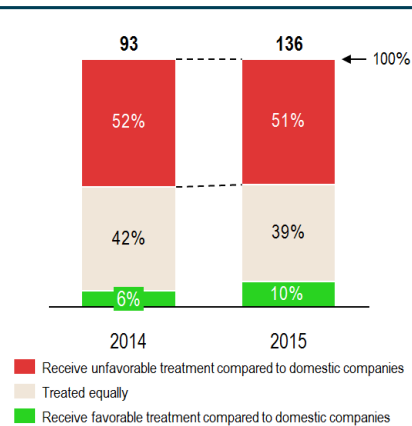
Figure 36: Legislative / regulatory environment YoY

On European and Korean governments' actions

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



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



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

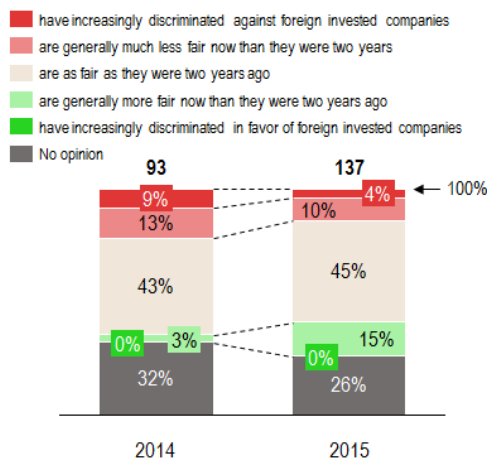
41% of respondents believe the support they receive regarding market access and trade related issues, from European institutions, as adequate and well balanced. 35% would like to see more active support provided and 1% believe the approach to be overly heavy handed. It is surprising to note that 24% of enterprises were not able to evaluate this. In respect to unfair or unfavourable treatment by the Korean government, or related government body, there is no real development compared to 2014. 51% of respondents indicated that they experienced unfavourable treatment, 39% felt that they were treated equally and 10% responded that they have received favourable treatment.

5.5 Government policies regarding business conditions

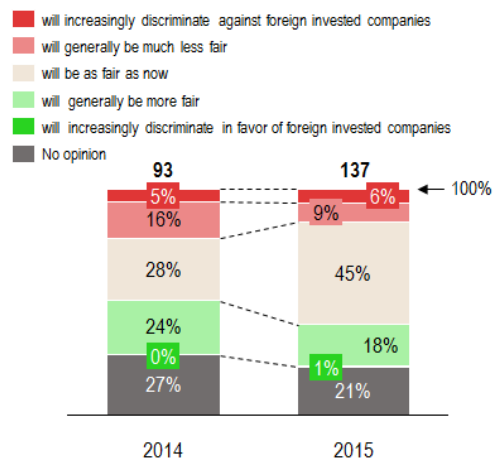
Figure 37: Government policies regarding business conditions YoY

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?



45% believe policies towards foreign companies are as fair as they were 2 years ago. 14% believe policies became less fair, or even discriminatory. This question was unanswered by a substantial number of companies. Regarding the outlook for the next two years, more than half expect that policies will be either as fair as now or fairer. 15% of respondents, however, believe that fairness will deteriorate. Here, as well, a substantial group of 21% do not feel in the position to provide an opinion to the question. In comparison to 2014, the overall situation improved, as visible in the combined responses for fair as now or will be fairer in general, 52% in 2014 versus 63% in 2015, and much less fair and increasingly discriminating, 21% in 2014 versus 15% in 2015.

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.

The overall demand for European products remains high as their market shares grow and sufficient profits to finance future growth in Korea are generated. It nevertheless 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, Automotive as well as Machinery & Tools. This is a clear indication that consumer demand for European quality products remains high. This is also true for business-to-business transactions where a growing demand is indirectly supporting the success of Korean companies by ensuring the latest technology is used, either in production process or embedded in their end-products.

Business performance, and the respective outlook, in Financial Services remains rather less positive. Despite various new initiatives laid out and implemented by the Korean government in 2015, the room for expanding business operations in the years to come seems to remain limited. It appears that industries not positively contributing to the export success of Korean corporations are facing a strategically difficult obstacle.

