

Navigator

Now, next and how for business

South Korea



Together we thrive

Overview

Multiple growth pressures but room to manoeuvre

South Korean businesses have taken a realistic stance in 2019. As an export-driven economy with a strong focus on manufacturing, the country has felt the effects of the cooling global market. However, South Korea is unusual in having an expansive fiscal policy while monetary policy is cautious, giving the Bank of Korea room to take measures to stimulate growth.¹

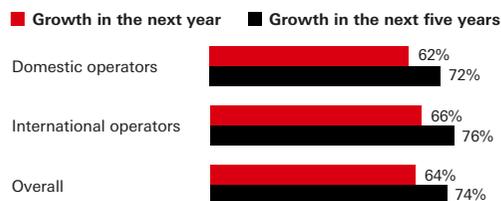
State of play

Short-term caution gives way to longer-term optimism

With exports recording consecutive year-on-year declines throughout the first three quarters of 2019, South Korean companies are realistic in their expectations for growth. Just under one in five (19%) are more optimistic in their outlook compared to last year, with more than half (55%) expecting things to remain the same – this is the highest figure globally alongside Japan.

However, the longer-term outlook is considerably more optimistic, with nearly three quarters (74%) of South Korean companies expecting sales to grow over the next five years. That said, the percentage of high-growth firms – those expecting sales growth of 15% more – is only 11% over the same period. This is lower than the expectation of firms globally (the global average is 26%).

Short-term versus long-term expectations for growth



What you need to know

- 1 Over the next year, 9% of South Korean firms are expecting their sales to grow by 15% or more.
- 2 22% of South Korean businesses expect sales will shrink in the near term and, among them, more than half (57%) blame increased competition.
- 3 Half (50%) of South Korean companies expecting sales shrinkage next year are concerned about the limited availability of skills in their workforce. However 25% plan to invest in new workforce skills as a strategy to combat business decline.

What your business can do

-  Focus on sustainability. 38% of South Korean companies see this as a key driver of growth.
-  Consider expanding into new markets. 38% of South Korean businesses think access to new markets will drive growth.
-  Look at improving the quality of your products or services. South Korean firms (36%) rate this as the top strategy to counter threats to their business.

¹ <https://www.bloomberg.com/opinion/articles/2019-10-01/bad-news-in-south-korea-is-big-opportunity-for-monetary-leadership>

Trade outlook

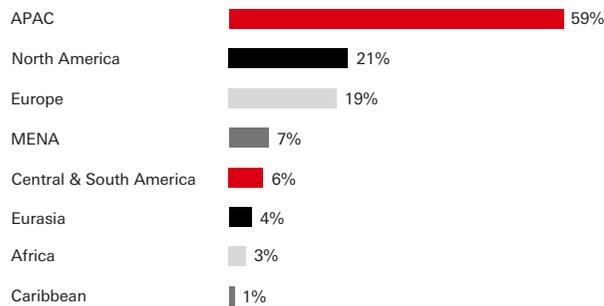
Asia-Pacific remains the focus, but its importance is reducing

Although trade with other Asia-Pacific (APAC) markets continues to be the lifeblood of most South Korean firms, their importance is on the decline. Currently, 71% of South Korean companies report that APAC is an important trading partner, compared to 86% in 2018. More positively, although more than half (52%) of South Korean businesses have reduced trading with some markets in the past two years, this figure remains below the global average (55%). Intentions for the next two years are also more optimistic than the global average, with only 39% intending to reduce trade with some markets, compared to the global average of 46%.

Across markets considered key to South Korean businesses in the next three to five years, including China (27%), the US (15%), Vietnam (also 15%), Indonesia (10%) and Japan (9%), proven customer demand, favourable partnership opportunities and access to new suppliers are the main reasons for firms' enthusiasm.

South Korean businesses see trade as a force for good, though at a slightly subdued rate compared to their peers around the globe. They say it will provide new business opportunities (68%), improve efficiency (63%), drive innovation and raise incomes (62%).

