



Sweden
Sverige



BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN SOUTH KOREA 2024

A REPORT FROM TEAM SWEDEN IN SOUTH KOREA

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FOREWORD

Swedish companies have been doing business in South Korea for over 100 years. Recently, the number of Swedish-established subsidiaries in South Korea reached over 130. The Swedish business community have grown following the Swedish export growth and more networking activities have been organised since the establishment of the Swedish Chamber of Commerce Korea (SCCK) in 2012.

Team Sweden is a network of public organisations, agencies and companies that promote Swedish exports and coordinate government support. In South Korea, Team Sweden consists of the Embassy of Sweden, Business Sweden, SCCK and the Swedish companies. As the Swedish business community grows, the role of Team Sweden has become more important, including tasks such as

- Facilitating industry promotion and knowledge exchange
- Promoting Swedish solutions and systems within the Korean market
- Promoting Korean investments to Sweden
- Ongoing dialogue with local stakeholders in order to enhance market conditions for Swedish companies

This report aims to improve the understanding of Swedish companies' performance in South Korea and provide insights into both opportunities and challenges. In addition, it will serve as a reference in bilateral trade dialogues between Sweden and South Korea.

Team Sweden would like to extend gratitude to the participating companies and respondents who have contributed to this report.



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+72 respondents South Korea

Current business climate

Less positive stance compared to last year

Industry turnover

65%

of Swedish companies expect their industry turnover to increase

Future investments

47%

of Swedish companies plan to increase their investments slightly or significantly in the coming 12 months

Valued success factors in South Korea

1. Partnerships/local relationships
2. Cost efficiency
3. Brand awareness

Brand Sweden

83%

of Swedish companies in South Korea consider Brand Sweden beneficial for business

Local conditions with high satisfaction

1. Infrastructure
2. Digitalisation
3. Personal Safety

Local conditions with least satisfaction

1. Labour market
2. Transparency
3. Corporate taxation

Environmental considerations

47%

of respondents believe the environment is a considerable factor in their customers' purchasing decisions

Corruption

- Low in South Korea
- Low risk in advanced economies

Human rights violation and labour rights abuse

- Low in South Korea
- Low risk in advanced economies

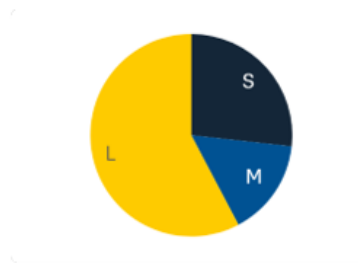
ABOUT THE SURVEY

Strategising opportunities and setbacks

The Business Climate Survey targeting Swedish companies in South Korea has been carried out since 2009 and annually since 2014 by Team Sweden. The purpose of this report is to increase the understanding of Swedish companies' performance in South Korea and highlight the opportunities and challenges that exist in the South Korean market. In addition, it can serve as a reference in bilateral trade dialogues between Sweden and South Korea.

Team Sweden carried out the survey during February 2024. The survey targeted country managers and country representatives who have an overview of their companies' performance and their results in 2023. Out of 126 eligible companies, 72 respondents replied, equalling a 57 per cent response rate. With this response rate, the survey result can be trusted with a 95 per cent confidence level.

SIZE OF COMPANIES

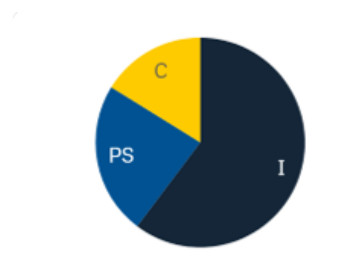


NOTE: Global employees. Large >1000. Medium 250-1000. Small 0-249

Regarding the composition of companies that responded to the survey, large companies with more than 1,000 global employees represent 58 per cent of the sample size while medium-sized companies (250-1 000 global employees) make up 15 per cent of all replies. Lastly, 27 per cent were small companies with less than 250 employees. However, the majority of company sizes in the Korean market were small.

Respondents to the survey represent a wide range of industries. The survey groups answer into three categories: Industrial (60 per cent), professional services (24 per cent), and consumer companies (16 per cent). The rest five per cent are categorised as "other" and "not applicable/don't know".

MAIN INDUSTRY



NOTE: Industrial 60%. Professional services 24%. Consumer 16%

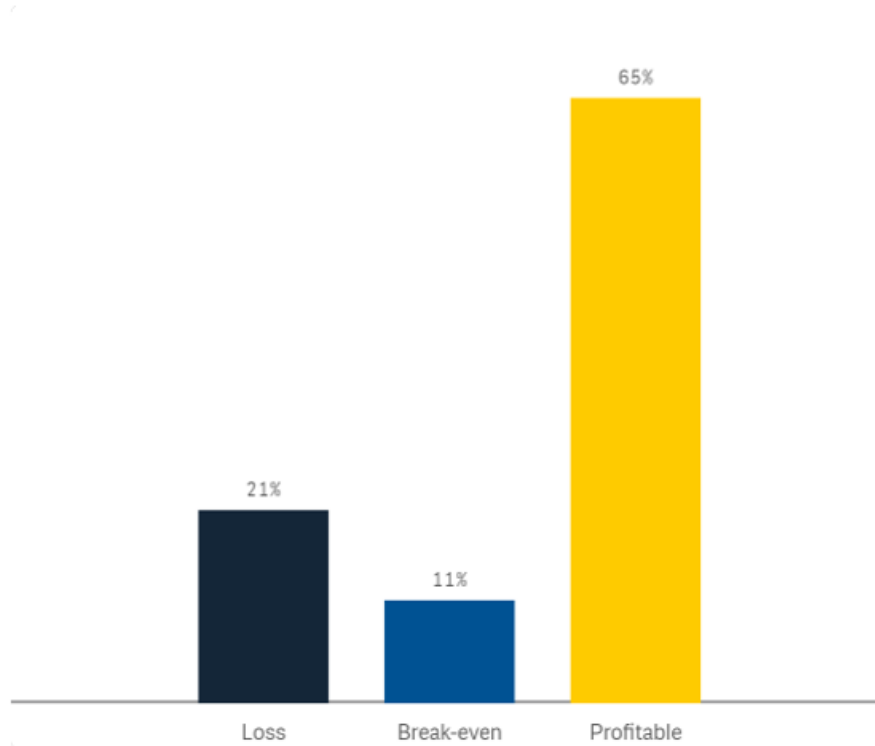
40 per cent of Swedish companies in South Korea started their operations before the 2000s, and the same figure applies between 2001 and 2015 with 40 per cent, and 19 per cent being newcomers to the Korean market, having set up their business after 2016.

