



BUSINESS CONFIDENCE SURVEY

2023/2024

**From the European business
community in Korea**



Korean-German Chamber
of Commerce and Industry
한독상공회의소





BUSINESS CONFIDENCE SURVEY

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Introduction

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

With consistency was one of the key factors that guided the questionnaire's design and data analysis, an online survey platform akin to that of the previous years was set up for participating companies. This year's survey took place from January 22 to February 8, 2024.

The gathering of such replicable data was done in order to trace and understand the development of company strategies and perceptions year-on-year. However, as not all of the participants answered all of the questions, the total number of respondents are noted above each graph. A detailed breakdown of the survey's participants' profile can be found in the appendix.

ECCK and KGCCI along with 10 other European chambers in Korea partnered up to publish this survey. With the European Chamber of Commerce in Korea as the initiator, the Korean-German Chamber of Commerce and Industry, the British Chamber of Commerce in Korea, the Belgian-Korean Business Forum, the Dutch Business Council Korea, the Finland Chamber of Commerce and Industry in Korea, French-Korean Chamber of Commerce and Industry, Italian Chamber of Commerce in Korea, Norwegian Business Association, Spanish Chamber of Commerce in Korea, Swedish Chamber of Commerce in Korea, Swiss-Korean Business Council worked together to collect the data for this report.

Participating Chambers of Commerce



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Finland Chamber of Commerce and Industry in Korea

Participating Chambers of Commerce



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Executive Summary (1)

The economic development of the year 2023 has been impacted once again by inflation and its countermeasures, the continuous Russian war against the Ukraine and the ongoing global trade tensions. The attack on Israel with the conflict in Gaza added further stress on the global economy. Due to external factors, trade between the European Union, the European Free Trade Association (EFTA), and the United Kingdom on one hand, and Korea on the other, has slightly decreased.

Exports from the respective European countries to Korea amounted to USD 77.6 billion, representing a decrease of around 2% compared to 2022. Conversely, goods exported from Korea to these countries remained almost the same as last year, showing a slight increase of 0.9%, from USD 75.1 billion to USD 75.8 billion. These trends are reflected in this year's Business Confidence Survey, in which 172 European companies participated.

The overall feedback regarding the business development in 2023 remains on a positive level, however less bullish than in 2021 and 2022. The majority of European companies operating in Korea were once again satisfied with the business performance in 2023. However, the satisfaction percentage declined faster from 71% in 2021 over 68% in 2022 to 58% last year. Over the same period, the number of businesses considering their economic activity as average increased from 17% over 23% to 30%.

When asked about its revenues, every third company reported a significant increase of more than 10%, every fifth company saw an increase between 5% and 10%. However, a year ago, the accumulated numbers were 14% higher. Profitability remained high with 42% of companies recording an increase of the EBIT (Earnings Before Interest and Tax) of more than 5%. This is less than the 54% of respondents regarding the year 2022 and even 58% for the year 2021. The trend that the business situation is stabilised on a rather high level after years of strong growth is documented by the 42% of companies reporting an EBIT margin about the same as the year before, an increase of 10% compared to the previous year.

When it comes to the business outlook for their industry in Korea within the next two years, the sentiment seems to lighten up: Regarding sales, 9% are highly optimistic, 38% are partially optimistic compared to 5% and 35% respectively in last year's survey. Profitability expectations improve as well, however less than the sales numbers. Confidence in the Korean market is also depicted as 51% of companies intend to increase their investment and/or operation expenses and 41% plan to maintain their level. 54% anticipate a growing work force, every third company plans to maintain the current level.

1. Member States of the European Union, Member States of the European Free Trade Association and United Kingdom.

Executive Summary (2)

The Korean market continues to gain importance for European companies' global strategy. More than every second enterprise expects a growing significance of the Korean business operation even though the Korean market had already reportedly become more pivotal over the past years.

Besides the mixed business development in the past year and the more confident expectations, the replies of the European companies point out areas of concerns and fields of improvements.

The number of companies assessing that doing business in Korea has become more difficult in the past two years stays high with almost every second company reporting this. However, the number is 4% less than in 2022 and 9% less than in 2021. 44% of the company representatives state that the reforms implemented in 2023 were helpful or at least partially helpful, 3% less than in 2022. The confidence that the government will implement meaningful reforms in 2024 has dropped: Only 9% expect positive changes, 10% less than in the last survey. The number of businesses being pessimistic about significant reforms went up from 28% to 44%. Also, the satisfaction of companies regarding labour costs and labour relations has significantly declined compared to last year.

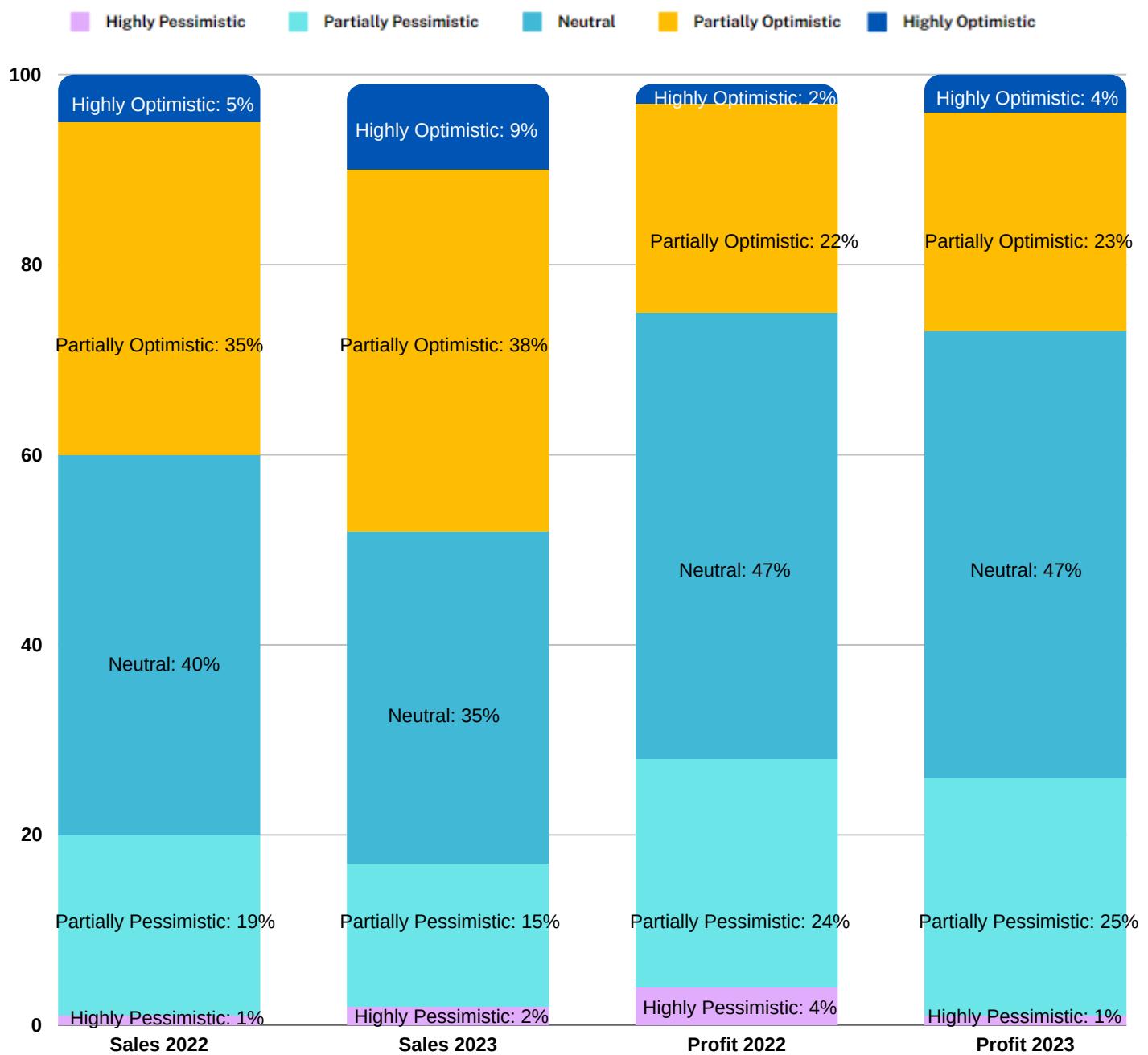
The economic growth and the capacity for innovation continue to be perceived as positive market parameters with satisfaction higher than the non-satisfaction score. In contrast, the feedback about the legislative environment, the discretionary enforcement of regulations as well as the transparency of policy-making and implementation remains critical with 40% to 50% of the respondents expressing dissatisfaction. Regarding the questions if government policies relevant to foreign companies have become less fair in the respective sector over the past two years and what companies expect, around 50% of respondents state that it has been and will be as fair as it was and is. However, the number of companies having no opinion on how the treatment of foreign companies will develop within the next two years increased from 2% to 16%. This indicates the grown uncertainty in the business community about the policy development.

The Korean-European business relations have proven to be robust despite the challenging economic circumstances globally. This survey shows the confidence of the European business community that the bilateral economic relations can continue to grow. To even enhance investment and trade, it is necessary to address the described concerns in an adequate and timely manner. The Business Confidence Survey is designed to help managers and policy makers to make future oriented decisions for the mutual benefit of the Korean and European economy and their companies.

Business Development

Business Development

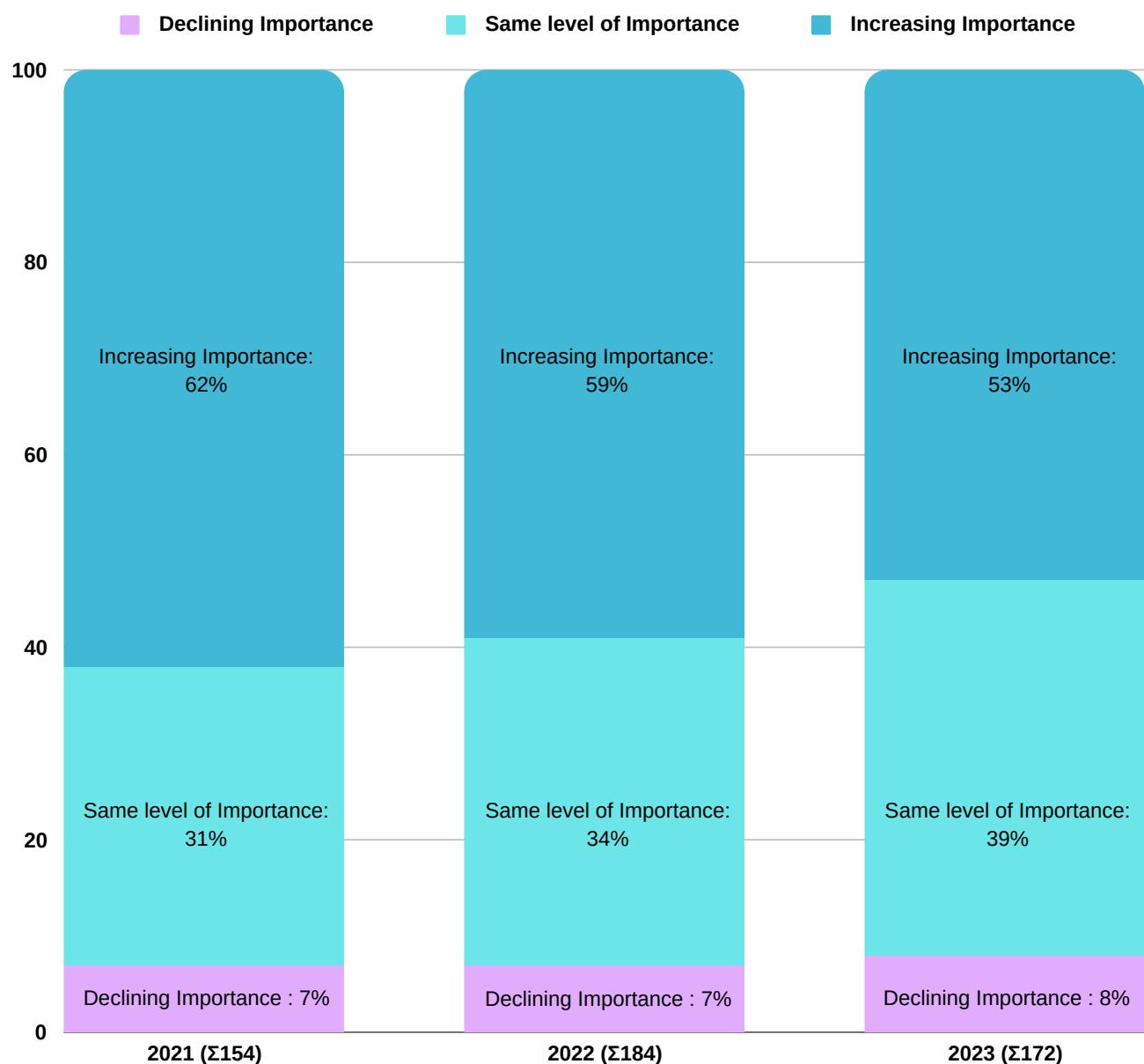
How would you describe the business outlook for your industry in Korea within the next 2 years? ($\Sigma 172$)



- In terms of future sales prospects, 47% of companies (compared to 40% in 2022) view them rather positively. Regarding the outlook for profitability, 27% of responding companies (up from 24% in 2022) hold a positive view.
- Meanwhile, pessimistic prospects for both sales and profit have slightly decreased; from 20 to 17% for sales, and from 28 to 26% for profit.

