
ECCK QUARTERLY REPORT Q3/2019

INTRODUCTION

Korea's economic outlook is still hampered by the on-going trade conflicts between the USA and the PR China on one side as well as between Korean and Japan. In Q3/2019 no real progress has been made in respect to the USA-PR China Trade Conflict. Only recently there was a slight hopeful news namely that the US administration has postponed 10%-tariffs initially planned to be implemented on USD 300 billion of Chinese exports on September 1, 2019 to December 15, 2019. Despite this postponement, Korean exports to the PR China – which accounts for about 25% of total Korean exports – are considerable down primarily due to the overall uncertainty and consequently lower demand.

The Korea-Japan-Trade conflict which started with the Japanese announcement to implement export controls for some strategic chemicals and further escalated due to the removal of Korea from the Japanese White list, the termination of the General Security of Military Information Agreement (GSOMIA), and lastly the removal of Japan from the Korean white list. The boycott by Korean consumers in some areas hit Japanese companies pretty hard. In some areas, European companies benefited, but in other areas – like beer where Asahi beer used to be the “Number 1” beer among imported brands – consumers turned to Korean brands.

The ECCK has encouraged both governments to look for constructive solutions but the outlook on finding a diplomatic acceptable solution remains bleak in a short term. The Korean administration has initiated a search of alternate suppliers being able to substitute the Japanese products. This means if respective product tests are successfully completed, products might be sourced as from 2020 from different companies than those Japanese firms. The ECCK remains cautiously optimistic that talks between Korean and Japanese government officials will lead to certain improvements and to certain

normalization of political relations between those two countries. On October 11, 2019 bilateral consultations between both governments took place in Geneva.

The Korean government also came up with a plan to reduce the export dependency on the PR China, the EU, Japan and the USA from 53.4% (2018) to 40% in 2020.

Domestic policies recently have been dominated by the appointment of six new minister by President Moon Jae-in. The most relevant for the European business community are Minister of Justice Cho Kuk, Chairperson of the Korea Fair Trade Commission Joh Sung-wook, and Financial Services Commission's Chairman Eun Sung-soo. While the appointment of Joh Sung-wook, Eun Sung-soo and other ministers have been widely accepted by political parties and the general public, the appointment of Cho Kuk was heavily disputed. Cho Kuk resigned on October 14, 2019 just after 36 days after being appointed. A survey published on September 23, 2019, showed that 50.4% of respondents remained negative over President Moon's handling of state affairs.

GENERAL OVERVIEW

The Bank of Korea has lowered its outlook for economic growth this year to 2.2% from 2.5%; it seems nevertheless that even 2.2% is difficult to reach in 2019 as indicated by others such as Morgan Stanley or Nomura Securities who estimate and economic growth of only 1.8%. A positive factor might be that the decrease in export of semi-conductors might end soon as prices for those products are stabilizing and decrease in demand has bottomed out. Inflation is also projected to remain low; the Bank of Korea has cut its projection to 0.7% from previously 1.1%. Interestingly, the Bank of Korea also has lowered the economic growth potential from 3.0% to 2.5-2.6% for 2019 and 2020. "South Korea's economic potential has been structurally weakening, and the economy recently has been performing far below the potential rate," the central bank said on September 9, 2019.

A pressing issue Korea needs to settle is the trade conflict with Japan in order to avoid negative impacts on its economy. Furthermore, we believe that beside additional public budgets, other sideline-measures such as the flexibilization of labour law could lead to a certain recovery in GDP. The drastic increases of the minimum wage in 2018 and 2019 still is not yet digested by Korean companies; the restriction of the maximum working hours to 52 hours still remains a challenge. Although employment data recently show a better picture it must be noted that new jobs have been primarily created for the older generation (employment for people aged 50 to 59 plus 127,000 jobs, people aged 59 and older plus 372,000 jobs); workplaces for the younger generation instead decreased (employment for people aged 15 to 29 minus 4,000 jobs and aged 30 to 39 minus 32,000 jobs).

In September a discussion was launched about the status of Korea at the World Trade Organization (WTO). Korea designates itself as a developing country at the WTO, which is linked to being allowed to provide KRW 1.5 trillion in subsidies to farmers annually. It seems that further discussion is needed before we see a decision on that.

Trade in Goods between Europe (EUR) and Korea (KOR)

Unit Value: EUR million	H1/2019		H1/2018		H1/2019 vs H1/2018	
	EUR > KOR	KOR > EUR	EUR > KOR	KOR > EUR	EUR > KOR	KOR > EUR
EU	23,982	25,928	24,697	24,875	-3.0%	4.1%
EFTA	2,860	1,454	2,064	1,823	27.8%	-25.4%
Total	26,136	27,382	26,761	26,698	-2.4%	2.5%

In H1/2019, exports from the EU to Korea decreased from EUR 24.7 billion in H1/2018 by 3% to EUR 24 billion; exports from Korea to the EU reached EUR 25.9 billion compared to 24.9 billion in H1/2018 (+4%). Exports from EFTA to Korea in H1/2019 increased to EUR 2.8 billion (+28%), whereas exports from Korea to EFTA decreased by 25% to EUR 1.5 billion. Total exports in H1/2019 from Europe (EU & EFTA) to Korea reached 26.1 billion versus 26.8 billion in H1/2018 (-2%), whereas exports from Korea to Europe amounted to EUR 27.4 billion versus EUR 26.7 billion in H1/2018 (+3%).