Future trading expansion markets in the next three to five years



What you need to know

- 1 South Korean firms are becoming more bullish on intra-regional trade. 59% of South Korean companies intend to expand into APAC (compared to 52% in 2018).
- 2 Only 39% of South Korean businesses intend to reduce trading with some markets, which is lower than the APAC or global averages (47% and 46% respectively).
- 3 30% of companies in other markets that plan to reduce trade with South Korea say that declining customer demand is a reason.

What your business can do



Look at partnership opportunities. After proven customer demand, South Korean businesses see this as important when choosing new markets.



Optimise supply chains. In the next three years, South Korean businesses plan to do this by accessing new markets (31%), increasing their use of digital technology (23%) and changing to more international suppliers (22%).

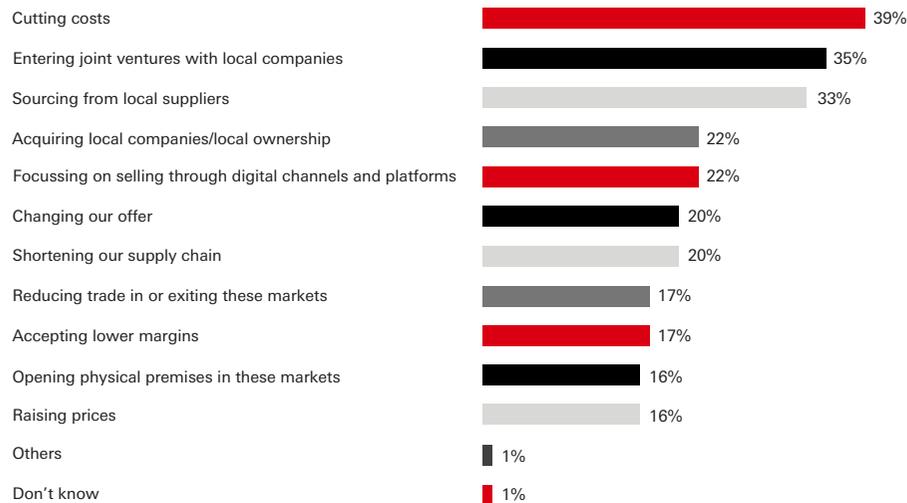
Protectionism and geopolitics

Businesses less concerned than in other Asia-Pacific countries

Only 51% of companies in South Korea feel that governments are becoming more protective, which is a lower number compared to businesses globally (65%) and in APAC (71%). It is interesting to note that 26% of South Korean companies feeling the impact of protectionism think that they will lose more than they gain, significantly higher than the global and APAC averages (16% and 17%, respectively). Again, among South Korean firms feeling the impact, a large number believe regulatory standards are making it more difficult to do business (32%) as well as reducing the competitiveness of their businesses (32%).

Only 44% of South Korean firms are concerned by geopolitics, compared to 64% of firms globally. However, South Korean firms are taking proactive measures in response including developing a more local presence in affected markets (32%), changing production locations (27%) and taking steps to secure the supply of raw materials and energy (25%).

Ways in which businesses are coping with protectionism



What you need to know



Overall, South Korean businesses are less concerned about both protectionism and geopolitics than the global norm. However, South Korean firms reporting concerns are, interestingly, more worried about the adverse impacts when compared to their global peers.



Just over half (51%) of South Korean businesses think governments are becoming more protective.



Only 13% of South Korean firms are investing in cybersecurity to counter geopolitical threats. Globally that figure is 23%.

What your business can do



Consider strategic cost-cutting measures. 39% of businesses are cutting costs in response to protectionism.



Develop local relationships, partnerships or joint ventures. This is the most popular way to combat geopolitical concerns, pursued by 32% of South Korean firms.