Business Development

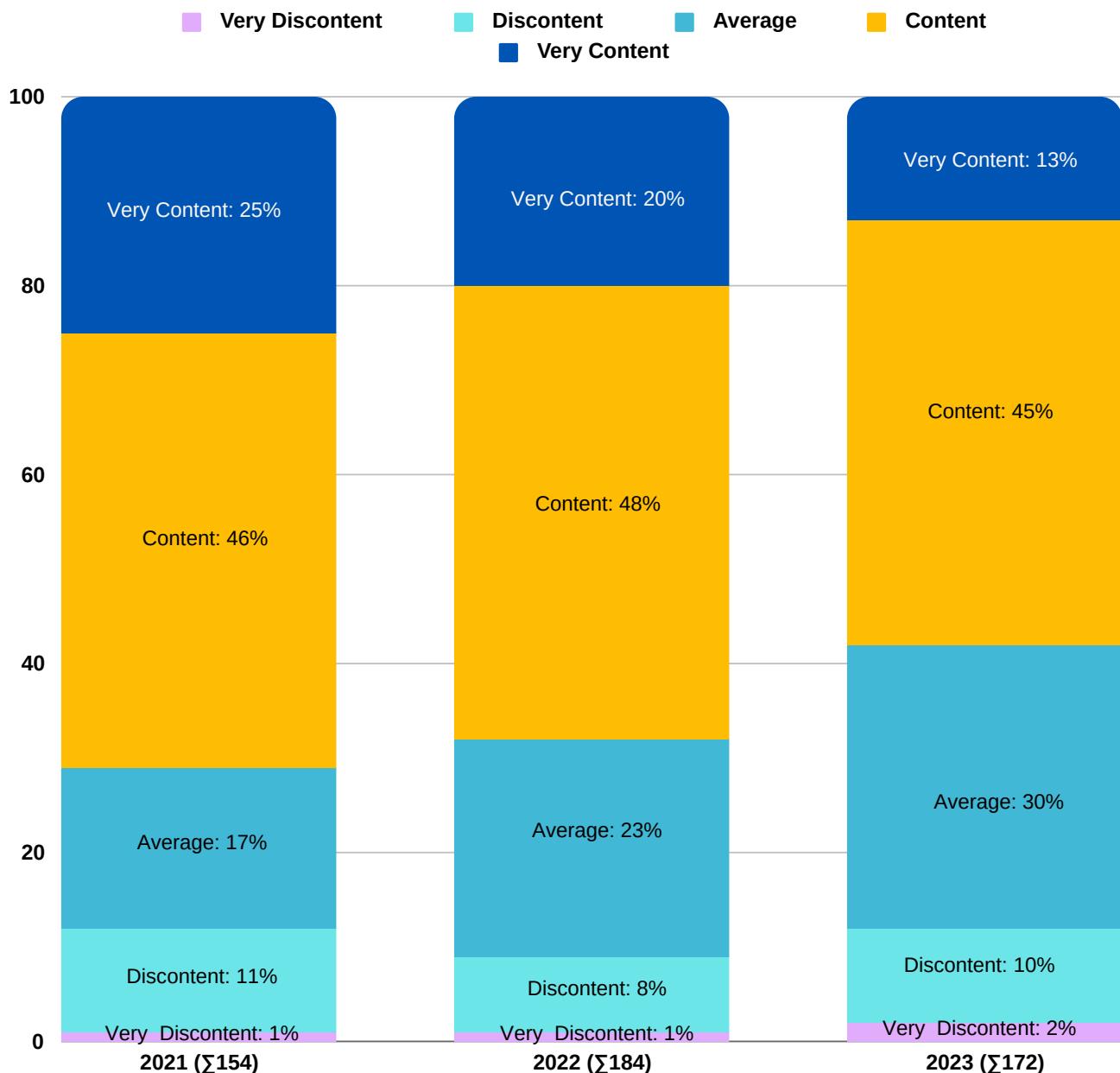
How would you characterize the importance of Korea in your company's overall global strategy?



- Korea has played an important role in European companies' overall global strategy, although its increasing importance has slightly decreased from 59 to 53%.

Business Development

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



- The percentage of companies satisfied with their business performance decreased by 10% compared to 2022. In 2023, 58% of companies (compared to 68% in 2022) expressed contentment or very contentment with their business performance in Korea.
- Meanwhile, the percentage of companies expressing discontentment or very discontentment was at 12% in 2023.

Business Development

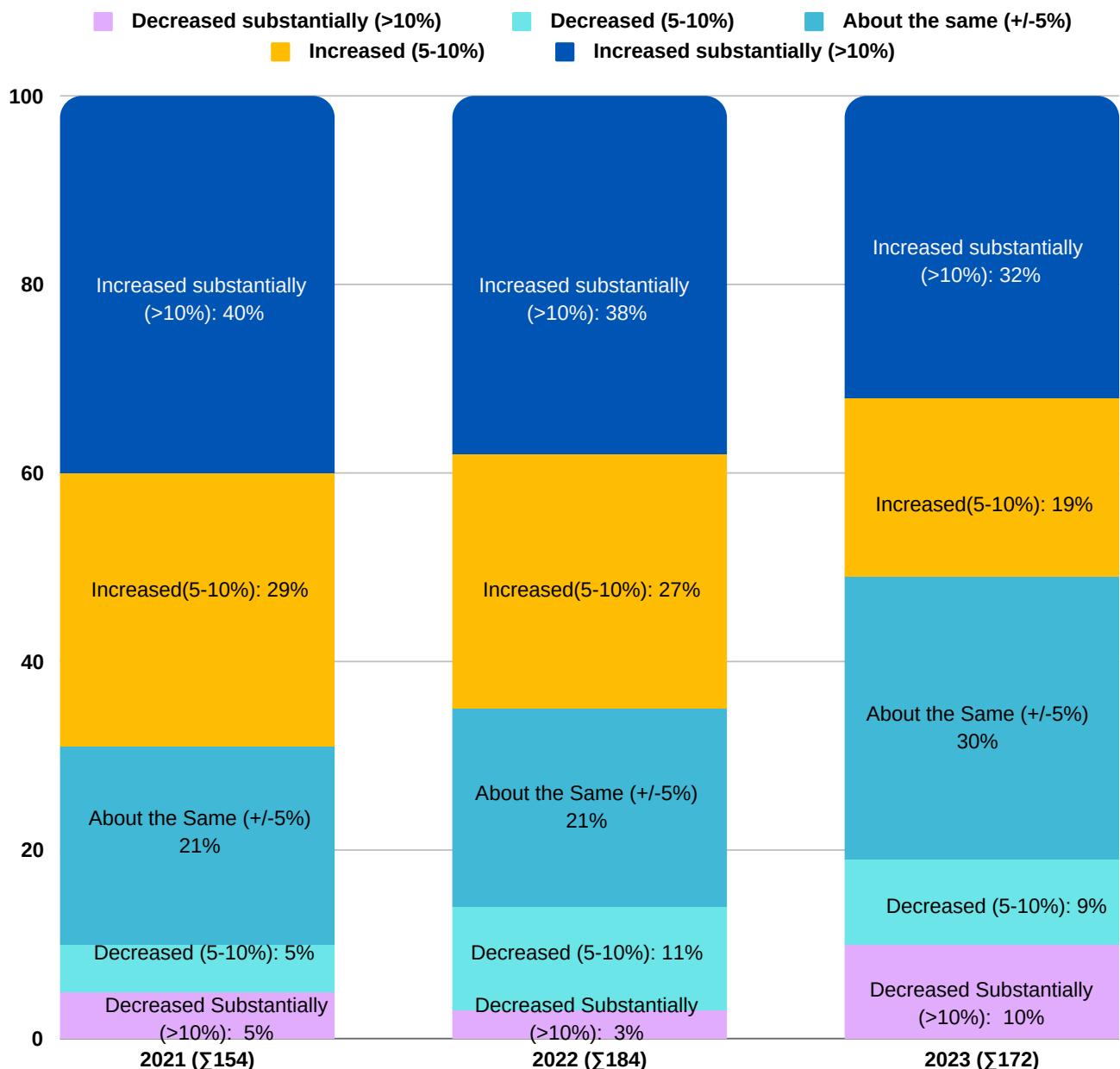
Do you plan either to increase or to decrease investment / operational expenses?



- The majority of the companies, nearly 92% of respondents are planning to either increase or at least maintain the investment / operational expenses.

Business Development

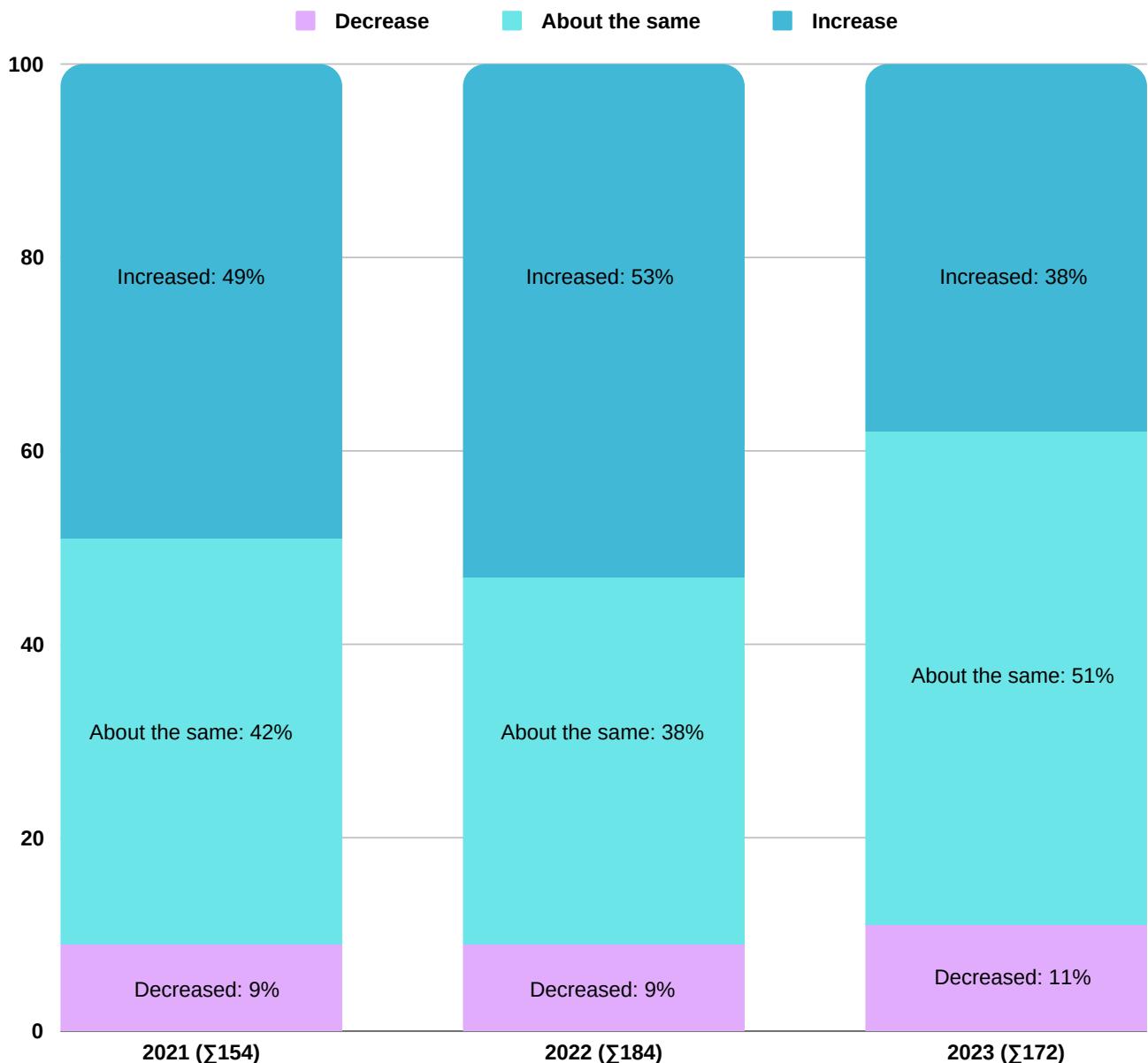
How did your company's revenue in Korea change in 2023 compared to that of 2022?