Q1-Q3 2019 - Foreign Direct Investment (Arrived) in Korea

Unit Value: USD billion	Q1-Q3 (Jan-Sep) 2019		Q1-Q3 (Jan-Sep) 2018		Q1-Q3 2019 vs. Q1-Q3 2018	
	No. Businesses	Value	No. Businesses	Value	No. Businesses	Value
EU	157	3,256	163	3,532	-4%	-8%
EFTA	52	188	18	57	65%	70%
Total	209	3,444	181	3,590	13%	-4%
<i>All countries</i>	<i>1,198</i>	<i>7,406</i>	<i>1,293</i>	<i>12,289</i>	<i>-8%</i>	<i>-66%</i>
European share	17.4%	46.5%	14.0%	29.2%	3%	17%

European investments represented 47% of the total foreign direct investment in Korea in the first three quarters of 2019. Malta was the largest European investor in Korea for this period, with a total of USD 1 billion in arrived direct investments; the second and third largest European investors were the Netherlands and the UK with USD 794 million and USD 514 million in arrived direct investments respectively.

ECCK MARKET OVERVIEW

Beer, Wines & Spirits Committee: The National Tax Service (NTS) Administrative Notification on liquor trading order was announced on September 19. Following strong requests by retail industry associations, the NTS has partially revised the Notification in order to reduce its impact on the market. In particular, the most troublesome part (a requirement for manufacturer/importer to sell to customers of the same status at the same price at the same point of time) is not incorporated in the final draft.

Chemicals Committee: ECCK succeeded in relieving the packaging standard, proposed to regulate the hazard reagent for parcel services by the National Institute of Chemical Safety (NICS). As per ECCK's recommendation, different substances are allowed to be contained in a bundle, provided the substances are not subject to chemical reactions in case of leakage. In July, ECCK met with Ministry of Environment (ME) to provide input on the Universal Chemical Tracking System, which was proposed

to National Assembly in May. ECCK further organized a meeting with Cefic EBPF (European Biocidal Products Forum) and ME in order to discuss the status of the implementation of the EU Biocidal Products Regulation, and to share developments on the implementation of Korea's Act on Chemical Consumer Products and Biocides.

Cosmetics Committee: The rules on recycling grades regulations will be enforced from the end of 2019 and ECCK has shared industry input throughout the process. As part of its engagement, ECCK participated in the Korea Packaging Recycling Cooperative consultative meeting to discuss upcoming plans.

ECCK also discussed with the Ministry of Food and Drug Safety (MFDS) on claims related to 'natural' on cosmetics and the applicable ISO index. ECCK further provided its input on the draft Enforcement Regulation of the Cosmetics Act to the MFDS.

Fashion & Retail Committee: As of the end of last year, new customs verification practices for infant textile products have been implemented. These have resulted in excessive delays in imports, decreased sales, as well as excessive increases in costs related to testing and storage. ECCK met with the Korean Agency for Technology and Standards (KATS) in August to express its concerns and discuss about possibilities to alleviate such burden.

Financial Services Committee: ECCK identified an issue regarding foreign software companies being prohibited to provide cloud service to financial institutions in Korea. All systems that are involved in the processing of unique identification information or personal credit information (including those where such information is temporarily processed), must be installed in Korea. ECCK has discussed with industry and European officials about this challenge in order to find a common approach.

Food Committee: In May 2019, ECCK submitted its opinion on the manufacturing standards for food for young children and infants. Following a proposal to amend the Korean Food Code, liquid infant food would become the only food category that must undergo mandatory spore-destroying sterilization. Such treatment is not required in any other international baby food regulations. It was announced in July that ECCK's proposal was accepted and the amendment would not take place.

Healthcare Committee: In July, ECCK visited the Korea Fair Trade Commission (KFTC) and presented various challenges faced by healthcare providers to the KFTC's Market Structure Improvement Team.

Heavy Duty Commercial Vehicles Committee: The Ministry of Environment (ME) is preparing its CO2 calculation program for heavy duty vehicles. ECCK provided its input to the ME, specifically requesting for consideration of ways to resolve potential differences in test outcomes, as those can serve as a trade barrier for European manufacturers.

Intellectual Property Rights Committee: On September 24, the ECCK organized its annual highlight IPR Conference. This seventh edition addressed the role of intellectual property in protecting new technologies and the use of new technologies in tackling the counterfeit industry. Following such, ECCK held its annual IPR Capacity Building Seminars in Seoul, Daegu and Busan, through which industry and enforcement officials exchanged best practices in distinguishing and seizing counterfeit products.

Passenger Vehicles Committee: The Korea Commission for Corporate Partnership (KCCP) is reviewing whether to designate two business sectors - 'used car sales' and 'small automobile repair' –as 'business suitable for livelihood'. This designation would result in an exclusion of expansion opportunities for large companies in this sector. ECCK sent an opinion letter to the KCCP, expressing its concern that the 'small automobile repair business' is closely related to safety and that this restriction may be deemed a trade barrier.

ECCK REPRESENTATION

- July 8: Breakfast Meeting with National Assembly Environment & Labour Committee Chairman Hackyong Kim
- August 2: Meeting with former Deputy Prime Minister Oh-Seok Hyun
- August 30: Roundtable Meeting with Ministry of Food and Drug Safety Director Mira Choi
- September 17: Breakfast meeting with Former UN Secretary-General Ban Ki-moon
- September 26: Roundtable meeting with Trade Minister Yoo Myung-hee
- September 27: Roundtable Meeting with Ministry of Environment Director Jun Wook Han
- October 2: Meeting with Busan Metropolitan City Vice Mayor for Economic Affairs Yoo Jae Soo

October 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)

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