

ECCK QUARTERLY REPORT Q1/2018

INTRODUCTION

The ECCK sees the Korean government pretty occupied with the US Administration but also with North Korea. The local election on June 13, 2018 is another substantial event impacting policy making. While the Korean Administration is currently focused on other developments and European interest has shifted more towards the finalization of the agreements with Japan and Singapore (with negotiations recently being concluded), it is important to continue engagement on a potential amendment package of the KOREU FTA with both Korean and European counterparts.

GENERAL OVERVIEW

The Korean government keeps its macro-economic forecast expecting the economy to grow by 3.0% although some private think tanks rather tend towards 2.8%. The USA has imposed additional tariffs on washing machines and solar panels which might have an impact but according to our view not a substantial one. The tariff increases foreseen by the US government on steel and aluminium could be avoided by Korea by limiting the steel exports and allowing 50,000 US-manufactured cars to be exported to Korea without complying with Korean safety standards. It is our understanding that both measures are not really substantial ones. It will be more interesting to see how the current trade conflict between the USA and the PR China will be further proceeded. There is undoubtedly a much bigger chance that a negative outcome will substantially hamper the Korean economy as the PR China (25%) and the USA (13%) are the main export destinations of Korean companies. MOTIE has announced to review its trade strategy and seek diversification, primarily focusing on markets such as Eurasia, ASEAN and India. Korea also aims to become the fourth biggest export nation by 2022 with exports of USD 790 billion (2017: USD 574 billion).

Trade between Korea and the European Union developed nicely; total trade in 2017 amounted to EUR 99.7 billion versus EUR 85.7 billion in 2016; an increase of EUR 14.0 billion or 16%. Exports from the European Union to Korea reached EUR 49.8 billion (2016: EUR 44.1 billion) and exports from Korea to the European Union EUR 49.9 Billion (2016: 41.6 billion). This means that Korea has generated for the first time since 2012 a trade surplus with the European Union in the amount of EUR 143 million.

The EU is with a capital stock of 32% the largest source of FDI stock in Korea followed by Japan (26%) and the USA (19%). In 2017, the FDI by EU corporations amounted to USD 6.5 billion, an increase of 68% versus 2016 when the FDI stood at USD 3.8 billion. Investment from EU Member States primarily came from Malta (USD 1,957 million), the United Kingdom (USD 1,869 million), and the Netherlands (USD 1,468 million) followed by Germany (USD 409 million), Ireland (USD 241 million), Luxemburg (USD 219 million) and France (USD 119 million). While MOTIE does neither disclose the company nor the country of origin behind the FDI, it is understood that not all FDI is actually provided by European

companies. This is especially true for Malta and Luxemburg. In Q1/2018, the FDI pledged to Korea amounted to USD 4.93 billion, up by 28% compared to the same period last year which is primarily due to the return of Chinese investors.

Negative news comes from the employment area: in March the overall unemployment rate hit 4.5% (up 0.4% versus previous month) and 11.6% for employees aged 15 to 29 years. The ECCK and other business associations have raised concerns about the sudden increase of the minimum wage and rather advocated for an evolutionary approach; additionally it is our belief that firstly the transaction prices between Korean conglomerates and their suppliers respectively the suppliers of the suppliers should be analysed to come up with a fair transfer price system to generate a sustainable income for SMEs allowing them to pay higher salaries.

ECCK MARKET OVERVIEW

The ECCK is of the position that innovations in the field of **Pharmaceuticals and Medical Devices** are not adequately honoured. The Ministry of Health & Welfare's (MOHW) target is rather one-sided: focused on reducing expenses in the national health insurance. It needs to be noted that the average reimbursement price of new pharmaceutical drugs in Korea is less than 50% of the average of the OECD countries. Therefore, we consider additional restrictions on state-of-the art drugs and medicine as being problematic, as they serve interest of neither companies nor the Korean patients who may in the future suffer under the non-provision of innovative drugs. The ECCK further sees the longer-term risk that the Korean market might become unattractive for European pharmaceutical companies in respect to new investment and launching of new products. This can lead to a situation where Korean patients would not be able to enjoy quick access to innovative medicine.

On March 28, 2018, the ECCK hosted together with the European Automobile Manufacturers Association (ACEA) and Korea Automobile Importers & Distributors Association (KAIDA), the **Korea-Europe Future Automotive Forum**. The registration of imported **Passenger Vehicles** is expected to increase from 233,088 in 2017 to 256,000 in 2018, clearly indicating a high demand for foreign cars. Additional momentum is expected to be generated by the return to the Korean market of Audi Volkswagen. The agreement between the USA and Korea to allow the export of 50,000 passenger cars to Korea which comply with US but not per se with Korean safety regulations, might be a possibility to strengthen the ECCK's request towards authorities for the implementation of international standards. Feedback received in December 2017 on the facilitation of the procedure related to "Emission Related Components" still needs to be verified. Just very recently, the government has announced to review the vehicle classification to ultra-compact cars. While long outstanding issues such as "Korea-EU FTA-HS Code Amendment for Truck Tractor" or "Vehicle Width Standard" for **Commercial Vehicles** have been raised at relevant avenues by ECCK, no developments are currently expected.