The report structure is divided into "Economic Outlook," "The Market," "How Swedish Companies Succeed in South Korea," as well as "Acting Sustainably."

ECONOMIC OUTLOOK

The majority of respondents replied the economic outlook remains the same but with slightly more negative views than in 2022

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN SOUTH KOREA IN 2023?

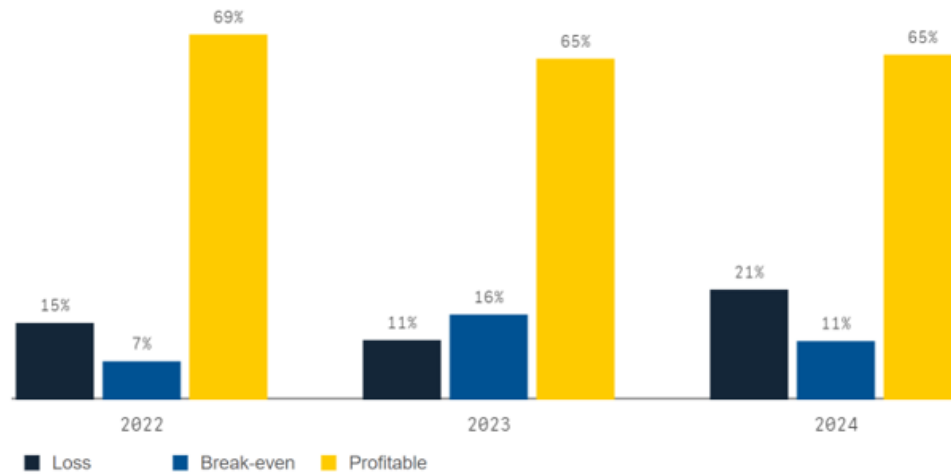


The latest survey shows similar results in terms of financial performance, though there is a slight leaning towards a more negative report in 2023. Almost two-thirds of Swedish companies reported an increase in profits compared to the previous year, and those who reported 'Loss' marginally increased by 10 per cent. Regarding company size, globally large companies showed higher per centages of profitability, while medium and small-sized companies performed slightly worse.

Similarly, mature and experienced companies accounted for the higher proportion of profitable entities, with 73 per cent reporting profitability and 10 per cent breaking even. Notably, those who showed 'Loss' in their financial performance were mostly consumer goods and retail companies in South Korea.

In addition, many Swedish companies shared about their experiences in Korea; opportunities and challenges arising from global events such as Covid-19, the US-China trade war, as well as Russia's invasion of Ukraine. These events have had a large impact on business in Korea, resulting in greater supply chain volatility and turbulence for daily operations. At the same time, new opportunities could be found in promising new business areas including AI technology and battery recycling.

HOW WOULD YOU DESCRIBE YOUR COMPANY'S FINANCIAL PERFORMANCE IN SOUTH KOREA IN 2023?



NOTE: The number of respondents for this question was 72. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Korea 2024.

Overall, while most Swedish companies experienced increased profits, there is a need for caution as the survey indicates a slight shift towards a more negative financial performance. This highlights the importance for companies, particularly in the consumer goods and retail sectors, to closely monitor their financial performance and adapt their strategies accordingly to mitigate potential challenges.

Anticipating an export-oriented economic expansion, South Korea foresees a growing GDP in coming years

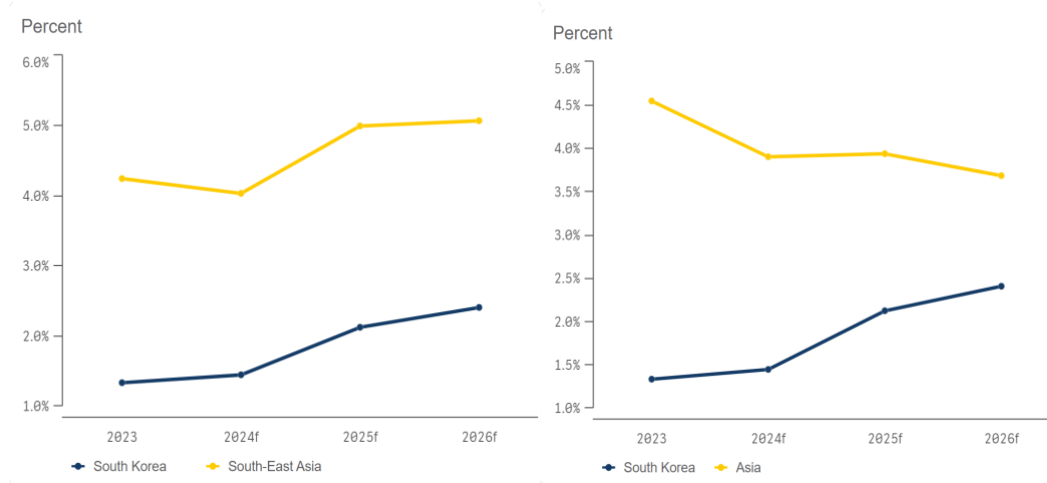
In recent quarters, South Korea has experienced a slowdown in economic growth due to numerous factors such as subdued growth among trading partners and the downturn in the global semiconductor industry, which has impacted exports. Additionally, the effects of previous monetary policy tightening and the return to normal fiscal policy after significant stimulus measures in 2022 have affected domestic demand. Higher interest rates have also contributed to a correction in housing prices, further dampening domestic demand.

However, positive projections are expected in the coming years. The contribution to growth from net exports turned positive in the first quarter of 2023, primarily driven by increased automobile shipments. China's rapid economic recovery following the easing of Covid-related restrictions coupled with a broader expansion beyond its domestic borders in 2022 and 2023 are expected to have a positive impact on South Korea's exports. Moreover, the global economy is anticipated to improve throughout the year and industry experts predict a recovery in the semiconductor cycle, which will benefit South Korea's exports further.

