



**APEC SME Innovation Seminar**  
(Effective Implementation and Assessment of SME Innovation Policy, SME01/2009A)

**SME Working Group**  
August 25 - 28, 2009, Seoul, Korea



**Asia-Pacific  
Economic Cooperation**

# **APEC SME Innovation Seminar**

(Effective Implementation and Assessment  
of SME Innovation Policy, SME01/2009A)

**SME Working Group**  
August 25 - 28, 2009, Seoul, Korea

SME01/2009A  
Produced for  
Asia Pacific Economic Cooperation Secretariat  
35 Heng Mui Keng Terrace Singapore 119616  
Tel: (65) 68919 600 Fax: (65) 68919 690  
Email: info@apec.org Website: www.apec.org  
© 2009 APEC Secretariat



### **SME Innovation Center**

24-3 Yeoeuido-dong, Yeongdeungpo-gu,  
Seoul, 150-718 Republic of Korea  
Tel: (82) 2 769 6703 / 6706 Fax: (82) 2 769 6959  
Website: www.apec-smeic.org



**Small & medium  
Business Corporation**

# SESSION VI

Korean SME Policy



**Development and Performance of  
Korean Policies for SMEs  
by Economic Development Stage**

**Aug 26, 2009**

**Yang, Hyun Bong**  
**(KIET, Research Fellow)**

## < Contents >

<b>I . Introduction</b> .....	1
<b>II . Development Processes and Major Growth Factors of Korean SMEs</b> .....	2
1. The current status of SMEs and development processes .....	2
2. Major growth factors of Korean SMEs .....	7
<b>III . Policies for Korean SMEs by Economic Development Stage</b> .....	9
1. Overview .....	9
2. Policies for Korean SMEs by economic development stage .....	10
<b>IV . Performances of Korean SME Policies</b> .....	29
1. Overall performances .....	29
2. Performances by economic development stage .....	31

## I . Introduction

SMEs are considered as the roots of a country's economy as sound economic development can be achieved on the basis of robust SMEs. Korean SMEs have played a significant role in aiding the growth of the Korean economy since the 1960s and are expected to play a bigger role in bolstering the nation's economic situation.

The role of SMEs is not identical in all countries because of each nation's unique economic situation, but is manifested in different manners depending on the economic development stage. When it comes to Korea, SMEs were stressed as key economic players that promoted production and employment, and earned foreign currency from export growth in the 1960s. By the 1970s, Korean SMEs had served as a local economic development facilitator that cooperated with large companies, in addition to promoting production and employment, and earning foreign currency. Since the 1980s, more roles have been added such as improving the industrial structure, enhancing the capability to deal with economic cycles, and promoting technological development. Recently, SMEs are required to be innovation leaders and players in charge of establishing the country's social safety net.

As Korea has achieved high economic growth and joined the OECD in 1996 through its economic development plans, a significant number of developing countries have shown keen interest in SME policies executed in the process of the economic development in Korea.

This paper will initiate the discussion by taking a close look at the development processes of Korean SMEs and major growth factors, sorting out SME policy processes by Korean economic development stage, and showing the performance behind SME policies.

## II. Development Processes and Major Growth Factors of Korean SMEs

### 1. The current status of SMEs and development processes

#### (1) The current status of SMEs

On the strength of efforts by SMEs to grow and the government's SME nurturing policies promoted since the 1960s, SMEs in Korea have occupied a high proportion of the nation's economy.

< Table 1 > The current status of SMEs in the manufacturing sector(2007)

Unit : number, person, trillion won, %

		2007	proportion(%)
Number of enterprises	SMEs	118,506	99.5
	Large companies	627	0.5
	Total	119,133	100.0
Number of employees	SMEs	2,199,951	76.9
	Large companies	662,555	23.1
	Total	2,862,506	100.0
Production	SMEs	481.6	48.7
	Large companies	507.8	51.3
	Total	989.4	100.0
Value added	SMEs	174.7	50.6
	Large companies	170.4	49.4
	Total	345.1	100.0

Source: Korea National Statistical Office, 「A Report on Mining and Manufacturing Industries」, 2008. 12.

Note: The standard to be selected as a SME is the number of employees from 5 to less than 300.

As of the end of 2007, the number of SMEs in the manufacturing sector with from 5 to less than 300 employees amounted to 118,506, which accounted for 99.5% of the entire number of businesses. The number of employees working in SMEs amounted to 2,199,951, which accounted for 76.9% of all employees. As of the end of 2007, the production from SMEs in the manufacturing sector was 481.6 trillion won, which was 48.7% of the total production amounts of the manufacturing sector. Added value from SMEs amounted to 174.7 trillion won, which accounted for 50.6% of the total added value of the manufacturing sector.

## **(2) Development Processes of SMEs**

The development process of Korean SMEs can be classified according to the pace of growth, transformation of structures, and changes of SME policies.

The 1st stage was from 1962, when the 1st economic development 5 year plan was initiated, until 1976, when the 3rd economic development 5 year plan was completed. During this period, companies had gotten bigger and business activities of SMEs had decreased. During this period, SMEs started manufacturing daily necessities and established their development foundation in light industries such as textiles, which was in line with policies that promoted exporting light industry items. However, the economies of scale for export expansion were the key industrial policies, companies had to grow, while overall business activities of SMEs decreased. In effect, the total number of businesses in the manufacturing sector increased by 1.36 times from 1963 to 1976. Among them, the number of large companies rose by 4.34 times, while SMEs grew by just 1.32 times. The total number of employees in the manufacturing sector increased by 4.27 times (1,315,000 people) from 1963 to 1976. Out of this, the number of employees with large companies rose by 7.11 times (825,000 people), while that of SMEs grew by just 2.84 times (490,000 people).

