

ECCK

QUARTERLY REPORT

Q4/2019

INTRODUCTION

Prime Minister Lee Nak-yeon, the longest serving Korean prime minister, announced his resignation to run for parliament on April 15, 2020. Chung Sye-kyun, the former Speaker of the National Assembly, was nominated by President Moon Jae-in as Lee's successor and confirmed by the National Assembly on January 14, 2020. The parliamentary election will have a considerable impact on domestic policies in Q1/2020. Moon Jae-in's approval rating in December was around 47%, but improved beginning of January to 49%. It needs to be awaited whether positive signs in politics and the economy arise in Q1/2020, but the Ministry of Economy and Finance (MOEF) has replaced the phrase "economic sluggishness" with "restricted growth" in its reporting, indicating that a certain economic trend change is to start soon.

GENERAL OVERVIEW

The Korean government estimates that economic growth for 2019 will reach 2.0% and targets 2.4% for the year 2020. In 2019, the Korean economy was negatively impacted by various factors such as the US-PR China-Trade Conflict or the Trade Conflict with Japan due to the enforcement of export control measures. The US-PR China-Trade Conflict did not have only negative consequences for Korean exports (US and the PR China account for almost 40% of Korean exports) but also on foreign direct investment. Korean exports ended up at USD 542.4 billion, 10% or USD 62.4 billion lower than in record-breaking year 2018 when exported goods and services amounted to USD 604.8 billion. About half of the decrease – USD 32.8 billion – was caused by lower shipments (in value) from semiconductors and an additional USD 7.4 billion by less exports of petrochemical products. The Korean government is cautiously optimistic for 2020 as some of the external factors have improved. Additionally, Korea is increasing its fiscal spending from USD 403.5 billion (2019) to USD 440.2 billion (+9.1%); in order to create a positive momentum, the government plans to spend 62% of it in the first half of 2020.

Foreign direct investment in 2019 amounted to USD 23.3 billion, down by about USD 3 billion. It is our opinion that – considering the uncertainties around the looming US-PR China trade conflict – the number can still be evaluated quite positive. The more concerning number is actually the continuous investment of Korean companies abroad; in 2019 it is estimated that USD 50 billion – the highest amount since 1981 – has been invested overseas. This results in a continued loss of workplaces primarily in production and therewith less value creation in Korea; thus, making it more and more difficult to substantially grow the GDP. In this respect a paradigm shift might help; a move towards more high skilled service business combined with more efficient future oriented business. In their New Year Messages, Korean business leaders have called for bold legislative reforms and deregulation to ensure the future competitiveness of Korean enterprises – an opinion the ECCK fully shares. The ECCK encourages policy makers to make the right decision bettering the economic environment so that a potential growth rate of 2.5 to 2.6% can be reached.

On December 11, 2019, the Ministry of Employment and Labor (MOEL) granted a grace period of up to 18 months in case of violations of the maximum 52-hour workweek for SMEs (businesses with 50-299 full-time workers). The Ministry also announced plans to allow not just SMEs, but also large corporations that have already introduced 52-hour workweeks to extend employees' working hours based on terms that are open to arbitrary interpretation.

Key presidential aides are leaving Cheong Wa Dae to run in the upcoming general election in April. Cheong Wa Dae sees a victory for the ruling Democratic Party of Korea as vital to revive public support in President Moon. Also, Justice Minister Choo Mi-ae, a former judge and ruling party chairwoman, was appointed by President Moon after her predecessor Cho Kuk resigned due to a family-related corruption scandal uncovered by the prosecution. Immediately after being appointed, she conducted a major reshuffle of top prosecutors, who were investigating allegations of power abuse and corruption illegalities at Cheong Wa Dae. President Moon's open support for Minister Choo is expected to widen the gap between the Prosecution Service and Cheong Wa Dae over investigations into the President's close aides.

Speaking at the New Year's press conference on January 14, 2020, President Moon stressed the need to expand inter-Korean cooperation, saying it could be conducive to build international support for sanctions relief for North Korea. Also, in regard to Korea's relation with Japan, he said both countries should work together to solve the thorny issues between them, including the issue of compensation for wartime forced labourers. In December 2019, Japan partially lifted its export control on one of the three products subject to the tightened screening. President Moon and Japanese Prime Minister Shinzo Abe held their summit talks in China on December 24, 2019 and agreed on the need to resolve thorny issues between the two sides through dialogue despite the differences. Although the two countries remained wide apart on the wartime forced labour issue, the summit was still useful in that the two sides reached a consensus on the need for diplomacy to sort out bilateral problems, according to Cheong Wa Dae. It was their first one-on-one talks to have taken place in 15 months.