While South Korea shows a constructive economic outlook, it is expected that the Chinese economy will decrease in coming years, leading to a growth rate of less than four per cent by 2028. This slowdown notably suggests negative consequences for the surrounding region considering the extensive trade links between Asia and China. Furthermore, there is also a potential risk of the global economy fragmenting into distinct trading blocs. In such a scenario, the Asian economies may split into those exporting to the United States and Europe, and those with extensive connections to China, causing increased barriers to trade.

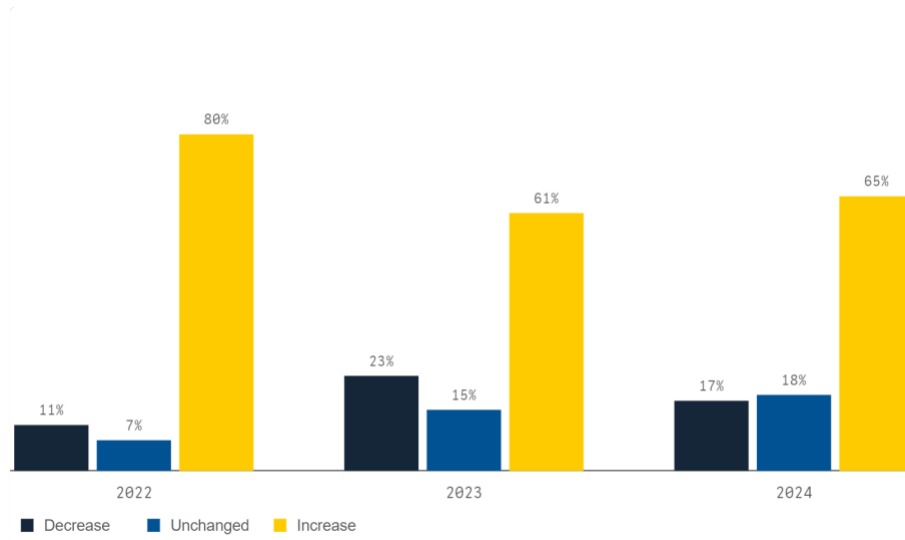
Compared to the negative economic situation in South Korea in 2023, 65 per cent of respondents expect their business to improve over the coming 12 months. This positive outlook for the South Korean economy appears to be somewhat counterintuitive, considering the deterioration in China's economic situation and Korea's history of exporting to the country.¹

PROJECTED GDP GROWTH IN SOUTH KOREA 2021-2025



NOTE: Constant prices
SOURCE: Oxford Economics 2024

COMPARED TO THE DEVELOPMENT IN THE PAST 12 MONTHS, WHAT ARE YOUR EXPECTATIONS FOR THE COMING 12 MONTHS FOR YOUR INDUSTRY IN SOUTH KOREA REGARDING TURNOVER?



NOTE: The number of respondents for this question was 72. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in South Korea 2024.

¹ Source: IMF 2023 Regional Economic Outlook for Asia and Pacific

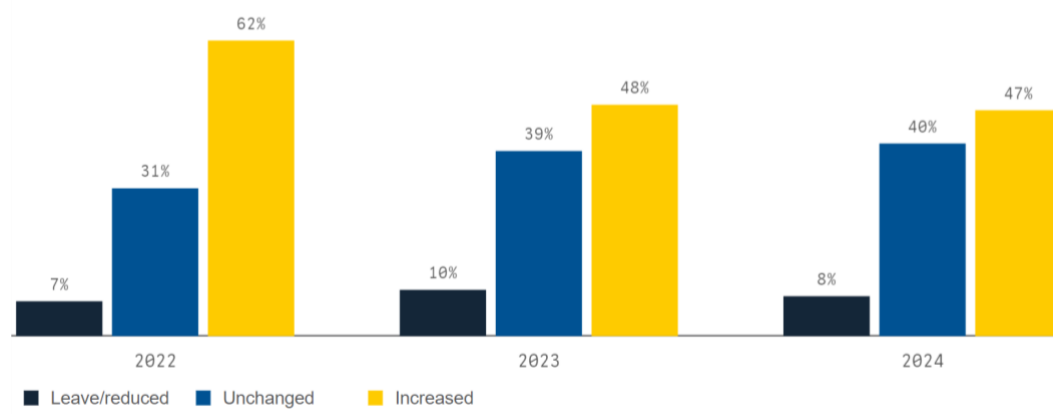
47% of Swedish companies intend to increase investments in Korea in 2024

There was minimal change observed in investment plans among Swedish companies in South Korea, with approximately 47 per cent expressing intentions to increase their investments, indicating negligible deviation from the previous year. Over the past three years, 40 per cent of companies have consistently maintained their plans to increase investments, with significantly more investments in 2022 due to the gradual economic recovery from the impact of Covid-19.

Most of the companies that are anticipating an increase in revenue in 2024 have indicated their intention to invest slightly or significantly, with only six per cent planning to invest heavily. Notably, those adopting a conservative approach towards investment primarily consist of long-standing companies operating in the industrial- and professional service sectors. Furthermore, only eight per cent of companies presented a pessimistic outlook on investment, reflecting suboptimal financial performance in the previous year.

Looking at top investment areas, marketing and sales continued to be the highest priorities with an identical percentage of 66 per cent, followed closely by after-sales service. One notable difference lies in the R&D sector, which experienced a significant decrease of 16 percentage units, dropping from the list. This can be attributed to the substantial cut in R&D budget by the current government, which saw to the decrease of 16 percentage units compared to last year. Simultaneously, the economic downturn has led companies to adopt a more conservative approach towards R&D, perceiving it as increasingly difficult to successfully invest, requiring a long-term approach.²

WHAT ARE YOUR COMPANY'S INVESTMENT PLANS FOR THE COMING 12 MONTHS IN SOUTH KOREA, COMPARED TO THE PAST 12 MONTHS?



NOTE: The number of respondents for this question was 72. "Don't know/Not applicable" responses are included but not shown in figure.

