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# ECCK QUARTERLY REPORT Q4/2018

## INTRODUCTION

The Moon Jae-in administration maintained its focus on improving North Korean-South Korean ties. It also was a main agenda item when President Moon Jae-in travelled to Europe in October where he participated in the **Asia-Europe Meeting (ASEM) Summit** (October 18 to 19, 2018) and the **EU-Korea Summit** on October 19, 2019. The public focus in Korea shifted more towards the development of the Korean economy, i.e. economic growth and job creation. The Bank of Korea reduced its growth outlook for the Korean GDP in 2018 to 2.7% - which also could not be compensated by a booming export. The creation of jobs remained below expectation and also the income per household did not develop as anticipated. **The appeasement process with North Korea initiated by Moon Jae-in definitely earns praise and respect. Moon Jae-in's approval ratings nevertheless decreased further in Q4/2018 to 45.9%** (53.1 Q3/2018) according to Realmeter. It seems that the general public recently weights economic and employment issues higher than the remarkable results in the relationship with North Korea.

In order to boost his economic policy, Moon Jae-in replaced two further key figures in his cabinet. **Lee Jae-gap** was appointed **Minister of Employment and Labour** in September 2018 and **Hong Nam-ki** was appointed **Deputy Prime Minister and Minister of Economic & Finance** in December 2018. Although the new minister confirmed that the governmental economic policy will be continued in its core principles, the ECCK has some slight hopes that certain adjustments will be made in order to better the business environment.

The **EU-Korea Summit** at which President Moon met with Donald Tusk and Jean-Claude Juncker on October 19, 2018, was unfortunately **not concluded with a joint statement**. EU-Korea Working Group Meetings were finally held in December 2018 and information will be provided to key stakeholders as from the middle of January 2019.

In December 2018, the **European Commission requested formal consultations** with the Korean government on the ratification of four outstanding **ILO Core Conventions** pertaining to freedom of

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association and protection of the right to organize, the abolition of forced labour and the right to collective bargaining. The consultation period is set with 90 days and accordingly the ECCK expects some public statements in the middle of March 2019.

## GENERAL OVERVIEW

The Bank of Korea reduced its macro-economic forecast, expecting the economy to grow by 2.7% instead of 2.9 % (September 2018; previously 3.0%). Exports are expected to have surpassed USD 600 billion in 2018 with about 20% contributed by Semiconductors. While considerable, this growth in exports could not help to move the overall GDP growth rate towards 3.0%.

The most pressing domestic area in 2018 is the development of the job market. The ECCK and other business associations keep their view that an evolutionary approach is preferable over a sudden increase of the minimum wage. The determination of the minimum wage for 2019 to KRW 8,350 (+10.9%) might be one of the reasons why employment in certain service sectors has been on a decline. Recent statistics also have shown that – despite an overall creation of new jobs of 97,000 (dipping below 100,000 additions for the first time since 2009) – in the non-farming private sector the number of jobs decreased by 16,000 (following increases in 2017 by 256,000, in 2016 by 239,000). The challenge for the government in 2019 is to bring back job creation in the private sector through the continuation of its income led growth initiative in combination with meaningful policy initiatives which allow businesses to counteract on those cost increases and to generate sustainable business. This only can be achieved by strong collaboration by all stakeholders, meaning central and local government, Korean and foreign business as well as Labour Unions.

The economic outlook for 2019 is not that bright with an expected GDP growth of 2.3%. Other concerns are a slowing down of the demand for semi-conductors and therewith – best case – only a regular growth in exports. Challenges are substantial and that's why **concerted initiatives are of high importance**.

The Korean government is committed to facilitate or better the business environment, as stated by Moon Jae-in at the [opening ceremony of the SK Hynix Plant in October 2018](#). "Once the government receives requests from private companies to discard old-fashioned hurdles, then we will do it. I want government agencies to work together to remain very responsive in a timely manner".

**Overall trade between Europe and Korea** in Q3 amounted to EUR 25 billion, which represents a **decrease of EUR 1.1 billion** compared to the same quarter one year earlier. While Korean exports to Europe increased slightly, European imports to Korea decreased by EUR 1.2 billion.

**Trade between Korea and the EU** during this period totalled EUR 23.6. This amounts to a **decrease of 0.6 billion** compared to the same period in 2017, caused by a EUR 0.6 billion decrease in exports to Korea against consistent imports from Korea.

**Trade between Korea and EFTA** made up EUR 1.4 billion (**down EUR 0.5 billion** compared to Q3/2017, with EUR 0.37 billion in exports to Korea and EUR 1.05 billion in imports). EFTA exports to Korea decreased by 63% (EUR 1 billion in Q3/2017), whereas imports from Korea increased by 11% (EUR 0.95 billion in Q2/2017).