The ECCK is pleased to note a number of noteworthy developments to improve the Korean **Intellectual Property (IP)** environment (related to enhanced exchange of information, criminal penalties for 'dead copies' and the continuation of Korea Customs Service's publication on their seizures of counterfeit goods). While various improvements have been made, the overall perception of IP protection in Korea has gradually decreased (as per the World Economic Forum (WEF)'s Global Competitiveness Report 2016-2017 as well as the Business Confidence Survey 2016). We are therefore pleased that the European Commission has included a number of the challenges highlighted by ECCK in its Commission's Report on the Protection and Enforcement of Intellectual Property Rights in Third Countries. On March 21, ECCK further organized its second seminar on Standard Essential Patents, focusing on recent developments in both Europe and Korea.

In the area of **Food & Beverages** some small improvements could be seen, e.g. the rule disallowing shipment of alcoholic beverages of various producers has been deleted. On the other hand, the ECCK is observing a quite intense media coverage on an imbalanced taxation system for the beer market. Progress is also missing at European meat exports; a seminar organized by the European Commissions' Directorate-General for Agriculture and Rural Development on March 20, 2018 covered the EU Agri-Foods SPS (Sanitary and Phytosanitary Measures).

Throughout May, the ECCK will approach companies not yet being served via a committee to invite them to industry sector meetings to learn about issues experienced. This might act as a preparation meeting for the working groups meetings in Brussels to be held by the European Commission and the Korean government in June this year.

ECCK REPRESENTATION

April 11, 2018: The ECCK participated as a member of the EU Domestic Advisory Group in the Korea-EU Civil Society Forum. The **Korea-EU Civil Society Forum** is defined in the annex of the Korea-EU FTA and held once a year; the members of the Korean and the EU Domestic Advisory Groups are nominated by each government. On April 11, 2018 the following issues have been discussed:

- Circular economy
- Environmental risk factors
- Youth employment
- Gender pay gap
- Labour standards

The ECCK has commented especially on circular economy and environmental risk factors based on recommendations from member companies. The minutes of the forum are non-public but only sent to the European Commissioner for Trade Cecilia Malmstrom and the Korean Presidential office. It is our hope that Korea will start implementing advanced policy related to environment protection in due course as Korea is to host the United Nations Forum on Climate Change in 2019.

April 11, 2018: The ECCK hosted together with KITA and KISA a conference on EU General Data Protection Regulation (GDPR) which was attended by almost 500 people. The EU GDPR is to become effective on May 25, 2018. The reason for the strong interest of Korean companies is to be seen in the fact that companies exporting goods and services to the EU also have to comply with this new regulation.

April 12: The ECCK joined a panel discussion on April 12, 2018 at the "International Seminar on Ratification of ILO Core Conventions in Korea and Trade Union Rights for All" and expressed its view that the four ILO Core Conventions (29 on Forced Labour, 87 on Freedom of Association, 98 on Right to Organise and Collective Bargaining, and 105 on Abolition of Forced Labour) need to be ratified and implemented. It is the ECCK's view that Korea needs to take an international lead equivalent to its economic power. Korea joined the ILO in 1991 when the GDP per capita was USD 7,500, in 2018 it is forecasted that the GDP will exceed USD 30,000. Korea currently is the sixth biggest export nation targeting to reach rank four by 2022.

April 18: The **Anti-Corruption-Civil Rights Commission** invited foreign business associations to an information exchange. The ECCK has acknowledged the progress made and has offered its full support

to move Korea more towards a complaint society. In this respect we believe it would have been wiser not to arbitrarily amend the monetary limit for agricultural gifts which was increased from KRW 50,000 to KRW 100,000 as this decision could be interpreted that business counts more than compliance.

ECCK OTHER ISSUES

The ECCK has addressed continuously since 2013 to harmonize the valuation procedure of import prices (Korean Customs Services [KCS]) and transfer prices (National Tax Services [NTS]). Effective as from this year, companies are now able to use transfer pricing methods for custom purposes.

 The **Korean Immigration Office** made changes to the C-3-4 Short Term Business Visa and implemented those on March 8, 2017. Accordingly, people working on the installation, repair or operation of imported machinery, production or supervision of shipbuilding, industrial facilities, and industrial equipment or engineering services for industrial facilities are all required to enter Korea with a C-4 Visa. In 2017 it seemed that the Korean immigration has not fully checked whether the business traveller entered the country with a proper visa or not. This might change in 2018 as immigration might have now more travel data in their systems and sample checks on short-term business travellers might be conducted.

 The **National Tax Services (NTS)** requires Korean residents (Individual and corporations) to report their overseas financial accounts to Korean authorities. The ECCK would like to stress the importance of this requirement as non-compliance might lead to penalties of 20% of the non-reported amount or even to criminal cases. The threshold was lowered for 2018 to KRW 500 million (KRW 1 billion in 2017) and refers in general to financial accounts related to one household.

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ECCK

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