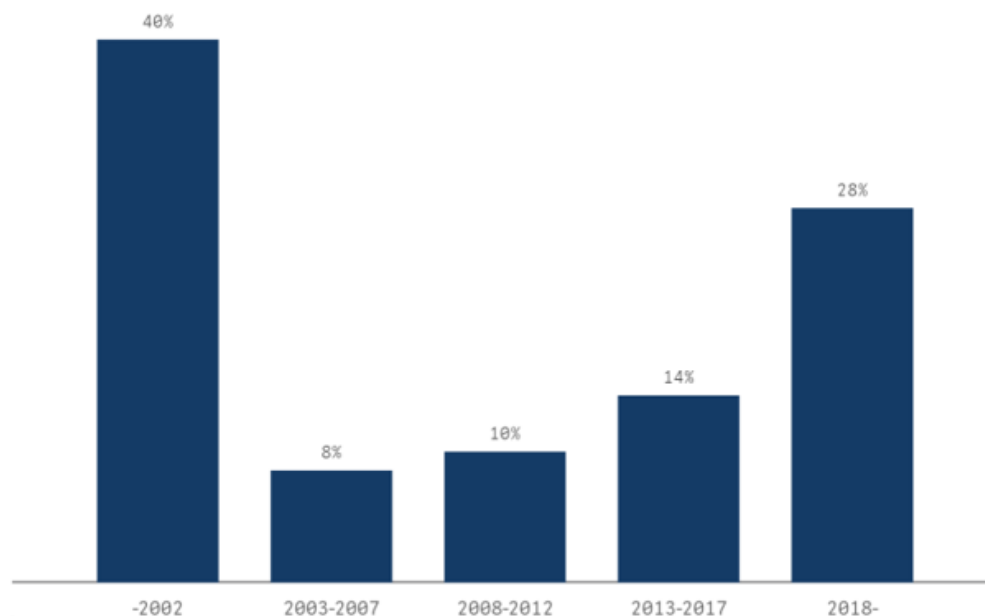
SOURCE: Business Climate Survey for Swedish Companies in South Korea 2024.

² Source: The National Assembly of The Republic of Korea 2023 Budget of 2024

THE MARKET

Swedish companies have steadily entered South Korea, with many of them present in various areas of conventional industries

IN WHAT YEAR DID YOUR COMPANY ESTABLISH OPERATIONS IN SOUTH KOREA?



NOTE: The number of respondents for this question was 72. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Korea 2024.

40 per cent of Swedish companies in South Korea established operations before 2002, 32 per cent between 2003-2017, and 28 per cent of companies are newcomers, having set up their business after 2018.

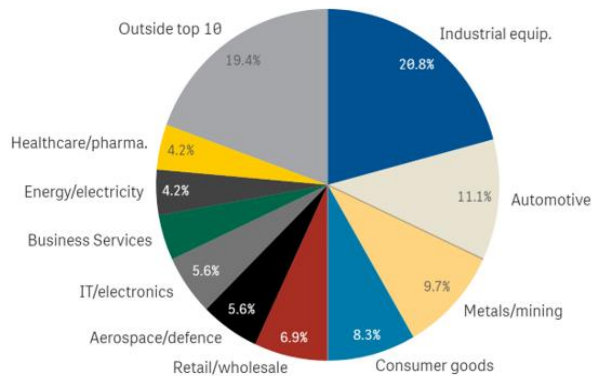
Significantly, during the early 2000s, there was a notable increase in the establishment of Swedish businesses. This surge was largely driven by efforts to overcome the IMF crisis and the Korean government's initiatives aimed at enhancing the investment climate for foreign companies.

To drive these initiatives, the Korean government implemented regulatory reforms and introduced measures to enhance flexibility in labour markets. Additionally, incentives such as cash grants and tax reductions were provided to attract foreign investment.

Among the companies present in more conventional industries, such as industrial equipment, automotive, and metals and mining, 81 per cent are conducting marketing and/or sales in South Korea.

In general, Swedish companies in the Korean market exhibit a discernible pattern. A significant majority (83%) employs fewer than 249 individuals locally, while 56 per cent of companies have a global workforce exceeding 1000 employees. Like so, while local operations tend to be small in scale, their overall global presence is substantial.

WHAT IS YOUR COMPANY'S MAIN INDUSTRY IN SOUTH KOREA?



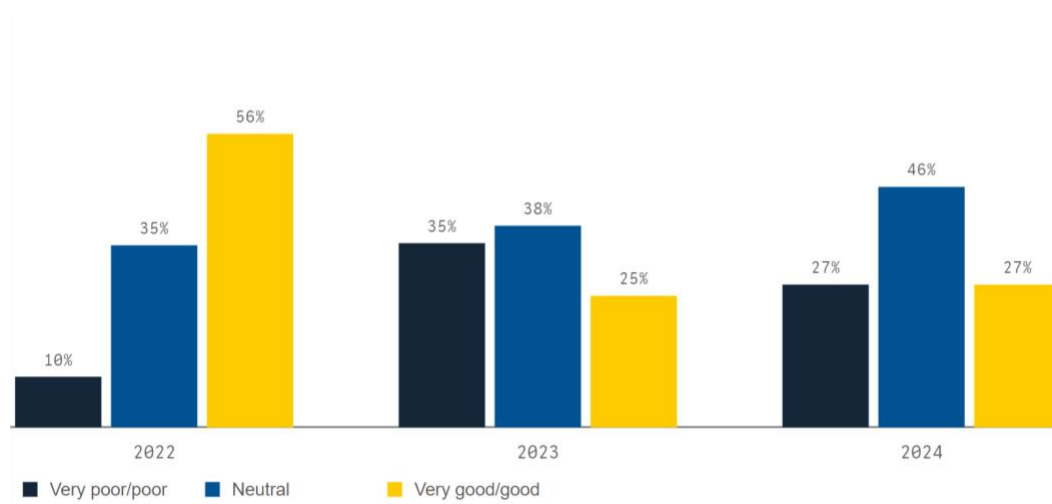
NOTE: The number of respondents for this question was 72. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in South Korea 2024.

Outlook on the current business climate is overall positive

Compared to last year, a similar proportion of respondents expressed positive views, while negative responses decreased by eight percentage units to 27 per cent. As the pessimistic perspectives grew smaller in number, moderate as well as strong optimistic views strengthened, indicating positive signals in the Korean market. At the same time, the number of Swedish companies adopting a neutral position towards the current business climate rose by eight percentage points.