The total pledged European Foreign Direct Investment (FDI) into Korea in the third quarter of 2018 amounted to USD 3.8 billion. Actual investment by European industry amounted to USD 194 million,

which is just over 12% of the same quarter one year earlier (USD 1.6 billion) and **the lowest figure in since the first quarter of 2004** (during which the arrived European FDI amounted to USD 116 million). Investment in Q3/2018 primarily came from the Netherlands (USD 80 million), the UK (USD 44 million) and Switzerland (USD 31 million)<sup>1</sup>.

## ECCK MARKET OVERVIEW

The **ECCK White Paper** dominated the chamber's activities in Q4/2018. The publication was ready in the middle of October and then handed over by the ECCK Secretariat to relevant ministries in **16 face-to-face meetings**. Thereafter the ECCK sent a **delegation to Brussels and Geneva** to up-date key stakeholders on the business environment in Korea and to hand over the White Paper. The delegation was led by the ECCK Chairman Dimitris Psillakis who was joined by fellow ECCK Board Members Andre Schmidtgall and Dirk Lukat and members of the ECCK Secretariat Christoph Heider, Sven-Erik Batenburg, and Jeong Hyun Kim. Meetings at the European Commission were held with – among others – **Commissioner Hogan of DG AGRI**, Risto Artjoki, the Head of **Cabinet Katainen (JOBS)**, Christian Hedberg, the Deputy Head of **Cabinet Biéńkowska (DG GROW)**, and members of the **Cabinet Malmstrom (DG TRADE)**. The delegation met in Brussels also with Korean Ambassador Kim, ACEA, BUSINESS EUROPE, CEFIC and EFPIA, and SPIRITS EUROPE before heading to Geneva to conclude the trip with meetings at the **EFTA Secretariat, the WTO and WIPO**. The [White Paper Press Conference](#) was held on November 27 at the Lotte Hotel and attended by close to 30 journalists from Korean major newspapers. The ECCK believes that the **123 recommendations** included in the White Paper will help to better the business environment for European, but also other, companies operating in Korea; and by improving the business landscape to also contribute better to economic growth, to job creation, and to a sound financing – via corporate and individual taxes – of the governmental financial budget for 2019.

**Passenger Vehicles Committee** and **Heavy-Duty Commercial Vehicles Committee**: A number of amendments of the Korean Motor Vehicle Safety Standard were announced in December 2018. The standard for minimum ground clearance was mitigated from 12cm to 10cm. The crash safety standards for passenger vehicle were also amended to include frontal impact and pole side impact standards. However, concerns were raised by committee members regarding the possible problems that can occur due to the different enforcement date of the new crash safety standards compared to the enforcement date of regulations in the EU. In order to enhance the international harmonization of Korean safety standards, MOLIT and KATRI had a meeting with automotive manufacturers to establish the long-term roadmap on the harmonization activity.

**Tires Committee**: MOTIE is preparing an amendment of its minimum energy efficiency standard. The application date and the grace period for the sales of old type tires is being reviewed by Korean authorities to apply a similar application scheme as in the European Union.

The **Chemical Committee** delivered a questionnaire list on K-REACH to the Ministry of Environment (ME) and received feedback from the Ministry. On November 9, a meeting with the EU Delegation was held to update key issues of the chemical industry. ECCK also submitted opinion letters concerning the proposal of K-BPR notifications and regulations to ME. Additionally, ECCK raised its opinion regarding the Universal Chemical Tracking System under CCA at a roundtable meeting with ME in November and regarding the registration of small volume substances under the Korea Occupational Safety and Health Act (OSHA) at a roundtable meeting with KOTRA and the Ministry of Employment and Labor (MOEL) in

<sup>1</sup> 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.

December. The amended K-REACH and lower statutes of K-BPR were promulgated at the end of December and come into effect as of January 2019.

**Cosmetics Committee:** On November 14, 2018, the ECCK visited the Ministry of Food and Drug Safety (MFDS) and had a meeting with its Cosmetics Policy Division to hand over the White Paper. ECCK updated the industry position to the EU Delegation in preparation for the Trade in Goods Committee meeting scheduled on December 8 in Brussels. ECCK organized a meeting with the National Fire Agency (NFA) to confirm that cosmetics are not the scope of the dangerous substance regulations dated on December 14. The NFA agreed with ECCK's position and a final decision is expected in 2019. Following the members' request, ECCK called a meeting with the Korea Pharmaceutical Traders Association (KPTA) to smooth the Electronic data interchange approval process on December 17. The KPTA promised to keep the deadlines specified at TBR agreements between EU and Korea. On December 20, ECCK submitted an opinion letter to the MFDS, calling for alignment of safety standards of cosmetics to EU rules.