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 business and legislative environment needs to be fair, transparent and consistent. The survey in particular asked companies if conducting business in Korea had become more difficult which was confirmed by 52% of the respondents; a result that neither the European business community nor the Korean government can be satisfied with, as attracting new foreign direct investment to Korea remains of strategic importance. The need for Korean companies to continuously expand their overseas production facilitates led directly to the necessity of attracting and building up new, or additional, foreign business operations.

The European business community is committed to further investment in Korea. Korea competes for foreign direct investment with other international markets. Korea can only benefit in this respect, when the overall business situation is also evaluated positively in terms of profitability, growth perspective as well as policy transparency and consistency.

APPENDIX: RESPONDENT PROFILE

Figure 38: By industry

In what industry is your company active in?

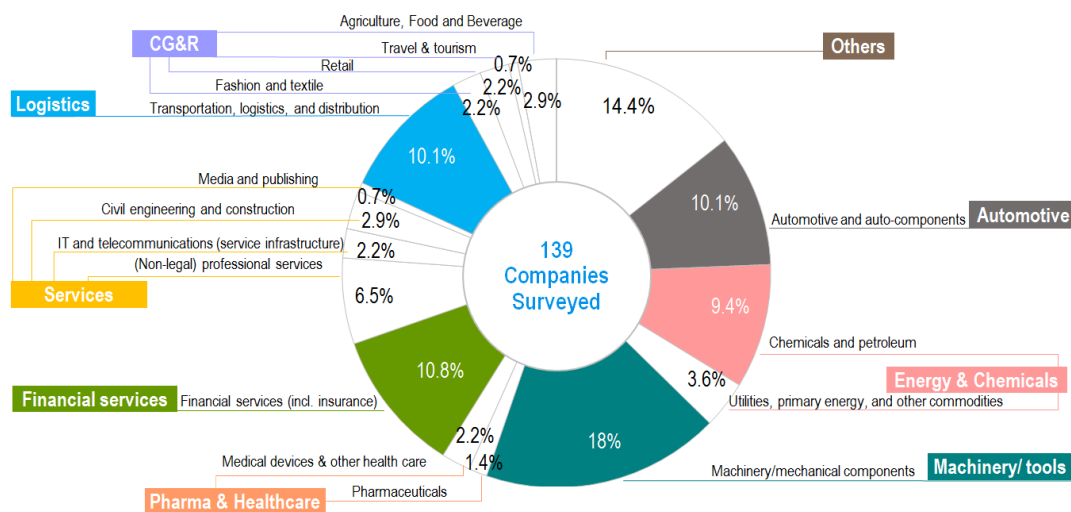
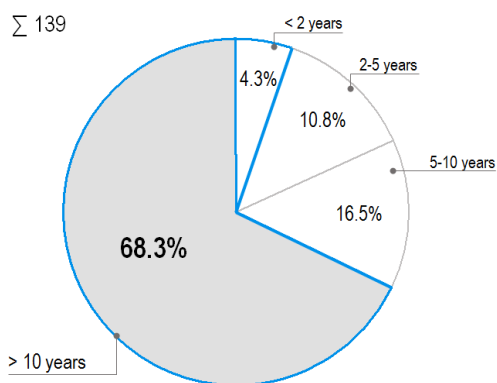


Figure 39: By number of years of operation in Korea

How long has your company been operating in Korea?

Results



Implications

- > Majority of respondents have been in Korea for more than 10 years which implies that they have a good understanding of Korea
- > 4.3% (6 companies) of respondents are new to Korean market, a positive sign that European companies are still entering into the market

Figure 40: By ownership

Is your company fully owned by a European company?