With South Korea's industrial landscape rapidly evolving and trends constantly changing, the impact on Swedish companies is expected to vary significantly based on their specific industry sectors. Therefore, the rise in neutral responses suggests an acknowledgment of the potential variability inherent in the market due to swiftly changing trends.

HOW DO YOU PERCEIVE THE CURRENT BUSINESS CLIMATE IN SOUTH KOREA?



NOTE: The number of respondents for this question was 70. "Don't know/Not applicable" responses are included but not shown in figure.
SOURCE: Business Climate Survey for Swedish Companies in South Korea 2024.

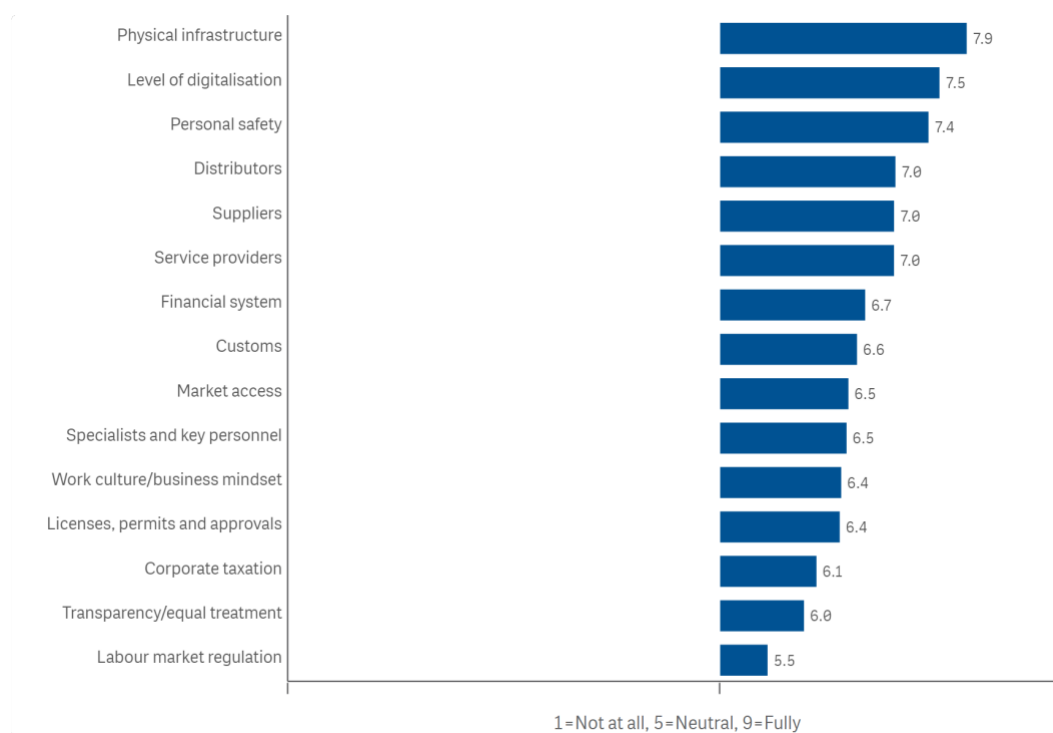
The physical infrastructure is top-notch while labour market regulations continue to lag behind

Swedish companies expressed a high overall satisfaction with business conditions in South Korea, rating the majority of all 15 factors well above the neutral level of 5 on a scale from 1 to 10. There has been notable improvement in satisfaction scores across all areas in the past year, with particular praise for South Korea's physical infrastructure, digitalization, and personal safety. However, there are some areas where Swedish companies feel that their needs are not fully met. These include labour market regulation, transparency/equal treatment, and corporate taxation, which ranked lowest in terms of satisfaction. It is worth noting that physical infrastructure and labour market regulation have consistently remained in top and bottom positions over the years.

Compared to the previous year, corporate taxation has become one of the top three areas of dissatisfaction for Swedish companies operating in South Korea. A recent report by the Korea Federation of Business Associations reveals that Korea's corporate tax burden is the third highest among 36 OECD countries, reaching the highest level since the OECD began providing statistics in 1972. The report also highlights that Korea's corporate tax burden ratio is significantly higher than the OECD and G7 averages, standing at 1.4 and 1.8 times the average respectively.³

Although the Korean government announced a proposal to revise corporate tax cuts, the actual benefits primarily apply to large corporations with taxable income exceeding USD 222 million. As a result, locally established small and medium-sized Swedish companies operating in South Korea are not subject to receive any substantial benefits from these tax cuts – a fact that has contributed to dissatisfaction in the area.

HOW WELL DO THE FOLLOWING CONDITIONS MEET THE NEEDS OF YOUR COMPANY IN SOUTH KOREA?



³Source: OECD Statistics 2022

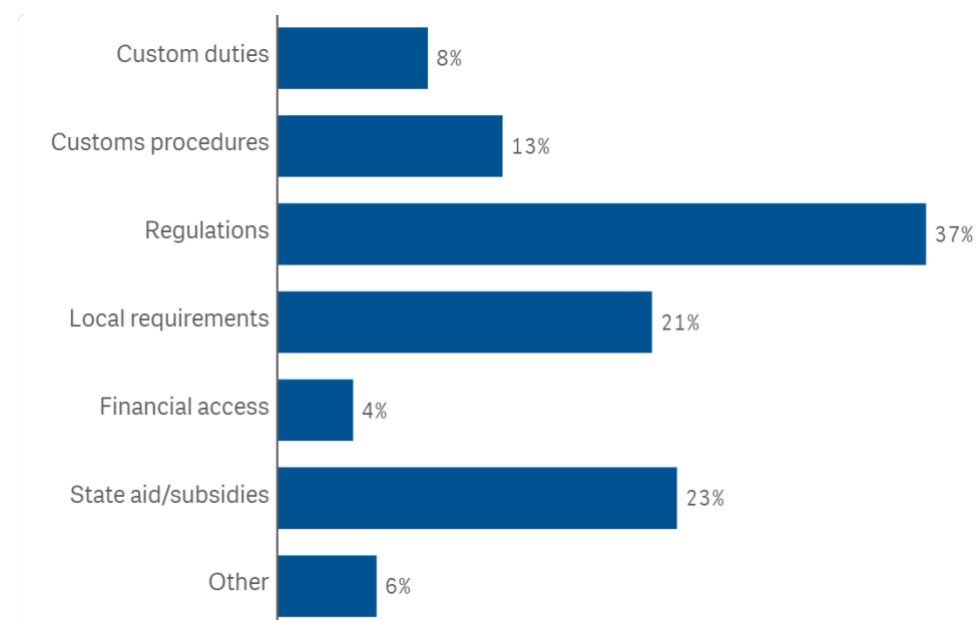
Market regulations pose the largest barriers to trade, while financial access affect Swedish companies the least

According to the data provided, Swedish companies operating in South Korea have consistently identified regulations as the primary obstacle to conducting business. However, this year saw a significant increase in the number of companies affected by all categories of trade barriers. Most of all, 37 per cent replied being negatively affected by regulations – an increase of 14 percentage units compared to last year.