- 51% of European companies operating in Korea reported a higher turnover compared to previous years, while 30% reported a turnover more in line with the preceding year, and 19% experienced a decrease in revenue.

Business Development

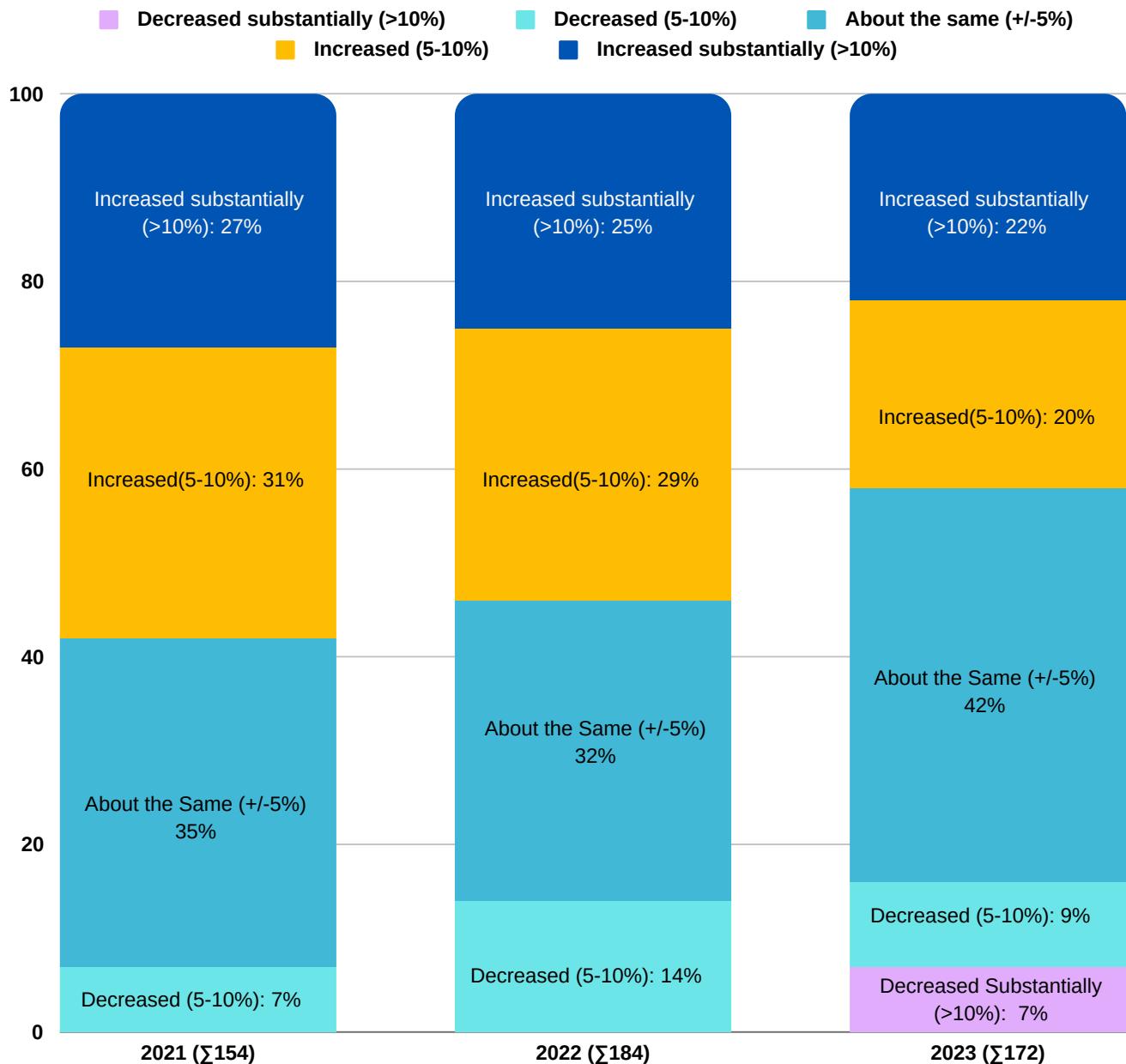
How did your market share evolve in 2023 versus 2022?



- 38% of European companies reported that their market share increased, representing a 15% decrease compared to the previous year. Meanwhile, 51% indicated that they maintained their market position in 2023.
- 11% of participating companies observed a decline in their market share compared to the previous year, which represents a slight increase of 2% compared to the preceding year.

Business Development

How was your company's EBIT margin in Korea for 2023 compared to 2022 results?

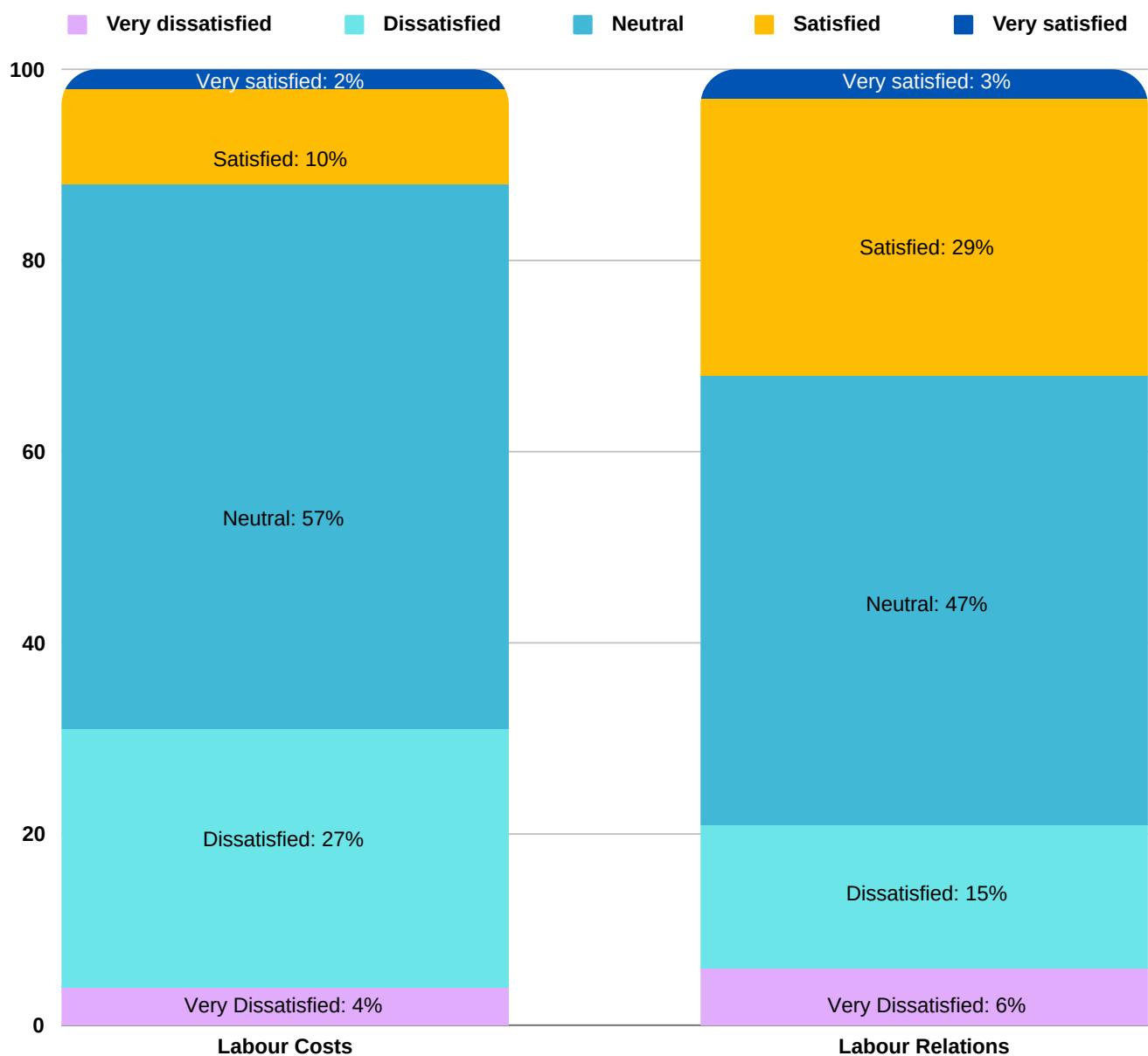


- There was a decrease in the number of companies reporting an increase in their EBIT margin in 2023. In comparison with 2022, 54% of companies responded that their EBIT margin had increased, whereas in 2023, this figure dropped to 42%.
- 42% stated that their EBIT margin remained about the same, while 16% reported experiencing a decrease in their EBIT margin.
- 7% of European companies newly reported that their EBIT margin decreased substantially.

HR/Labour

HR/Labour

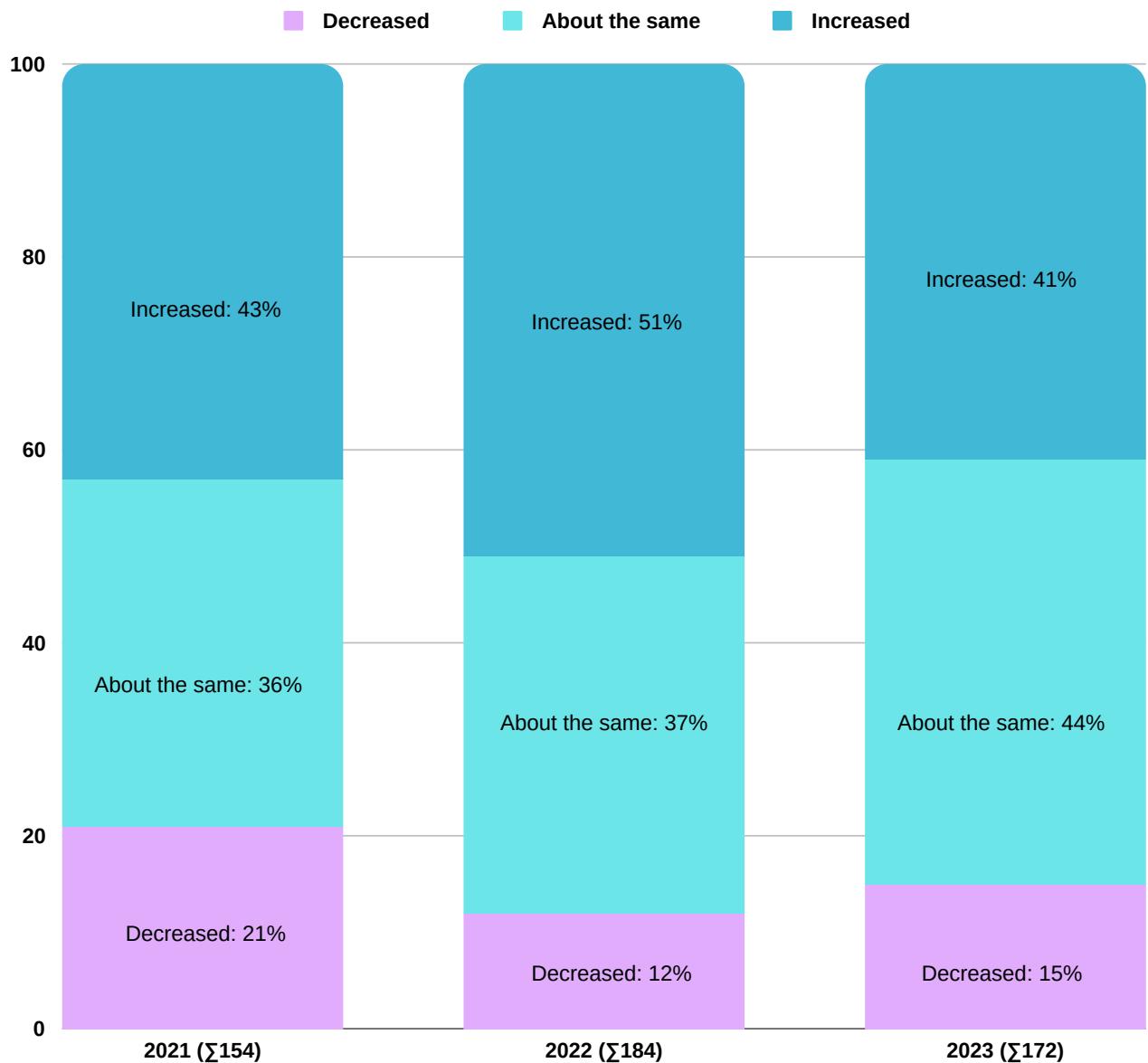
How satisfied are you with Labour Management - Labour Costs and Labour Relations - at your company in 2023?



