Korean Policies for SMEs Development and Internationalization

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I. Introduction

the benefits of outward-orientation --- > active pursuit of internationalization.
trade dependence ratio: over 100 percent in 2014.
development of chaebols, i.e. the large conglomerates in Korea, during the 1960s and 1970s
quick response and innovation of small- and medium-sized enterprises (SMEs)
   as well as the problems of heavy reliance on large companies
--- > the government: emphasizing development of SMEs since the 1980s.

Expecting the benefits of SMEs under the creative economy, the government is strengthening the measures supporting SMEs.
II. Economic Development and SMEs in Korea

aggressive export promotion policy during the 1960s and 1970s in particular

during the heavy- and chemical-industries promotion policy during the 1970s
--- > mostly appropriate for the large firms

emphasizing the role of SMEs since the 1980s

economic crisis in 1998. --- > economic reforms
quick recovery, then slowing down since the mid-2000s.
currently emphasizing the creative economy
III. The Internationalization of SMEs

The ratio of employees in SMEs/those in all industries:

75 percent in 1995 to 87 percent in 2013.

The ratio of SMEs’ exports/total exports: increasing in late 1990s and early 2000s

--- > then continued to decrease.

e.g. from 21 percent in 2010 to 17 percent in 2013.

--- > reversed in 2014 and 2015, rising to 18.3 percent in 2015

--- > due to the recent effort of the government to promote exports of SMEs

SMEs’ contribution to total exports including direct and indirect exports:

30 percent in 2015
The role of global value chains (GVCs): increasing in the world economy.

Example: automobile industry, using thousands of parts components imported and assembled in the importing country; local SMEs may supply parts

Korea’s OFDI: continuing to increase, reaching over US$20 billion each year since 2007; dominated by large firms; the share of SMEs in all firms’ OFDI: 9 percent in 2014
The legal system: protection and promotion of the SMEs

SMEs: beneficial to economic development; responding quickly to changing market conditions and being more innovative than large firms.

Small and Medium-Sized Business Administration (SMBA):
  the authority fully devoted to planning and implementing the programs for SMEs
various programs to promote SMEs’ exports
--- > outnumbering those of most other countries
The direction of trade promotion: the strategic use of free trade areas (FTAs) and strengthening the capability of SMEs’ exports

For the latter,
Example: transformation of domestic firms which previously sold in the domestic market to target foreign markets and activation of new export methods.

To transform domestic firms to exporting firms, it supports promising domestic firms, mostly SMEs, which have the potential of becoming exporting firms.

New export methods: e-commerce etc.
<financial support of SMEs’ exports>

Export-Import (EXIM) Bank and K-sure: raising the share of SMEs as the beneficiaries of their operations for the past a few years.

EXIM Bank: providing loans and guarantees to support trade-related firms, sharing 13.2 percent of total export in 2014

One-third of its credits: allocated to SMEs

The Korea Technology Credit Guarantee Fund (KIBO):
guaranteeing bank lending to SMEs depending on the technology level
The Korea Trade Insurance Corporation (K-sure): export insurance services
--- > the utilization ratio of export insurance: about 30 percent in 2014
--- > Korea: one of the heaviest users of export insurance

K-sure: the ‘regional headquarters system’ to assist SMEs closely at the actual sites;
   reduction of insurance fees; free provision of information to start-up exporters

The ratio of SMEs in total amount of trade insurance:
   from 10 percent in 2010 to 20 percent in 2014.
<support of international marketing etc.>

KOTRA (and KITA):

translation and interpretation services to exporting firms;
maintaining Trade Venture Plaza wherein offices are provided to SMEs at low rent level;
Provision of information on international trade and business;
supporting SMEs’ participation in foreign trade expos and trade fairs);
supporting SMEs by designating consulting firms and marketing firms abroad as the private network and providing SMEs with the services needed in penetrating into markets abroad;
supporting the Export Incubator Program (consulting services and office spaces to newly exporting firms)
<e-commerce and utilization of FTAs>

obliging electronic issuance of all documents needed for trade;

Korea: implementing the most advanced level of e-commerce

To raise the rate of SMEs’ utilization of FTAs,
supporting part of the cost of the SMEs’ handling the rules of origin matters;
sending the consultants specializing in FTAs to firms;
sending the FTA specialists to industrial complexes;
providing free FTA training opportunities to firms
<improvement of SME workforce>

KITA:
trade practice training programs and Cyber Trade Campus educating trade practices.

KOTRA:
training the foreign market experts and maintaining the training programs by industries the government:
maintaining 4 training institutes
V. Policy Instrument to Promote the Participation in GVCs

The govt: relaxed the regulations on OFDI; encouraging SMEs’ participation in GVCs

EXIM Bank; lending to Korean firms in the form of overseas investment financing.
example: In 2014, EXIM Bank’s provision of financing to SMEs equaling US$1.4 billion to support SMEs participating in overseas investment or projects as suppliers of large companies and government agencies; lending up to 80 (90) percent of the total funds necessary for OFDI (in case of SMEs).

KOTRA: providing SMEs with investment information, training and education, consulting services, financial support of firms involved in intellectual property right (IPR) disputes, M&A information, and support of global corporate social responsibility programs.
Private Ambassadors Abroad System: Private Ambassadors in 30 countries, providing free consulting services to SMEs who want to invest in the concerned countries.