The sustainable future

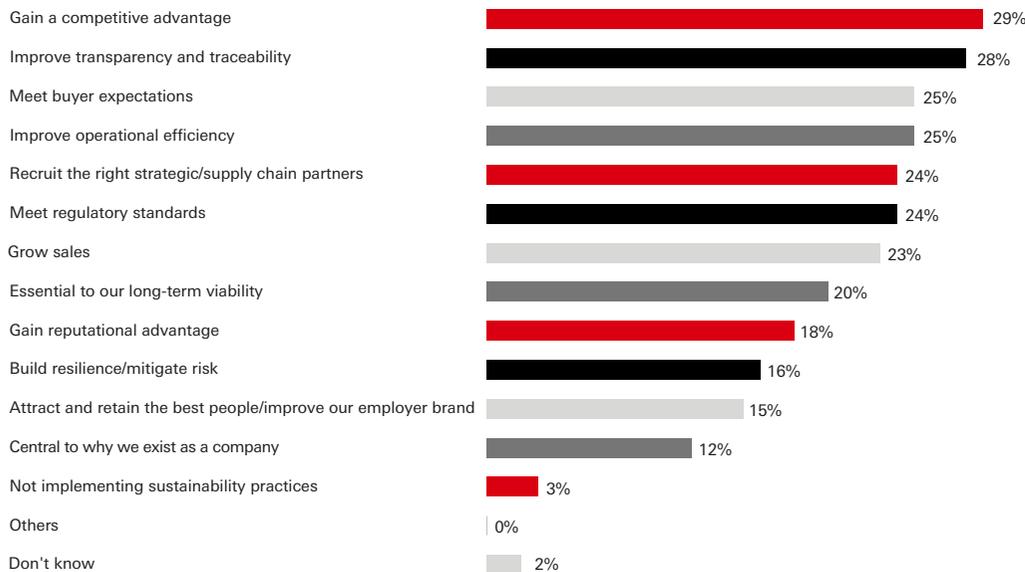
Environmental, social and governance factors seen as drivers of growth

Sustainability is increasingly recognised not just as a moral responsibility but as a key driver for global growth. South Korean businesses are even more engaged than the majority of their global peers, with top reasons for implementing sustainability initiatives including gaining a competitive advantage (29%), improving the transparency and traceability of supply chains (28%) and boosting operational efficiency (25%). Companies in South Korea are also much more likely to be motivated by working with the right supply chain partners than is the norm (24% compared to 16% globally).

This is not just window-dressing – where sustainability factors are considered relevant, South Korean companies are far more likely than average to be measuring their own performance. For example, of the 35% of companies that consider product safety and quality to be important, more than four fifths (82%) are following through to measure their impact.

Strangely then, only two in five companies (40%) in South Korea feel they have a role to play in achieving the UN's Sustainable Development Goals.

Motivations for implementing sustainable practices



What you need to know



South Korean companies are highly engaged with sustainability, particularly in relation to social and governance factors.



South Korean companies feel pressure to increase their focus on sustainability. 44% feel pressure from customers, while 39% say it's from competitors and buyers in their supply chain.

What your business can do



Lead by example. South Korean firms say investing in greener buildings (21%) and energy efficient products and services (19%) are the important environmental factors to address.



Ensure you are meeting labour standards and treating employees fairly, both are seen as key social governance factors by South Korean businesses.

Breakthrough tech

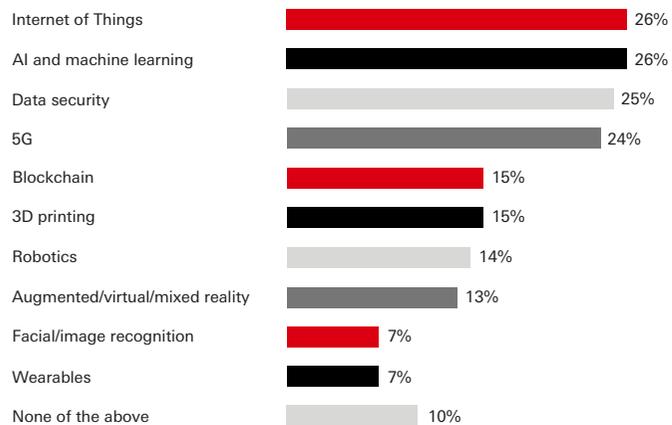
Firms look to tech to boost their business

Businesses globally are increasingly looking to technology as a key driver for growth and South Korean firms are no exception. Levels of interest for artificial intelligence (AI), 5G, data security and the Internet of Things (IoT) are all high, with more emphasis on IoT than the global average (26% of South Korean firms, compared to 22% globally).