- Opinions on satisfaction with labour costs and labour relations have significantly decreased compared to the previous year, with satisfaction dropping from 29% to 12% in labour costs and from 50 to 32% in labour relations.
- Regarding labor costs, 57% of respondents viewed them as neutral (compared to 52% in 2022), while 31% assessed them negatively (up from 19% in 2022).
- In terms of labor relations, 47% responded neutrally (compared to 40% in 2022), while 21% expressed dissatisfaction, indicating an increase from the previous year (10% in 2022).

HR/Labour

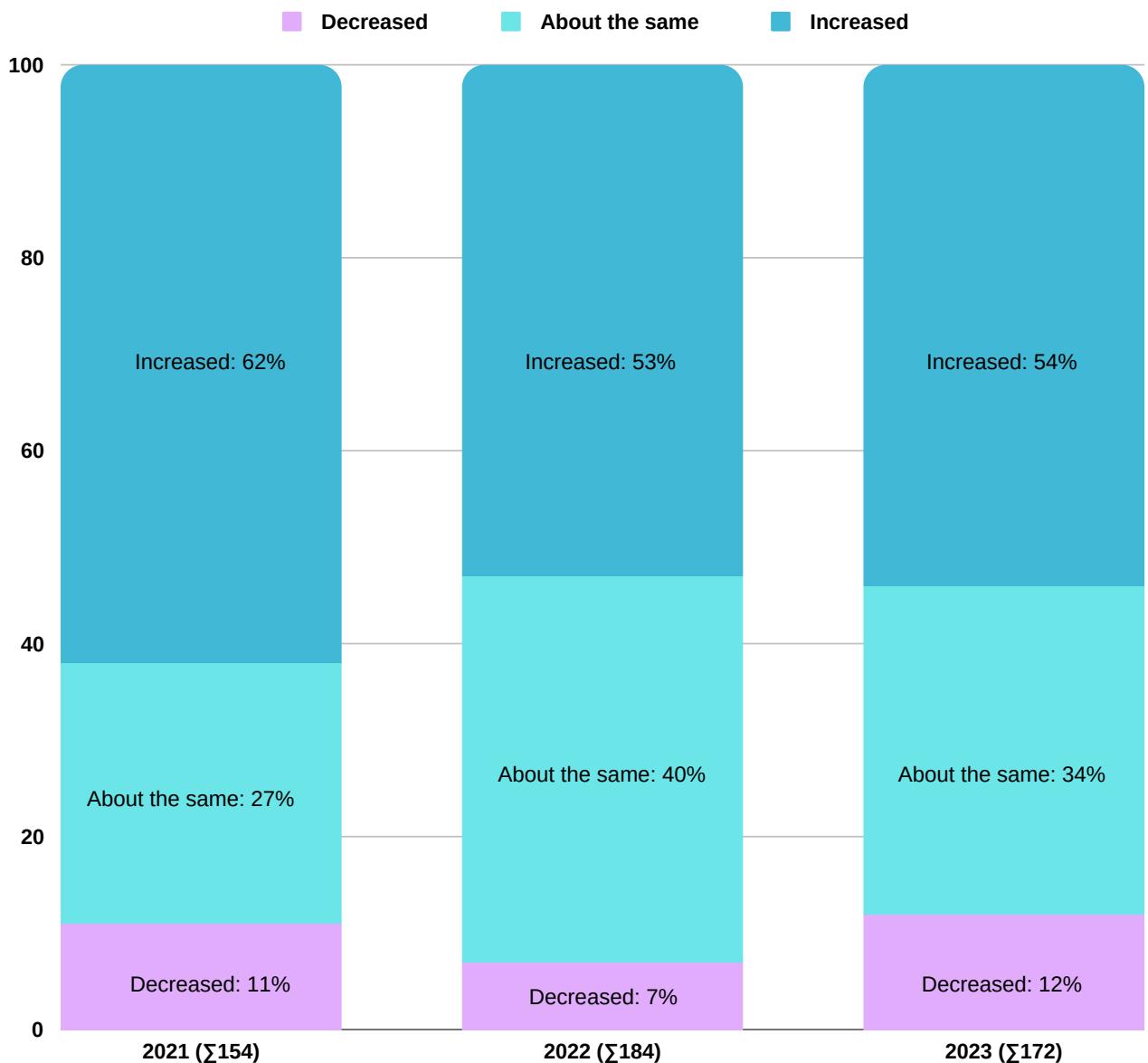
What has happened to the number of permanent positions in your company in Korea in 2023?



- 41% of responding companies increased their permanent positions which shows quite significant number has been dropped compared to the year of 2022.
- 44% showed that they employed a similar number of people and 15% companies reduced the head count.

HR/Labour

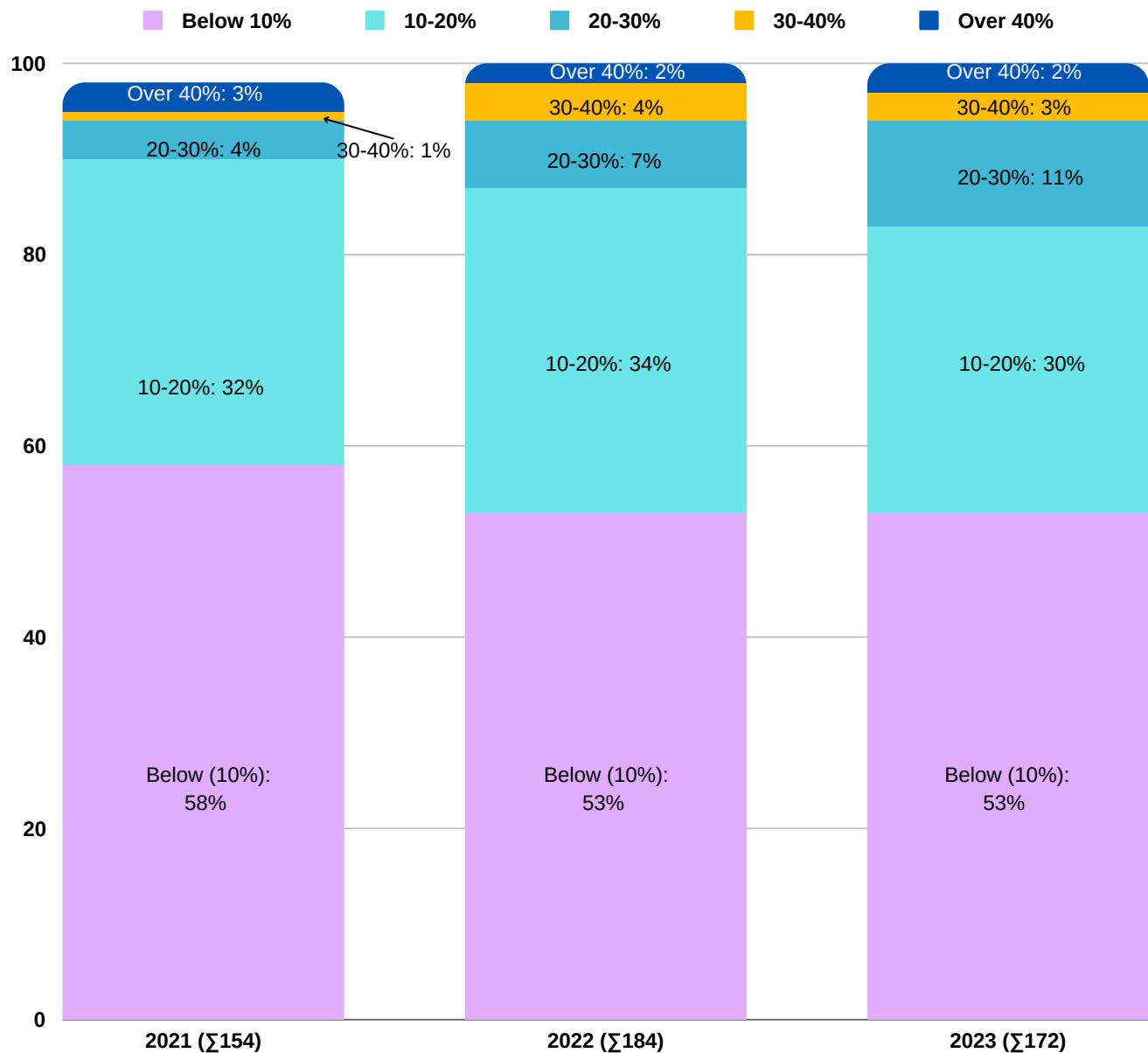
How do you expect the number of permanent positions in Korea to evolve over the next two years?



- The majority of European companies are planning to either increase their workforce (54%) or maintain it (34%).
- However, 12% of respondents anticipate a reduction in employees, which has seen a slight increase from previous years.

HR/Labour

What was the level of your staff turnover in Korea in 2023?

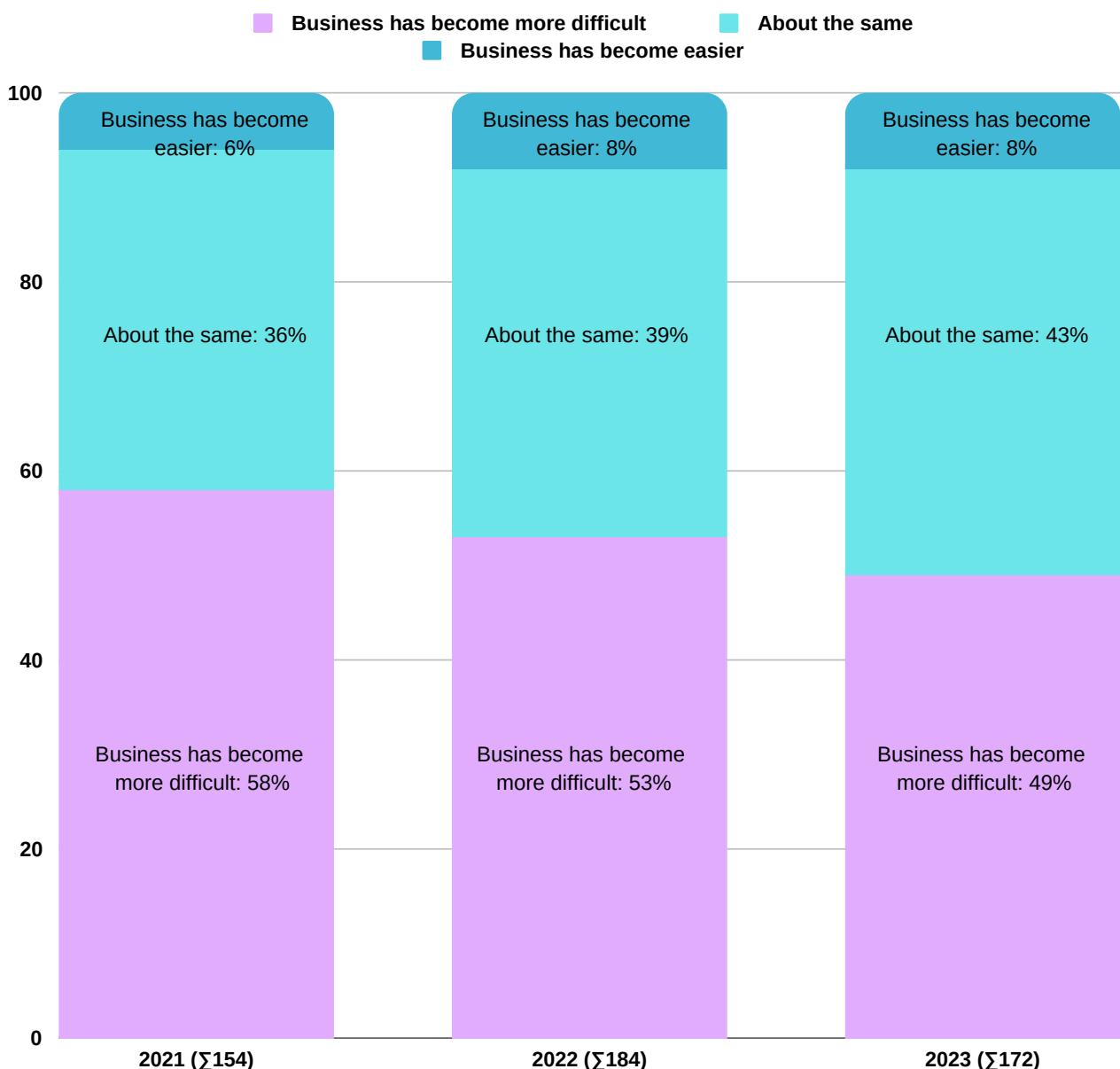


- The level of staff turnover has been very low; 83% of companies reported a staff turn over less than 20%