<industrial complexes>
established since the 1990s to promote high-tech industries;
innovative clusters since the 2000s: pursuing collaboration among academia, research and firms as well as exchange of knowledge and information;
promoting SMEs’ partnerships with large firms by networking them
< promotion of business linkage>
support of SMEs in entering the foreign market, utilizing the large companies’ foreign infrastructure such as space and distribution networks;
a large company’s participating in a foreign trade expo together with SMEs, supporting each company the cost of interpretation and rents;
transfer of advanced technology from large firms and research institutes to SMES operating in the same cluster.

KOTRA: supporting the SMEs’ investment abroad accompanying large firms through researches on the markets
VI. Other Generic Proactive Measures to Stimulate SME Internationalization

electronic customs: one of the most efficient customs systems

tax exemption benefitting SMEs
tax reduction to firms’ R&D investment

the duty drawback scheme

policy loans to SMEs having good technologies and business potential

supporting firms changing their main areas of operation because of failure or restructuring

export processing zones (EPZs): Masan Free Trade Zone (FTZ) and several others

supporting the firms’ corporate social responsibility (CSR) activities abroad
VII. International Collaboration of Korea in SME Internationalization Policies

1. ODA

Provision of official development assistance (ODA) since late 1980s

The Ministry of Foreign Affairs (MOFA): grants
The Ministry of Strategy and Finance (MOSF): loans

ODA/GNI ratio: from .06 percent in 2001 to .13 percent in 2013

CELAC countries: 7.3 percent of Korea’s bilateral ODA in 2013
2. Knowledge sharing
an effective tool for economic development
(Korea: a small donor and achieving rapid economic growth)

<Knowledge Sharing Program (KSP)>
aiming to share Korea’s development experience;
offering comprehensive policy consultations
(in-depth analysis, policy consultation, and training opportunities)

several projects on export promotion and SME development of CELAC countries
example: export capacity building of the Dominican Republic including development of trade financing scheme --- > creation of the Export Development Bank of the Dominican Republic.
Korea International Cooperation Agency (KOICA): Development Experience Exchange Partnership (DEEP) program

--- > policy consultation and establishment of master plans with respect to selected development partners

KOICA:

short-term training programs to support capacity building;
support of education of graduate students coming from development partners
VIII. Recommendations for International Collaboration

insufficient knowledge on policies enabling rapid economic growth and internationalization of CELAC countries
--- > recommended to emphasize the role of sharing knowledge.

limited export-related finance opportunities
----> recommended for Korea to collaborate with CELAC countries in establishing/strengthening export finance schemes through:
Establishment/strengthening of export credit agencies providing export finance to SMEs;
Establishment/strengthening of financial institutions guaranteeing repayment of SMEs’ export-related borrowing from commercial banks
lack of export insurance scheme --- > recommended for Korea to collaborate with CELAC countries in establishing/strengthening export insurance schemes through:
establishment of institutions devoted to export insurance;
establishing ‘regional headquarters system’ to assist SMEs closely;
setting appropriate preferential insurance fees applied to SMEs;
free provision of buyer information services to exporting SMEs.

lack of or not well-functioning duty drawback scheme in some countries
--- > recommended for Korea to collaborate with CELAC countries in establishing/more efficient operation of duty drawback schemes in such countries.
insufficient export marketing measures of SMEs
--- > recommended for Korea to collaborate with CELAC countries in their more efficient utilization of such measures through the ways of:
providing consulting services to SMEs trying to transform themselves from targeting domestic market to foreign markets and in importing countries.

insufficient networking capabilities and information available to SMEs
--- > recommended for Korea to collaborate with CELAC countries in the improvement of their capabilities and information through the ways of:
supporting SMEs’ participation in foreign trade expos and trade fairs;
providing information on foreign markets and procurement of foreign governments.
insufficient collaboration between SMEs and the other related institutions
--- > recommended for Korea to collaborate with CELAC countries in improvement of such collaboration through sharing knowledge on:
collaboration between SMEs and the trade promotion agency on the export roadmap;
supporting SMEs accompanying large firms in entering foreign markets;
the Export Incubator Program providing offices and consulting to newly exporting SMEs.

insufficient human resources relating to internationalization of SMEs
--- > recommended for Korea to collaborate with CELAC countries in improvement of their human resources through sharing knowledge on:
training the foreign market experts by industries;
establishment of the human resources plan customized for industrial complexes.
low productivity level of and high trade costs borne by SMEs
--- > recommended for Korea to collaborate with CELAC countries in improvement of productivity and reducing trade costs of those firms through:
establishing industrial clusters and networking SMEs, academia and large firms;
establishment of and strengthening the e-commerce system;
implementing measures to raise the ratio of SMEs’ utilization of FTAs.

insufficient integration of SMEs into the global value chains (GVCs) --- > recommended for Korea to collaborate with CELAC countries in their further integration through:
special zones to host foreign-invested enterprises and attract local SMEs;
investment nights/conferences inviting the foreign investors and local SMEs
inefficient functioning of export processing zones and the role of SMEs within or neighboring zones --- > recommended for Korea to collaborate with CELAC countries in more efficient operation of them through sharing knowledge on:
selecting the appropriate location; tax and non-tax incentives; utilization of the linkage effect arising from the relationship with the neighboring industrial complexes.

lack of or inefficient functioning of trade and investment promotion agencies
--- > recommended for Korea to collaborate with CELAC countries in more efficient operation of such agencies through:
establishment of trade and investment promotion agencies;
supporting the small countries in sub-regions of CELAC to coordinate their efforts of establishing and maintaining a trade and investment promotion agency.
Thank you.