**F&B Committee:** The labeling regulations that were spread-out through the Food Sanitation Act, Health Functional Foods Act and Livestock Products Sanitary Control Act are due to be integrated and controlled as a single act which is 'Act on Labeling and Advertisement of Food Products, etc.' (Enacted March 2018, to be enforced from March 2019). There are intense discussions between the MFDS and the Ministry of Agriculture, Food and Rural Affairs (MAFRA) regarding health claims on general food products. To generate more R&D investment on general food, MAFRA requested to allow health claim on food, however MFDS opposes such due to concerns about consumers misleading. On a positive note, "Assurance", "Guarantee" (e.g. Halal, Kosher, etc.) or "Recommendation", or similar expressions can be used on labels and in advertisements without prior registration. The business operator is required to prepare relevant documents and submit these upon request by the government.

On October 16, the **IPR Committee** organized its annual highlight **EU-Korea IPR Conference**. Marking its sixth edition, the Conference focussed on the effect of Industry 4.0 on intellectual property protection and featured presentations by 26 distinguished experts from government and industry. On December 7, the European Commission published an overview of the most problematic online and physical markets situated outside the EU that are reported to engage in or facilitate IPR infringements, the **Counterfeit and Piracy Watch List**. Including Seoul's Dongdaemun street market, as well as Naver.com, the findings in the Watch List resonate with the European Commission's Report on the Protection and Enforcement of Intellectual Property Rights in Third Countries (in which concern was expressed about enforcement against the sale counterfeit goods in Korea, both online and offline) as well as with ECCK and its members' experience (as also indicated in the **IPR chapter of the ECCK White Paper 2018**).

**Healthcare Committee:** ECCK started White Paper handover process and met the Director General of MFDS' Medical Device Division on October 30. The Committee prepared an executive summary of the White Paper and it will be used for external communication when representing the Committee. On November 20, ECCK visited the Ministry of Health and Welfare (MOHW) and handed over the White Paper to the Division of Trade Affairs. The Committee will have an update meeting with the EU Delegation in January 2019 to prepare for the FTA Working Group Meeting on Pharma and Medical Devices. The drug pricing policy for innovative drugs will be revised due to KorUS FTA renegotiation. The revision will solve certain discrimination, although premium pricing for innovative drugs is excluded.

## ECCK REPRESENTATION

- October 4: Meeting with Foreign Investment Ombudsman Sung Jin Kim
- October 25: Meeting with KOTRA Director General Shinhak Kang
- October 30: Meeting with Director General for Medical Device Safety Bureau Jinseok Kim
- November 2: Meeting with MOTIE Director General for FEZ Yong-chaе Kim
- November 6: Meeting with MOTIE Deputy Minister Changkyu Kim
- November 19-23: Meetings in Brussels and Geneva
- December 10: Meeting with MOTIE Director General for Investment Policy Ho Joon Lee
- December 12: Meeting with MOEF Director General for International Tax Sangyool Lee

## ECCK OTHER ISSUES

**!** The **Act on External Audit of Stock Companies** has undergone some substantial amendments, Companies of a certain size (KRW 100 billion), have to set up an Audit Committee consisting of seven (7) qualified people. One member of the Audit Committee can be the statutory auditor of the company as the six (6) other qualified members of the Audit Committee are to be external experts. The names of those selected members need to be provided to authorities on or before February 14, 2019.

**!** **Repetition due to its high importance for foreign individuals: 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 charges. The threshold was lowered for 2018 to KRW 500.0 million (KRW 1.0 billion in 2017) and refers in general to financial accounts related to one household.

**Joint Business Confidence Survey:** The ECCK, in cooperation with 11 other national chamber organizations, is conducting its fourth annual Business Confidence Survey this year and kindly asks for the participation of **European business leaders active in Korea.**

The survey aims to monitor European companies' successes and challenges over the past year as well as its expectations for 2019. With the purpose of creating a more fair and transparent business environment in the country, the survey is a highly important tool. The factual data it provides will be used to advocate the desires of the European business community towards the Korean government entities.





The survey is open as of **Monday, January 14** and will be conducted until **Friday, January 25**. The **survey report** will be **presented at the end of February 2019**. We ensure complete confidentiality to all survey respondents.

January 18, 2019  
ECCK

**About ECCK:**

The European Chamber of Commerce in Korea (ECCK) is the pre-eminent association of European companies conducting business in or related to Korea. Representing the common voice of the European business community in Korea, the ECCK aims to function as the platform for information exchange, effective communication channel to the Korean authorities and convener of networking opportunities for European businesses. The ECCK is a non-profit and non-political organization. ([www.ecck.eu](http://www.ecck.eu))

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