Business Environment

Business Environment

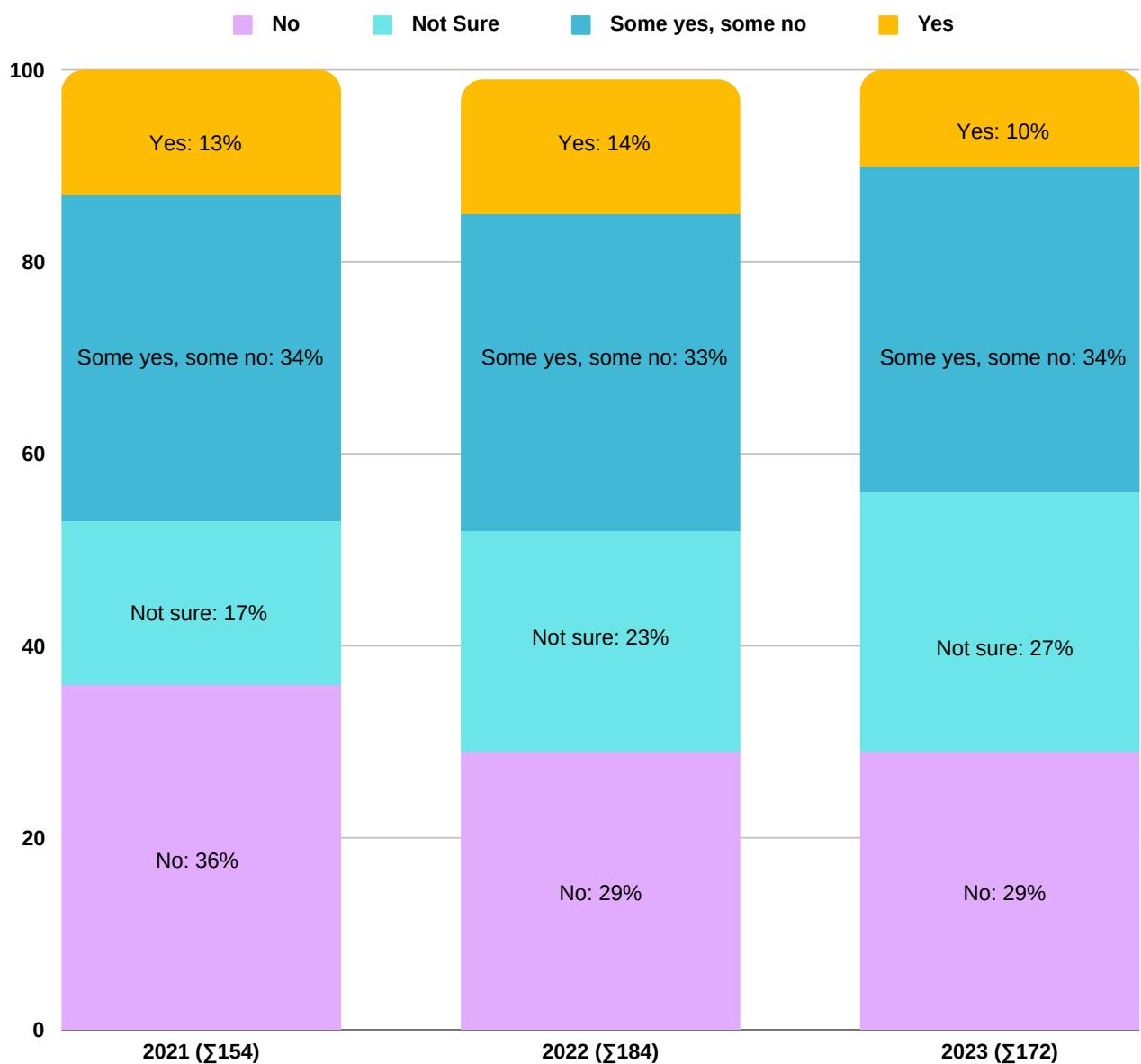
How has doing business in Korea for your company developed over the last 2 years?



- 49% of respondents indicated that the business situation has become more difficult over the past two years, while 43% view the situation more neutrally.
- Additionally, 8% have a positive stance on the current business situation.

Business Environment

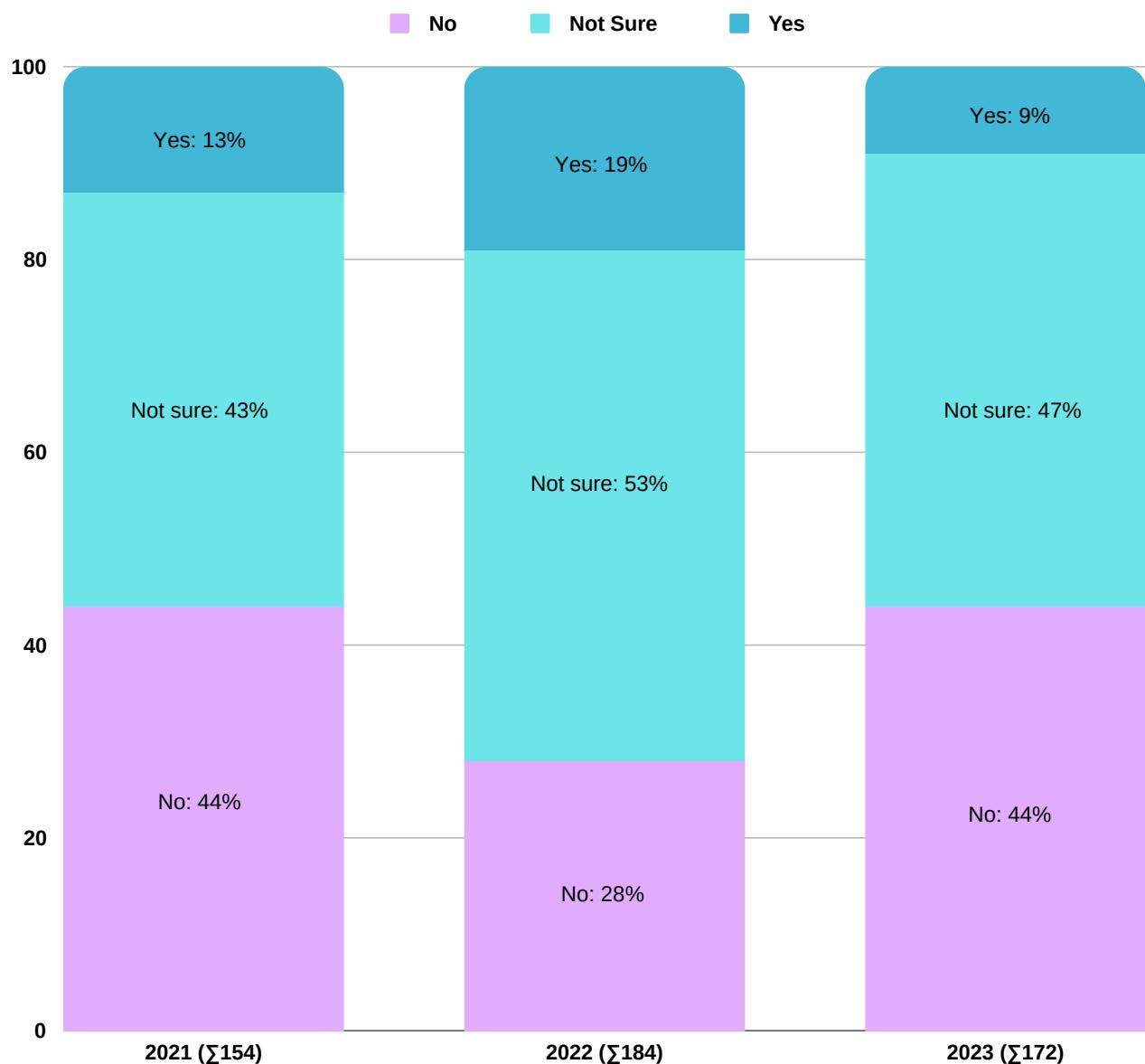
Do you believe that reforms implemented this year (2023) have helped your business?



- 10% of responding CEOs are of the opinion that reforms implemented in 2023 have been helpful for their business, while 34% see that some of the reforms were helpful and some were not.
- Additionally, 29%, which matches the number from 2022, provided feedback that reforms have not positively supported their business.

Business Environment

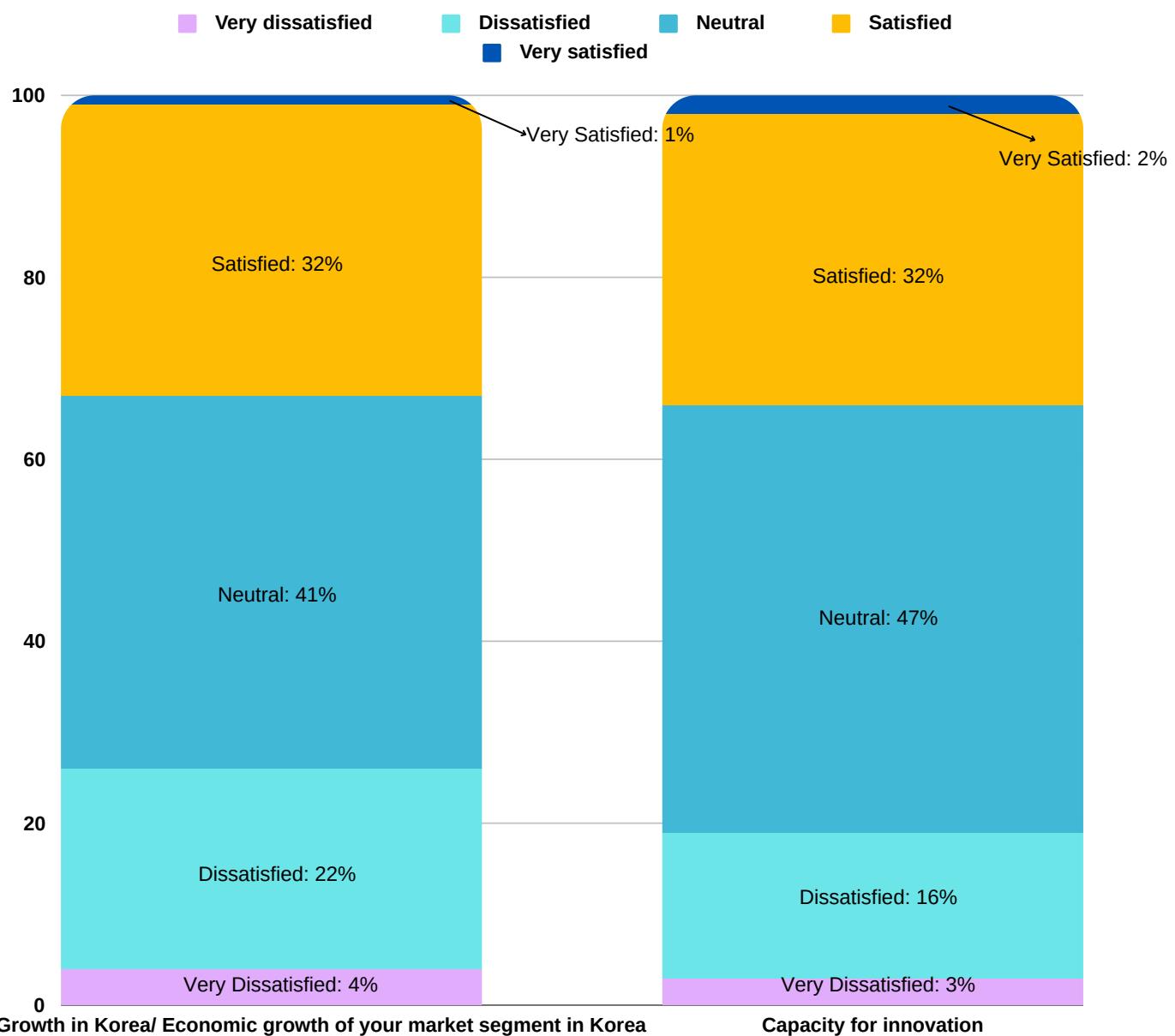
Do you believe that the Korean government will implement meaningful reforms next year?