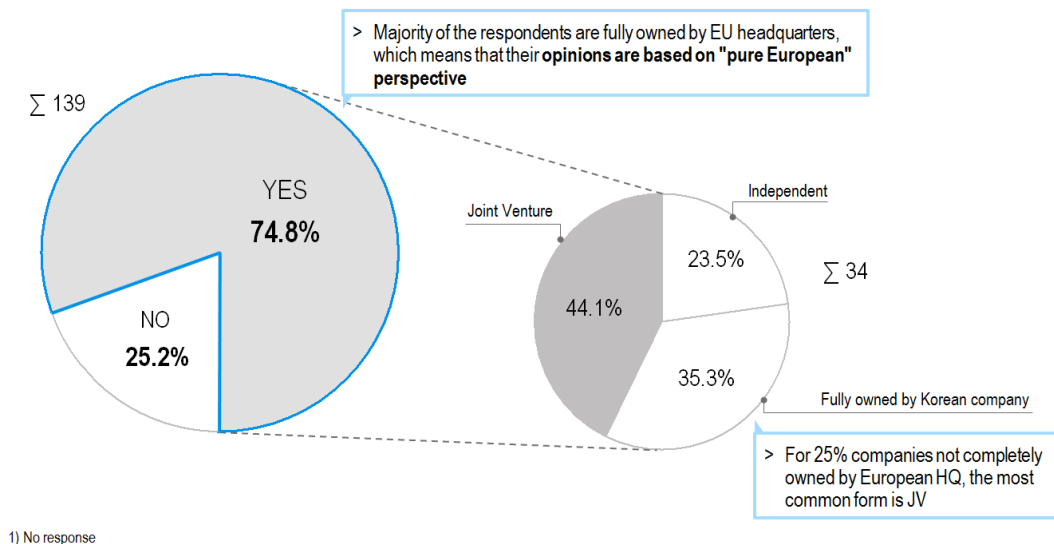
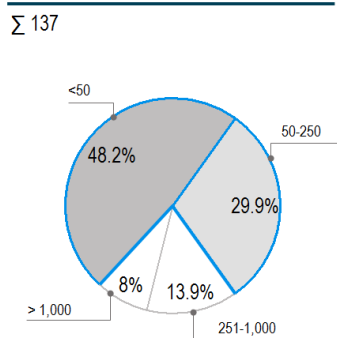


Figure 41: By size

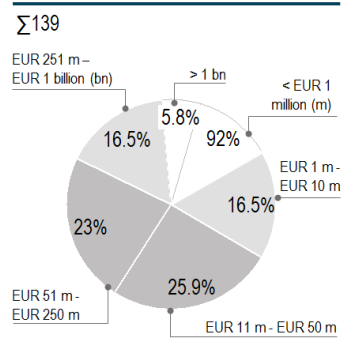
Employee number, revenue size and proportion

How many employees do you have in Korea?



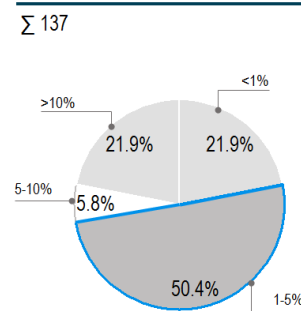
> Most of the respondents have under 250 employees

What was the total revenue of your company in Korea in 2014?



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

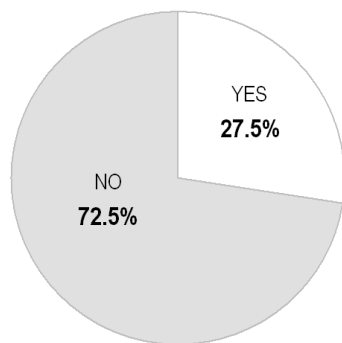
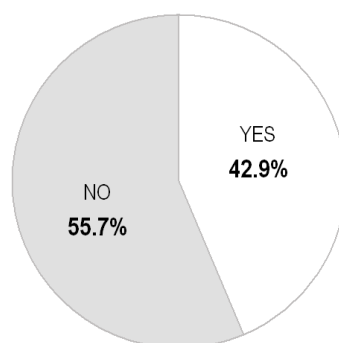
What proportion of global revenues was generated in Korea?



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

Figure 42: Ownership of R&D or production facilities

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

R&D facilities Σ 69**Production facilities** Σ 69

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

Publisher

Roland Berger Ltd.

Kyobo Bldg, 22F, 1 Jongno, Jongno-gu,
Seoul 03154
+82 (0)2 2288 0004
www.rolandberger.com

European Chamber of Commerce in Korea (ECCK)

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

Photo credits

Front Cover: Fotolia

Disclaimer

This study has been prepared for general guidance only. The reader should not act on any information provided in this study without receiving specific professional advice.

Roland Berger Ltd. and ECCK shall not be liable for any damages resulting from the use of information contained in the study.