Over the years, the Korean government has continuously implemented new regulations and regulatory reforms targeting companies. These policy changes have led to a substantial increase in associated costs, placing a heavy burden on businesses. In 2023, the combined pressures of high interest rates, inflation, household debt, and other risk factors have contributed to a decline in economic dynamism. Swedish companies operating in Korea have also felt the impact of these factors, further exacerbating the situation.

However, in 2024 the Korean government began taking steps to address companies' concerns by focusing on deregulation and regulatory reform. Particularly noteworthy is the Korean government's support for small and medium-sized enterprises (SMEs). Initiatives for SMEs includes extending financial assistance, implementing tax exemptions, establishing the Startup Korea Fund, and introducing the Platform Competition Promotion Act aimed at curbing the monopolistic dominance of large platform corporations. With these initiatives underway, it is expected that Swedish companies, many of which are SMEs, will face more optimistic conditions in the coming year.

HAS YOUR COMPANY IN THE PAST YEAR ENCOUNTERED TRADE BARRIERS IN SOUTH KOREA WITH A NOTICEABLY NEGATIVE IMPACT ON OPERATIONS, IN ANY OF THE FOLLOWING AREAS?



NOTE: The number of respondents for this question was 72.
SOURCE: Business Climate Survey for Swedish Companies in South Korea 2024.

HOW SWEDISH COMPANIES SUCCEED IN SOUTH KOREA

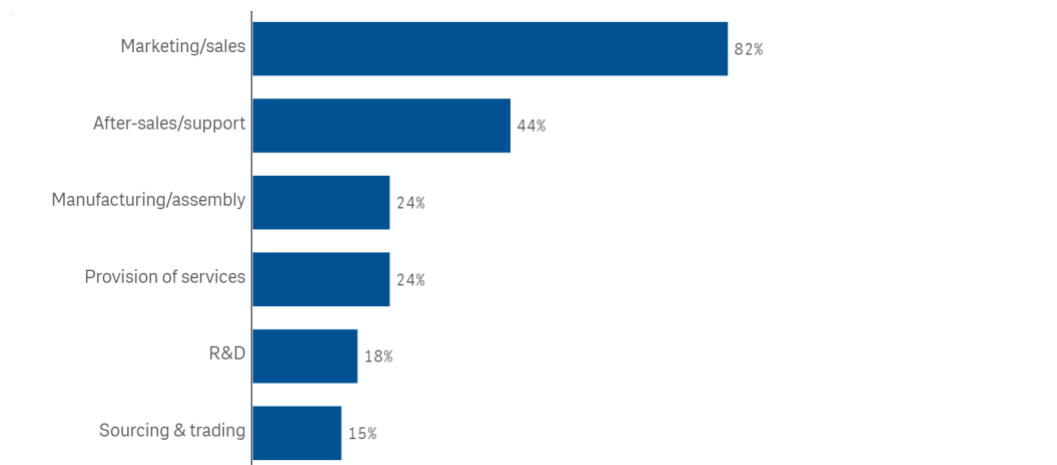
Most companies conduct marketing/sales in Korea, and in 2024 manufacturing/assembly also became a top 3 business activity

While the vast majority of Swedish companies actively work with marketing/sales, the percentage has been dropping since 2022, landing at 82 per cent in 2024 – still significantly higher than other operations. After-sales/support experienced a minor increase of two per cent and retained its second-place ranking.

Remarkably, the previously observed uptick in R&D operations came to a halt this year, regressing heavily by 18 per cent back to its original position. Beyond the top two activities (Marketing/Sales and After-sales/Support), the overall operational landscape has shifted compared to the previous year. Nevertheless, each operational segment has seen an increase in percentage, indicating broader and more diverse participation of Swedish companies across operational categories.

The notable decrease in R&D operations aligns with the investment strategies of Swedish companies in South Korea this year. Moreover, according to some respondents' additional comments, supply chain risks and the strong US dollar provided unfavourable conditions for Swedish companies to expand investments in R&D and led them to focus on revenue-increasing operations.

OPERATIONS OF SWEDISH FIRMS IN THE MARKET



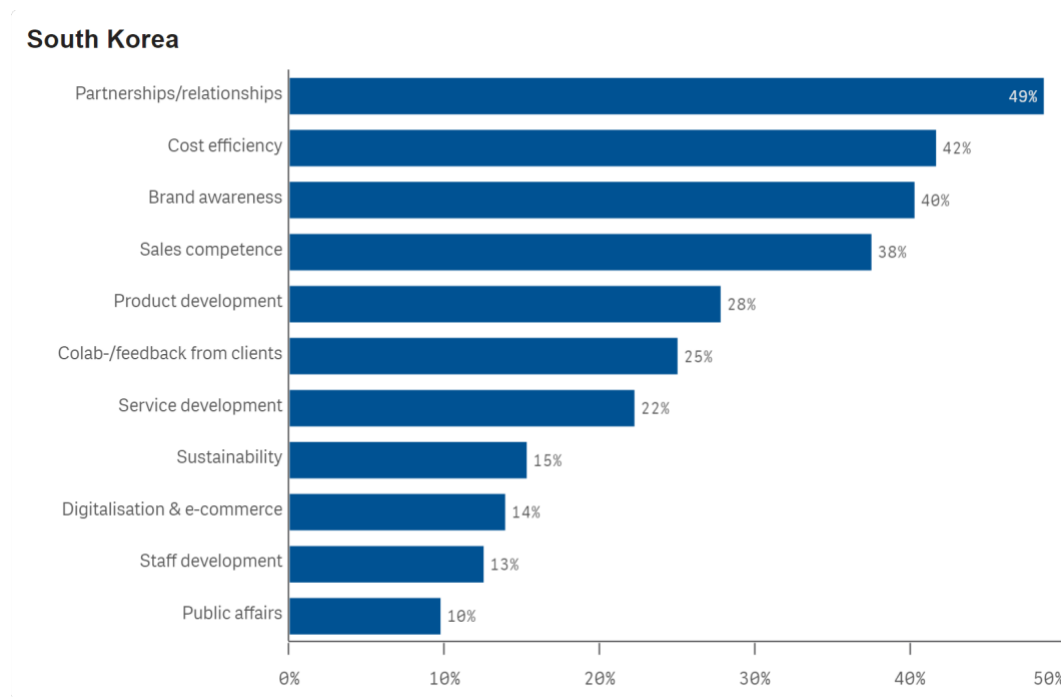
NOTE: The number of respondents for this question was 72. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Korea 2024