- The outlook for reforms to be implemented has become quite pessimistic. Only 9% of responding CEOs are of the opinion that the Korean government will implement meaningful reforms next year.
- Meanwhile, 44% are not expecting meaningful reforms, and 47% are uncertain about the impact of those reforms.

Business Environment

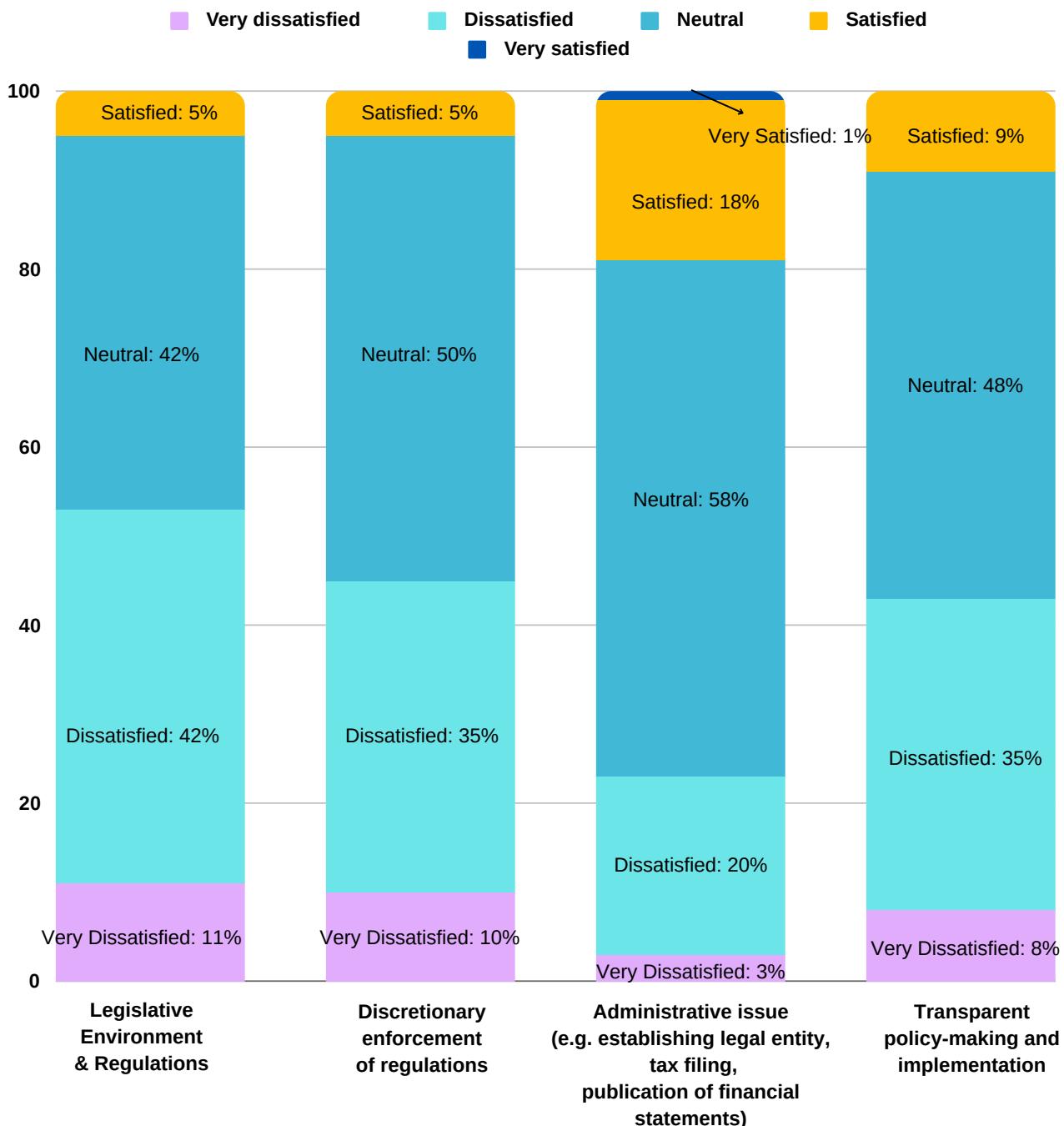
How do you perceive the following market parameters in your specific business in Korea (1) / ($\Sigma 172$)



- Assessing the economic growth in their respective market segments, 41% of the respondents are neutral, while 33% view it positively, and 26% of company executives are dissatisfied.
- Similarly, innovation is valued in a comparable manner, with 47% expressing neutrality, while 34% of company representatives are satisfied, and 19% are dissatisfied.

Business Environment

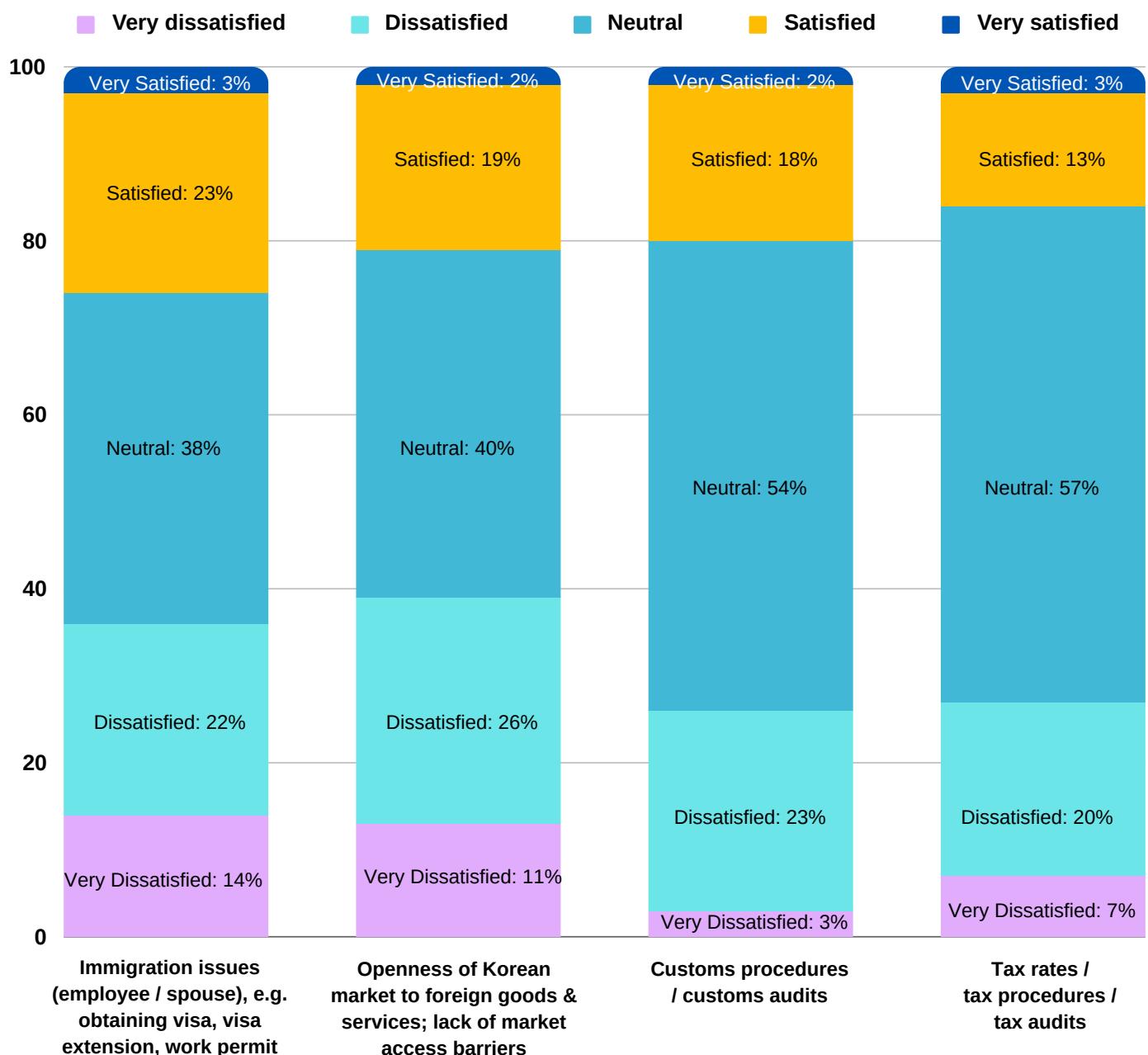
How do you perceive the following market parameters in your specific business in Korea (2) / ($\Sigma 172$)



- European companies particularly evaluate the legislative environment and regulations (53%), the discretionary enforcement of regulations (45%), and the transparent policy-making and implementation (43%) as non-satisfactory.
- Administrative issues are perceived slightly better (19%) compared to the other factors but still fall short of being evaluated positively.

Business Environment

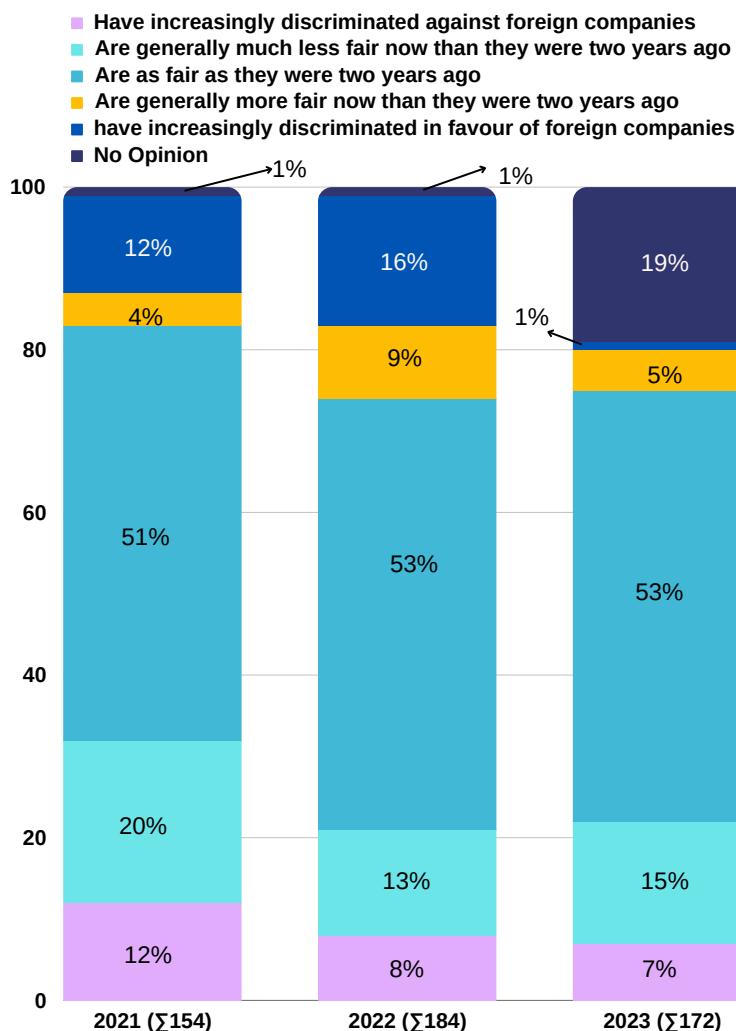
How do you perceive the following market parameters in your specific business in Korea (3) / ($\Sigma 172$)



- The only parameter showing a certain positive perception, where the satisfaction level increased compared to 2022, was customs procedures/customs audits, which saw a slight increase of 4%, rising from 16% to 20%.
- As for tax rates/tax procedures and tax audits, a larger share of responding companies expressed a more neutral.