South Korean companies see technology as beneficial for both themselves and their clients – IoT, AI and 5G are all expected to improve product and service quality as well as productivity.

In terms of developing these technologies, South Korean firms see the US as having overall dominance. However, 51% of South Korean firms that believe 5G will be important for business in the next five years, see their own market as the most advanced in the technology's development. South Korean firms are likewise excited by IoT's potential, with 26% citing its importance over the next five years. These firms also rate South Korea as a leader in the technology's development.

Technologies businesses think will be important over the next five years



What you need to know



Interest across most types of technology is high, with IoT seen as more important by South Korean firms than the global average (cited by 26% of South Korean firms, compared to 22% of firms globally).



South Korean companies rate their own market highly for 5G and IoT.

What your business can do



Consider ways in which IoT, AI and 5G could help boost your productivity.



Make sure your data security is up to scratch. South Korean firms see it as important not only for transparency and compliance but to improve delivery and sustainability as well.

About HSBC Navigator South Korea

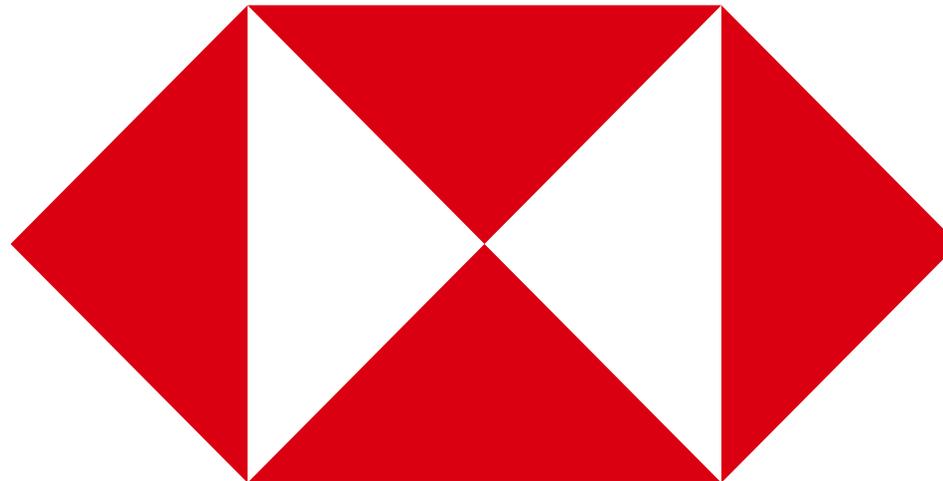
The HSBC Navigator survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar. The study gauges sentiment and expectations of businesses in the near to mid-term future on topics including: business outlook, international trade, geopolitics, sustainability, technology and wellness. It is compiled from responses by decision-makers at 9,131 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 35 markets. Sample sizes for each market were chosen to ensure the statistical accuracy of results, with 350 businesses surveyed in South Korea. Global results are based on an average of the 35 markets (using weights based on each market's share of world trade). The survey was conducted between August and September 2019. Interviewees were polled on a range of questions including expectations around future growth in trade, attitudes toward trade policy developments and strategic business plans. The survey represents a timely source of information on the fast-evolving international business environment.

Data visualisations based on the following:

Page 2: all respondents. n=156/194/350 (left);
n=9131/3252/350 (right)

Page 3, 5 & 6: all companies. n=350

Page 4: companies who think governments are becoming more protective. n=174



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