Strong partnerships and local relationships are the most important for maintaining competitiveness on the South Korean market

Partnerships/relationships, which was ranked third last year, came in at first place after a significant increase of 11 percentage units. Forming local partnerships is crucial for Swedish companies to gain competitive edge as it enables them to leverage local expertise, access networks, and utilise valuable resources while also effectively adapting to the market. In addition, cost efficiency was emphasised as the second most important area in the market as a result of growing rational consumption among consumers. As such, price control and sales competence on the companies' side are crucial in maintaining competitiveness to meet consumer expectations.

TO DATE, WHICH OF THE FOLLOWING AREAS HAVE BEEN IMPORTANT IN MAINTAINING COMPETITIVENESS IN SOUTH KOREA?



NOTE: The number of respondents for this question was 72. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Korea 2024.

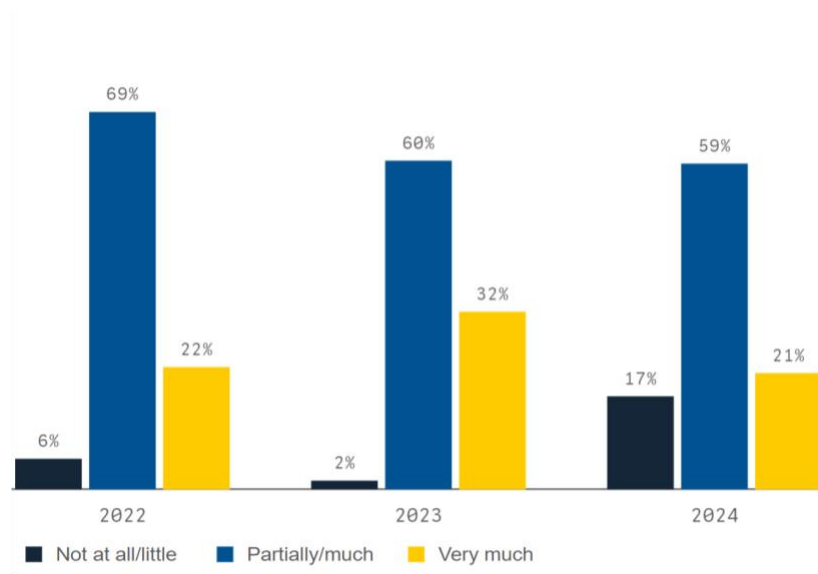
The Swedish brand is strongly perceived as a positive factor contributing to business in the Korean market

A significant majority of respondents, constituting over 80 per cent, believe that the Swedish brand positively contributes to business in South Korea. Despite this, a subset of Swedish companies accounting for 17 per cent of respondents reported that the Swedish brand has a lesser impact on their business – an increase from previous years' record-high results.

Part of the reason why the Swedish brand is contributing less could be explained by the growing number of Swedish companies in South Korea and consumers' lack of knowledge regarding the 'Swedishness' of these newcomers to the market. Another reason could be the composition of Swedish companies, which is dominated by conventional industries like industrial equipment and automotive, and the lack of significant relevance within those specific industries.

The result suggests that Team Sweden in South Korea needs to put more effort on promoting the Swedish brand to support Swedish companies as 40 per cent of respondents replied that brand awareness is one of top three important factors to be competitive in the Korean market.

TO WHAT EXTENT WOULD YOU ESTIMATE THAT THE “SWEDISH BRAND” CONTRIBUTES TO YOUR BUSINESS IN SOUTH KOREA?



NOTE: The number of respondents for this question was 71. “Don't know/Not applicable” responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Korea 2024.

ACTING SUSTAINABLY

More than half of Korean consumers consider sustainability in their purchasing decision process

Over the past three years, the importance of products and services' environmental impact in consumers' purchasing behaviour has remained largely the same, which is a challenge for Swedish companies committed to solving environmental issues.

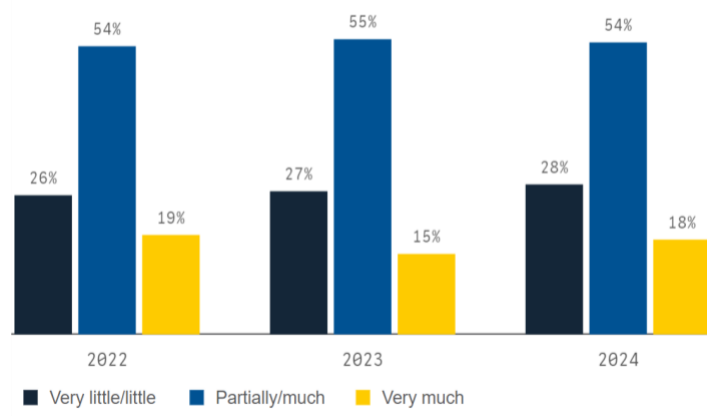
Many Swedish companies replied that there are challenges related to sustainability in South Korea. The sustainability landscape itself is affected by a number of diverse stakeholders in the public and private sectors. While sustainability challenges such as climate change impacts and energy security concerns are widely acknowledged, the Korean government's policy approach appears too vague and lacking in specificity, resulting in a worsened environment for investment.

In addition, despite efforts to promote sustainability in the public sector, the industry sector continues to prioritise efficiency and cost-effectiveness, reflecting a broader emphasis on profitability over environmental and social values in the Korean market.