Business Environment

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



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

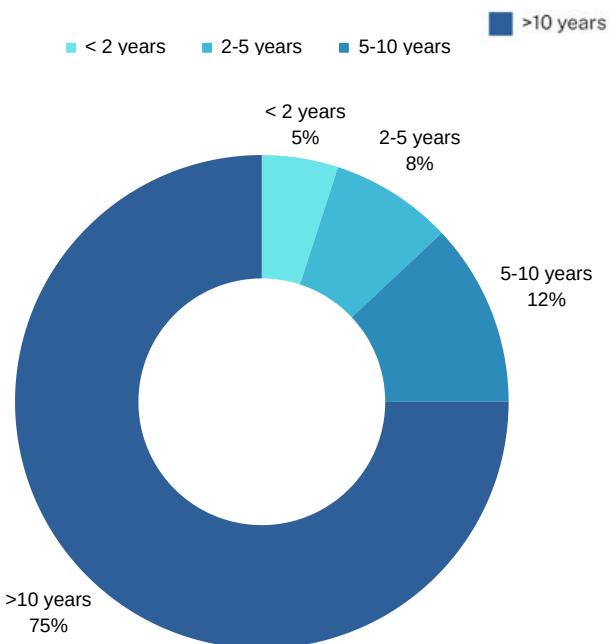


- The majority of European companies stated that government policies have been as fair as they were two years ago, and 49% perceive that they will remain as fair over the next two years.
- Additionally, 24% of companies believe that Korean government policies regarding the business environment for foreign companies will become increasingly discriminatory, representing a slight decrease compared to the previous year.

Respondent Profile

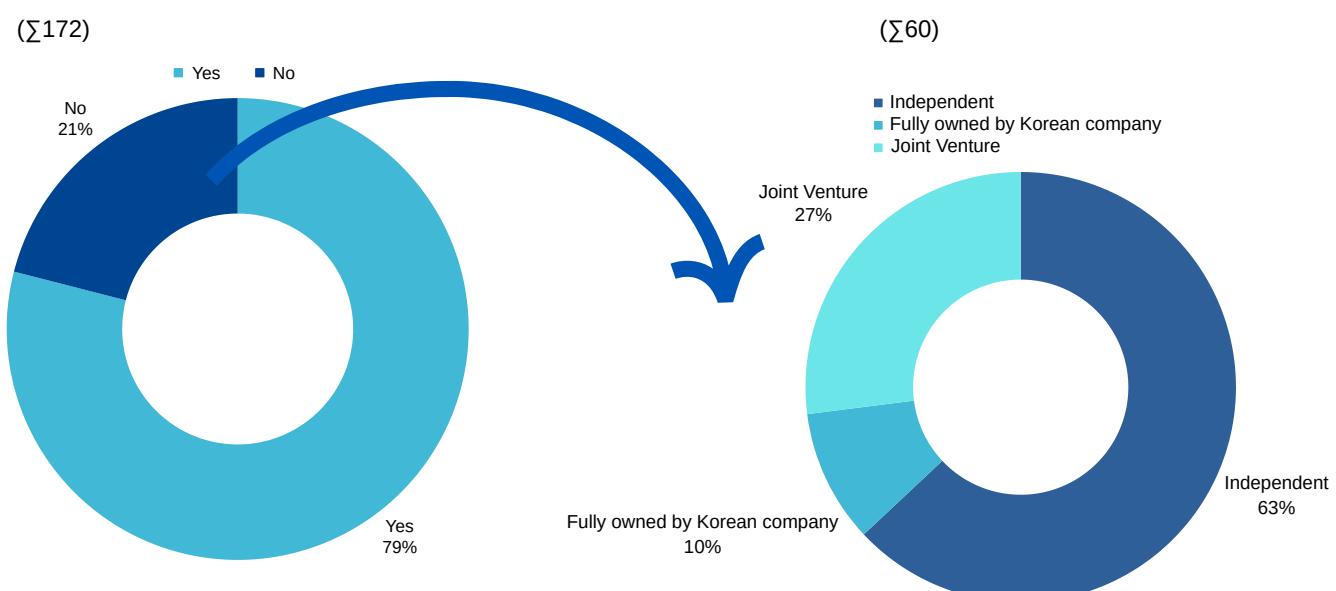
Respondent Profile

How long has your company been operating in Korea? ($\Sigma 172$)



- The majority of companies responding to the survey has been in Korea for a considerable period of time. 75% of the respondents replied that they have been operating their business in Korea more than 10 years. 12% of the companies have been operating in Korea for more than 5 years.

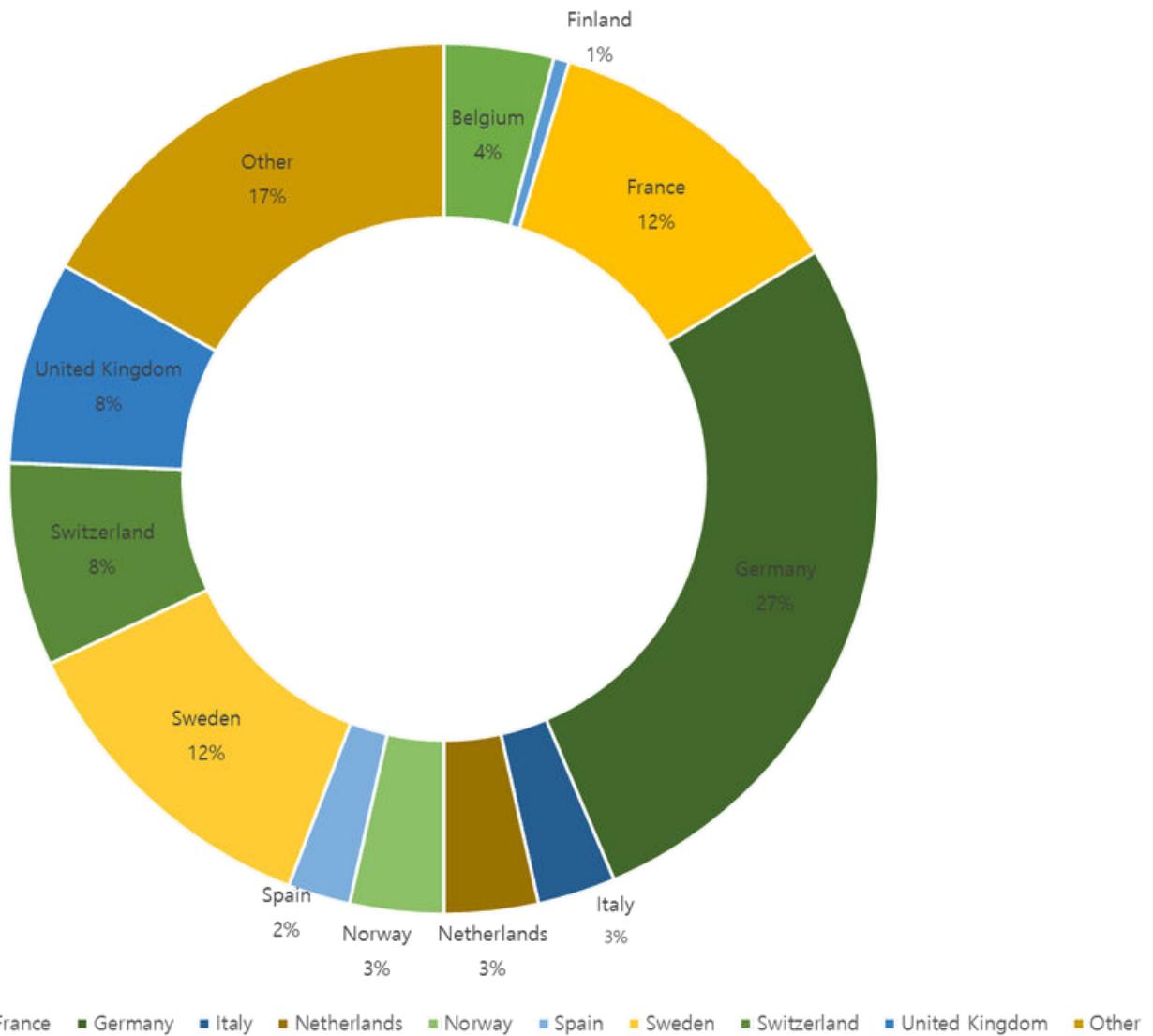
Is your company fully owned by a European company?



- The majority of firms responding to the survey, namely 79% of the respondents are fully owned by a European company.

Respondent Profile

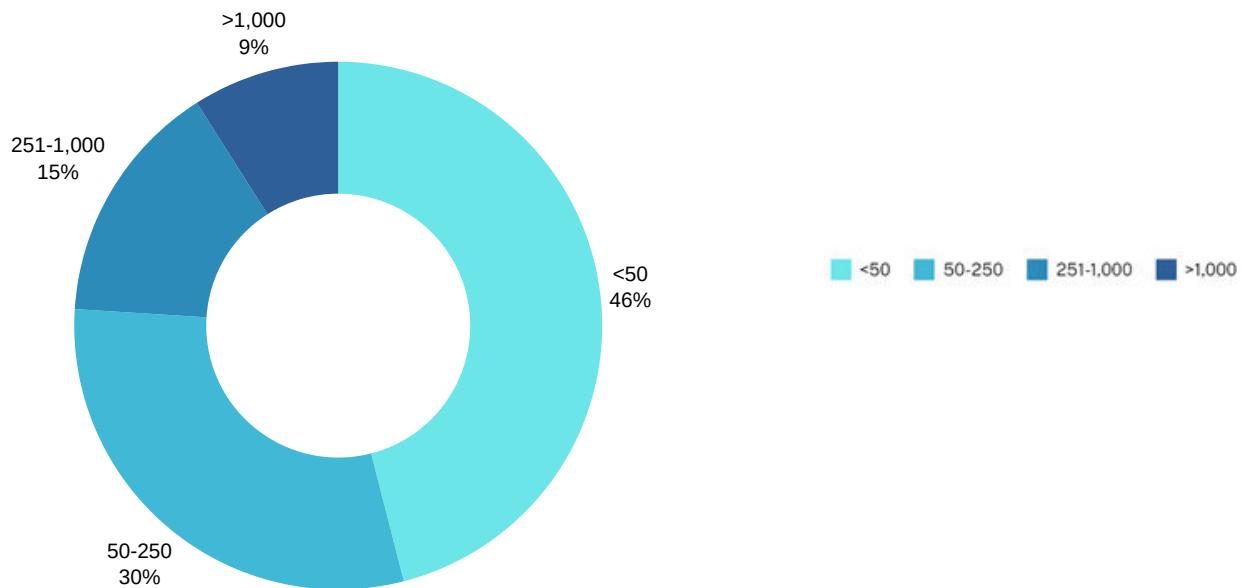
Where is your company headquarters registered? ($\Sigma 172$)