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

Unit Value: EUR million	Q1-Q3/2019		Q1-Q3/2018		Q1-Q3/2019 vs Q1-Q3/2018	
	EUR > KOR	KOR > EUR	EUR > KOR	KOR > EUR	EUR > KOR	KOR > EUR
EU	35,518	39,137	37,165	38,007	-4.43%	+2.97%
EFTA	3,957	1,830	3,120	2,149	+26.83%	-14.84%
Total	39,475	40,967	40,285	40,156	-2.01%	2.02%

In Q1-Q3/2019, exports from the EU to Korea decreased from EUR 37.2 billion in Q1-Q3/2018 by 4.4% to EUR 35.5 billion; exports from Korea to the EU reached EUR 39.1 billion compared to 38 billion in Q1-Q3/2018 (+3%). Exports from EFTA to Korea in Q1-Q3/2019 increased to EUR 4 billion (+27%), whereas exports from Korea to EFTA decreased by 15% to EUR 1.8 billion. Total exports in Q1-Q3/2019 from Europe (EU & EFTA) to Korea reached 39.5 billion versus 40.3 billion in Q1-Q3/2018 (-2%), whereas exports from Korea to Europe amounted to EUR 41 billion versus EUR 40.2 billion in Q1-Q3/2018 (+2%).

Q1-Q4 2019 - Foreign Direct Investment (Arrived) in Korea

Unit Value: USD billion	Q1-Q4 (Jan-Dec) 2019		Q1-Q4 (Jan-Dec) 2018		Q1-Q4 2019 vs. Q1-Q4 2018	
	No. Businesses	Value	No. Businesses	Value	No. Businesses	Value
EU	266	6,992	223	5,285	+19.3%	+32.3%
EFTA	33	144	24	95	+37.5%	+51.6%
Total	299	7,137	247	5,381	+21.1%	+32.6%
<i>All countries</i>	<i>1,651</i>	<i>12,854</i>	<i>1,709</i>	<i>17,262</i>	<i>-3.4%</i>	<i>-25.5%</i>
European share	18.1%	55.2%	14.4%	31.2%	+29.3%	+89.0%

European investments represented 55% of the total foreign direct investment in Korea throughout 2019. The Netherlands was the largest European investor in Korea for this period, with a total of USD 2.3 billion in arrived direct investments; the second and third largest European investors were UK and Malta with USD 1.9 billion and USD 1.4 billion in arrived direct investments respectively. With European companies making up 18% of all companies engaging in FDI, the average FDI per European company is significantly higher than that of other foreign companies.

ECCK MARKET OVERVIEW

Chemicals Committee: Chemical Committee submitted a joint position letter on polymer registration in cooperation with CEFIC, ACC, SCIC, and JCIA, requesting an extension of the timeline for polymers imported or/and manufacture over than 1,000 tpa. Furthermore, the Chemical Committee participated in the roundtable meeting hosted by ME on the study results of the operation of chemical tracking system, and will actively monitor and give recommendations to ME.

Cosmetics Committee: Ministry of Food and Drug Safety (MFDS) selected the challenges regarding preliminary reports for customs clearance as a key agenda item for 2020. In 2019 the introduction of new packaging grade regulations was of particular concern for various sectors, including cosmetics. ECCK consistently participated in meetings and submitted practical recommendations. Several proposals by ECCK were accepted in the final version (i.e. extension of grace period, allowance of pump spray) released in December 2019.

Healthcare Committee: the Healthcare Committee participated in the EU’s preparation meeting for the annual Market Access Working Group on Pharma & Medical Devices between EU and Korea and made various suggestions for the agenda.

Intellectual Property Rights Committee: as part of their FTA, the EU and Korea meet on an annual basis to discuss the protection and enforcement of IP in their jurisdictions (the so-called EU-Korea IP Dialogue). In advance of the EU-Korea IP Dialogue 2019, which was held in Seoul on November 6, the ECCK IPR Committee met with EU officials to brief them on development and key challenges (which were subsequently raised during the EU-Korea IP Dialogue).

Passenger Vehicles Committee: following input thereto by ECCK, the Korea Commission for Corporate Partnership (KCCP) informed the Ministry of SMEs and Startups (MSS) that in its opinion the ‘small automobile repair businesses should not be designated as a ‘business suitable for livelihood’. In light of the exclusion of expansion opportunities such designation would have for large companies in this sector, ECCK previously expressed its concerns to the KCCP in writing.

Tires Committee: Korea Agency for Technology and Standards (KATS) designated the Korea Automotive Technology Institute (KATECH) as the official testing agency for tire safety verification in November 2019 and is preparing the necessary procedures related to applicable safety verification process. The Tires Committee submitted recommendations for such procedures, related to the applicable grace period as well as the subject of tire models to be tested etc.

ECCK REPRESENTATION

- October 22: Breakfast Meeting with MSS Minister Park Young-sun
- October 22: White Paper Handover to MSS Vice Minister Kim Hak-do
- November 11: Meeting with European Parliament
- November 12: Meeting with European Trade Commissioner-elect Phil Hogan
- November 13: Meeting with Korean Ambassador to the EU Kim Hyoung-zhin
- November 13: Meeting with European Trade Commissioner Cecilia Malmström
- November 14: Meeting with EFTA Secretary-General Henry Getaz
- November 15: Meeting with Chair of WTO’s Committee on Safeguards Kwon Hyouk woo
- November 19: Luncheon with YESFEZ Commissioner Hwang Sung-Tae
- November 29: Luncheon Meeting with MOTIE Trade Minister Yoo Myung-hee
- December 3: ECCK Seminar with former Minister of Environment Young Sook Yoo
- January 10: Meeting with Foreign Investment Ombudsman Kim Sung Jin
- January 13: Meeting with KEF Chairman Sohn Kyung Shik

January 17, 2020
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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