Local consumers' preference for accessible and best-value products also poses additional challenges to adopting stronger sustainability initiatives. Moreover, limited awareness and interest in sustainability throughout local supply chains hinder progress. This is reflected in the survey results and has contributed to the fact that only 15 per cent of Swedish companies consider sustainability to be important for competitiveness in the Korean market.

According to Swedish companies' comments in the survey, it is suggested that the Korean government's support through policies such as tax benefits to incentivise environmental activities for businesses will promote commitment to sustainability.

TO WHAT EXTENT DO CUSTOMERS IN SOUTH KOREA CONSIDER ENVIRONMENTAL ASPECTS OF A PRODUCT OR SERVICE IN THEIR PURCHASING DECISION?



NOTE: The number of respondents for this question was 68. "Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Korea 2024.

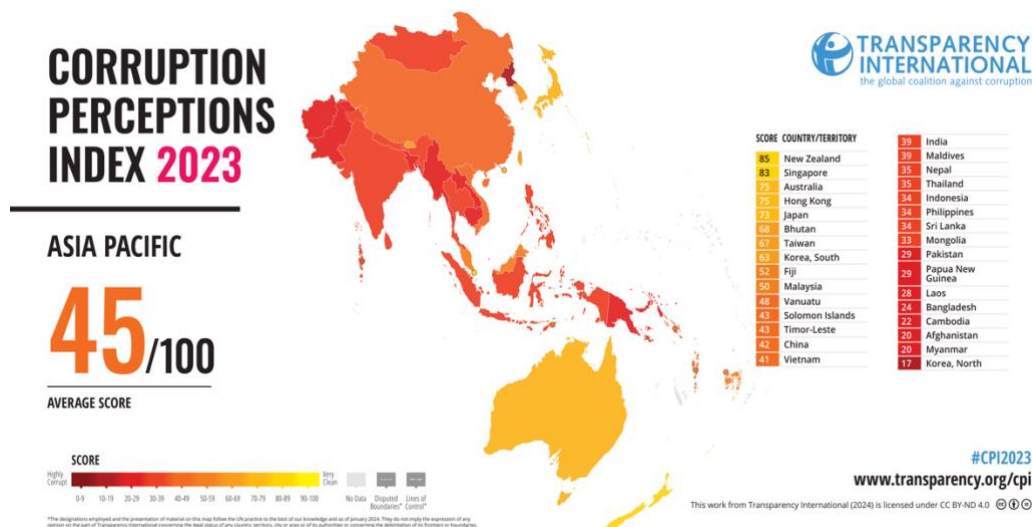
Corruption in the Korean market is low, with 8% of companies having reported exposure to corruption

According to the survey, 61 per cent of respondents did not perceive corruption exposure as relevant to their business. However, eight per cent reported experiencing corruption, both in dealings with private entities (four per cent) and within their own organizations (four per cent). Medium-sized companies stated that they had no cases of corruption involving internal or private partners and were unaware of any such incidents. On the other hand, corruption cases involving internal partners were specifically reported by large-sized companies, whereas small-sized companies more frequently disclosed instances of corruption with private counterparts.

A combination of factors such as limited resources, bargaining power, oversight, and awareness likely contributes to the higher prevalence of reported exposure to corruption among small-sized companies in their interactions with private counterparts.

This result by the Swedish companies aligns with the recent Corruption Perception Index published by Transparency International, where South Korea scored 63 out of 100. The Asia Pacific region reported an average score of 45.

CORRUPTION PERCEPTION INDEX 2023



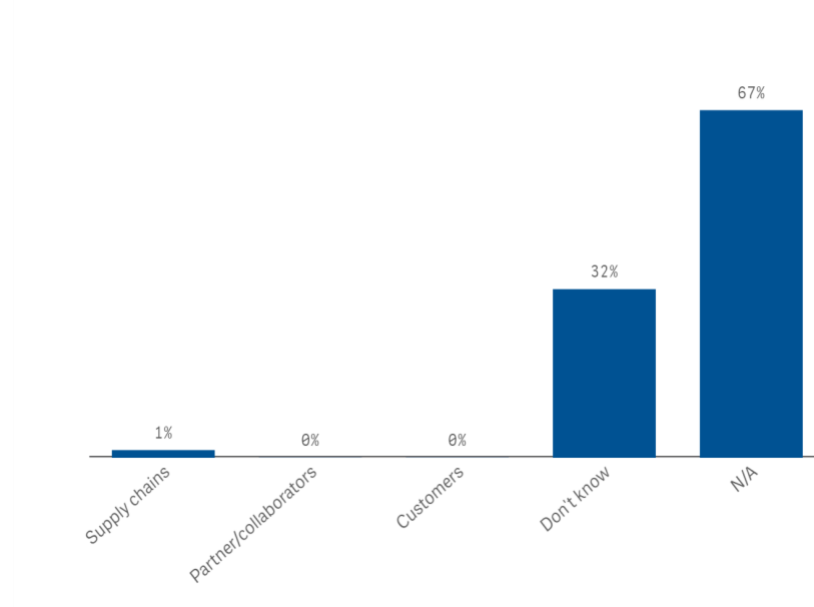
SOURCE: Transparency International 2023.

No significant instances of human or labour rights violations were reported by Swedish companies in South Korea

Compared to last year there were less instances of human or labour rights violations reported by companies, indicating a minimal risk of such violations in South Korea. Over 95 per cent of Swedish companies responded with either 'Don't know' or 'N/A' when asked about their experience with encountering any form of human or labour rights violations.

Like many other developed countries, South Korea demonstrates a strong commitment to human and labour rights, as is evidenced by the stringent enforcement of related laws and regulations. These laws and regulations are continuously developed and revised by the National Human Rights Commission of Korea and the Ministry of Employment and Labor.

HOW DO YOU PERCEIVE THE RISK OF ENCOUNTERING HUMAN RIGHTS VIOLATIONS AND/OR LABOUR RIGHTS ABUSES WHEN CONDUCTING BUSINESS IN SOUTH KOREA?



NOTE: The number of respondents for this question was 72. Don't know/Not applicable" responses are included but not shown in figure.

SOURCE: Business Climate Survey for Swedish Companies in South Korea 2024.