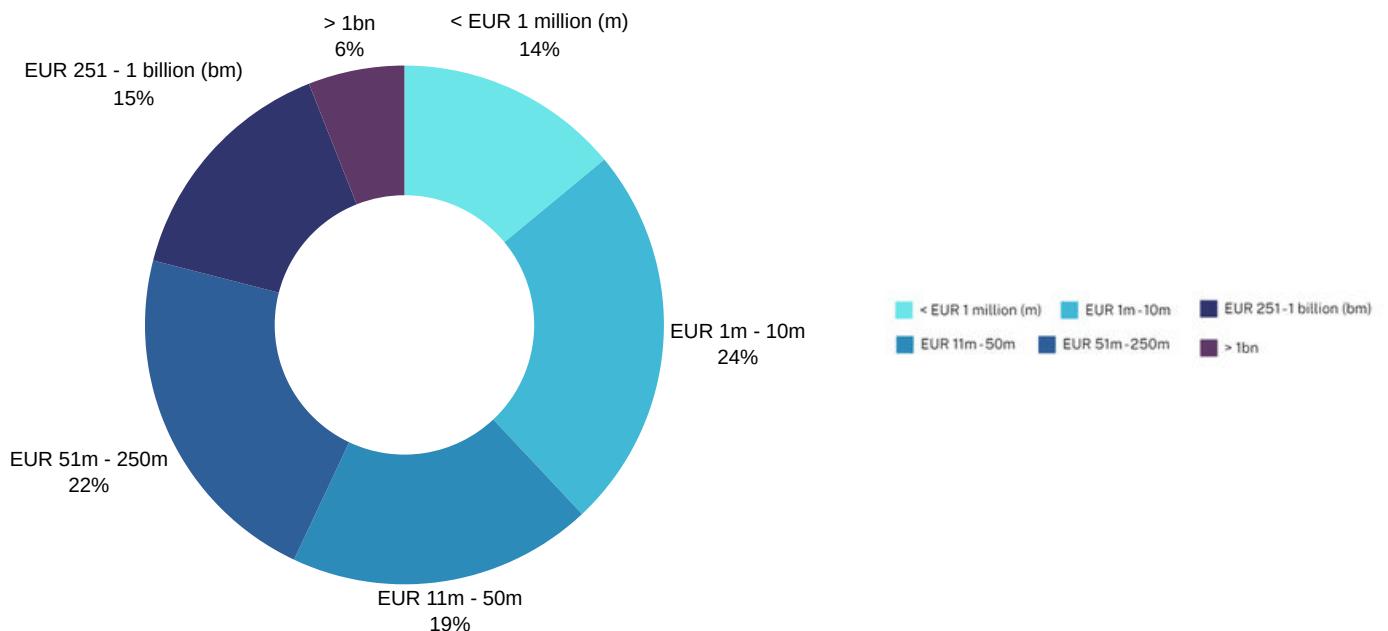
- The largest number of companies participating in the survey have headquarters in Germany (27%). Other company nationalities with strong representation include France and Sweden (12%), Switzerland (8%), the United Kingdom (8%), Belgium (4%), Italy, Netherlands, Norway (3%), and Finland (1%).

Respondent Profile

How many employees do you have in Korea in 2023? ($\Sigma 172$)



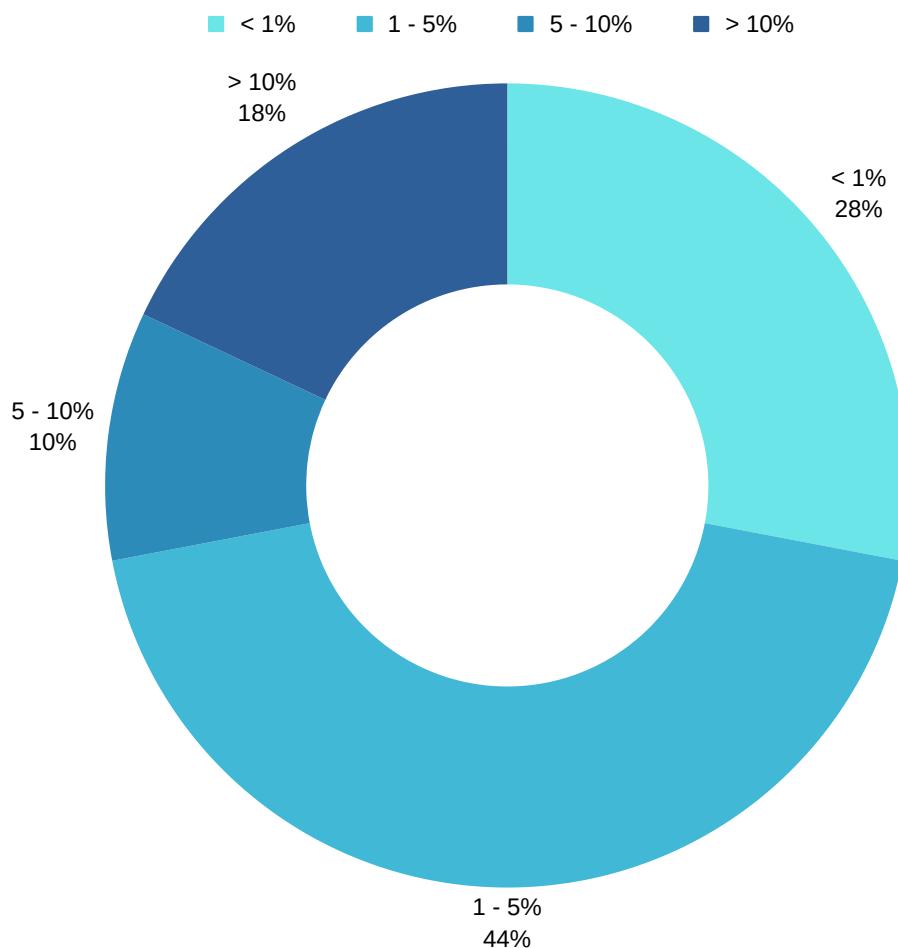
What is the total revenue of your company in Korea in 2023?



- Companies with less than 50 employees recorded the highest percentage, 46%.
- In terms of total revenue, companies with revenue between EUR 1m-10m responded the highest, at 24%, followed closely by those with revenue between EUR 51m-250m, which accounted for 22%.

Respondent Profile

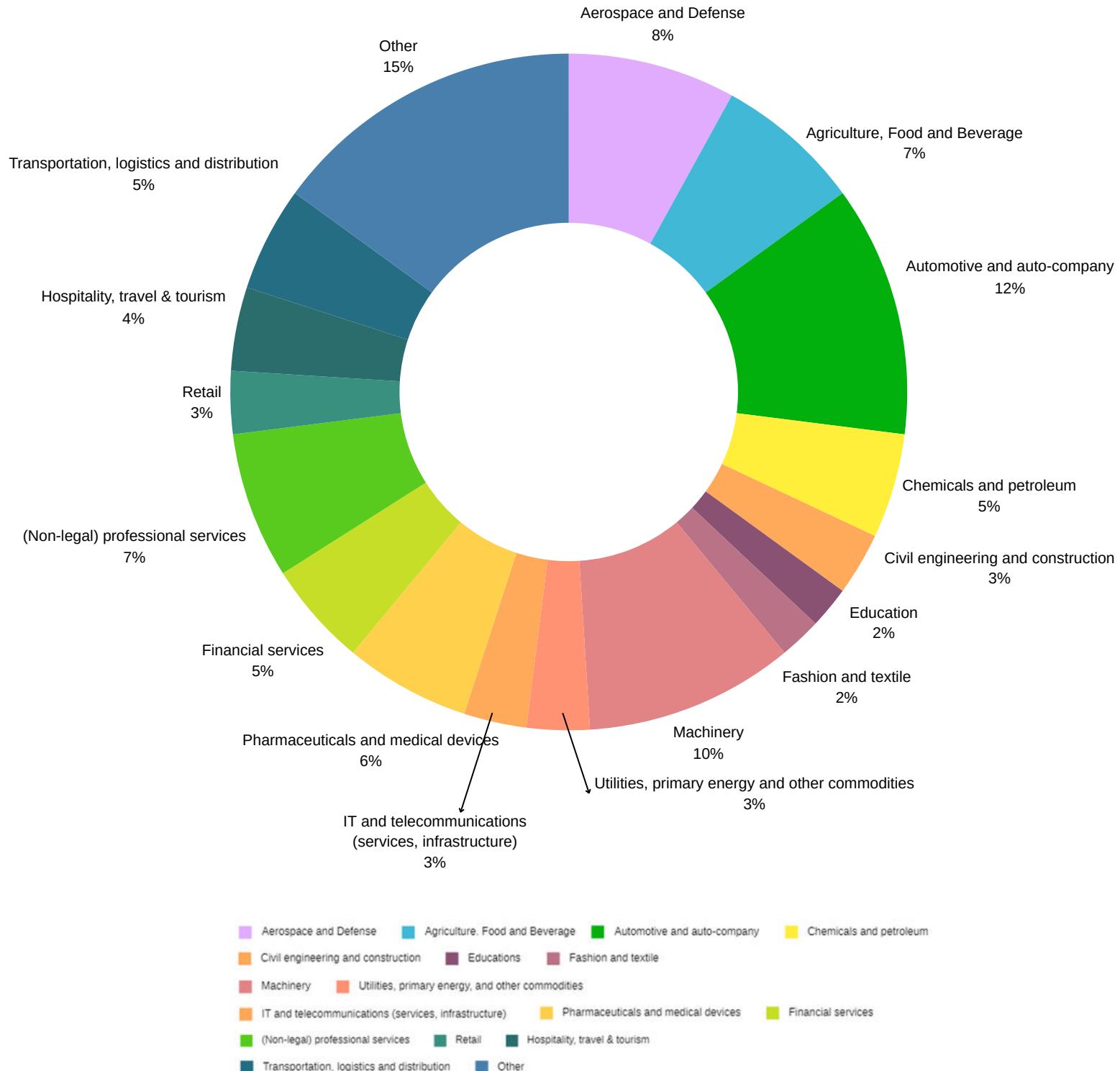
What proportion of global revenues in generated in Korea in 2023?



- 44% of companies generate up to 5% of their global revenue in Korea and 18% more than 10% of their global revenue.

Respondent Profile

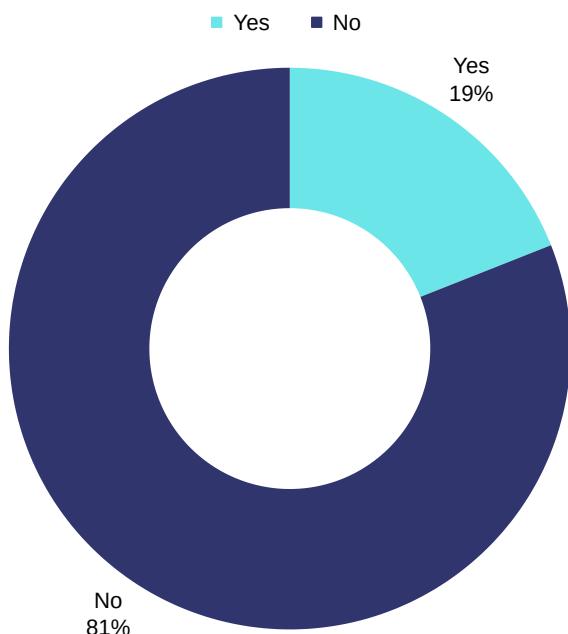
In what industry is your company mainly active?



- The highest number of replies came from the Automotive and Auto-company (12%) followed by the Machinery (10%) and the Aerospace & Defense (8%).

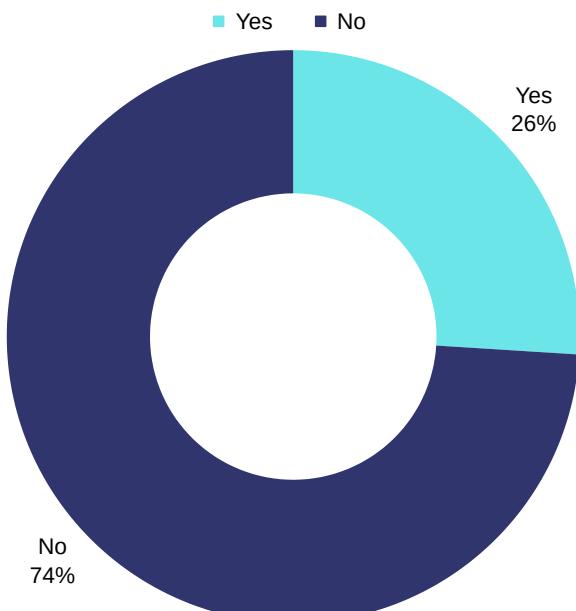
Respondent Profile

Does your company have R&D facilities in Korea?



- The majority of responding companies (81%) run their operations relying on overseas R&D activities as only 19% have R&D facilities in Korea.

Does your company have production facilities in Korea?



- A similar picture can be seen for production, where 74% European corporations import their products to the Korean market, whereas 26% produce goods either partially or fully in Korea.



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