The 2nd stage was from 1977, when the 4th economic development 5 year plan was initiated, until 1991, when the 6th economic development 5 year plan was completed. During this period, SMEs grew rapidly due to the government's policies aimed at developing heavy and chemical industries. During this period, large-scale facility investments were made through with then bigger businesses while being strongly supported by policies for developing the heavy and chemical industries. SMEs played their role in providing parts and materials consumed in the heavy and chemical industries, replacing imported parts and materials. In the process, the Korean government started actively promoting policies to nurture SMEs, and on the strength of these policies, SMEs were able to grow rapidly through active start-ups, facility investment, and improved structures. From 1977 to 1991, the total number of businesses in the manufacturing sector increased by 2.89 times (47,256 businesses), and among them, the number of SMEs rose by 2.97 times (47,177 businesses), which was quite rapid compared to the growth of large companies (up 1.08 times to 79 businesses). As a result, the total number of employees in the manufacturing sector grew by 1.7 times (1,201,000 people) from 1977 to 1991. Oof this, the number of employees in large businesses grew by 1.11 times (105,000 people), while that of SMEs rose by 2.45 times (1,096,000 people), which contributed significantly to job creation. As a result, considering the number of employees, production amounts, and added value in the manufacturing sector in 1976, SMEs accounted for 44.1%, 29.2%, and 30.0% respectively. The numbers rose significantly in 1991, marking 63.5%, 44.6% and 45.8% respectively in terms of the number of employees, production amount, and added value by SMEs.

The 3rd stage is from 1992, when the 7th economic development 5 year plan was initiated, until 2007. During this period, innovative SMEs such as professional or independent SMEs and venture businesses emerged, so the restructuring of and increased innovation by SMEs occurred. SMEs faced a transitional period with an acceleration in the market opening.

They were forced to adapt to the rapid changes in the market and deal with several adjustments. In the meantime, policies for SMEs changed from protecting and supporting SMEs to inducing competition, cooperation and self-reliance through technology-oriented fields. The total number of enterprises in the manufacturing sector from 1992 to 2007 (46,920 businesses), which was relatively slow compared to the period from 1976 to 1991, during which the number grew by 1.65 times (46,920 businesses), which was relatively slow compared to the period from 1976 to 1991, during which it grew by 2.97 times. Accordingly, the number of employees in SMEs rose by 1.88 times (347,000 people) from 1992 to 2007, which was quite slow compared to the growth from 1976 to 1991. In particular, the number of employees working in large companies decreased by 402,000 people during the same period. Despite the slow-down in the growth of SMEs since the 1990s, the proportions taken up by SMEs in terms of the number of employees in manufacturing, production, and added value grew from 63.5%, 44.6% and 45.8% respectively in 1991 to 76.9%, 48.7% and 50.6% respectively in 2007, which shows the importance of SMEs.

Likewise, Korean SMEs have contributed to Korean economic development since the mid-1970s, taking up a larger proportion in the number of businesses, employees, production amount, and added value. The role of SME is expected to grow in Korea compared to large companies.

< Table 2 > Changes of SMEs in the manufacturing sector  
(with 5 employees or more)

Unit: number, 1000 persons, 100 million won, %, times

		1963 (A)	1976 (B)	1991 (C)	2007 (D)	B/A (times)	C/B (times)	D/C (times)
Number of enterprises	SMEs	18,073 (98.7)	23,928 (95.6)	71,105 (98.5)	118,506 (99.5)	1.32	2.97	1.67
	Large companies	237 (1.3)	1,029 (4.4)	1,108 (1.5)	627 (0.5)	4.34	1.08	-0.43
	Total	18,310 (100.0)	24,957 (100.0)	72,213 (100.0)	119,133 (100.0)	1.36	2.89	1.65
Number of employees	SMEs	237 (1.3) 267 (66.4)	237 (1.3) 757 (44.1)	237 (1.3) 1,853 (63.5)	237 (1.3) 2,200 (76.9)	2.84	2.45	1.88
	Large companies	135 (33.6)	960 (55.9)	1,065 (36.5)	663 (23.1)	7.11	1.11	-0.38
	Total	402 (100.0)	1,717 (100.0)	2,918 (100.0)	2,863 (100.0)	4.27	1.70	-0.02
Production	SMEs	977 (58.5)	22,219 (29.2)	917,550 (44.6)	4,816,209 (48.7)			
	Large companies	692 (41.5)	53,803 (70.8)	1,139,440 (55.4)	5,077,883 (51.3)			
	Total	1,669 (100.0)	76,022 (100.0)	2,056,990 (100.0)	9,894,092 (100.0)			
Value added	SMEs	325 (52.8)	12,222 (30.0)	395,630 (100.0)	1,746,956 (50.6)			
	Large companies	290 (47.2)	28,529 (70.0)	468,030 (54.2)	1,704,201 (49.4)			
	Total	615 (100.0)	40,751 (100.0)	863,660 (100.0)	3,451,217 (100.0)			

Source: Korea National Statistical Office, 「A Report on Mining and Manufacturing Industries」, each year

Note: 1) The size to be defined as SMEs is from 5 employees to less than 200 employees up to 1973 years and from 5 to less than 300 employees after 1976.

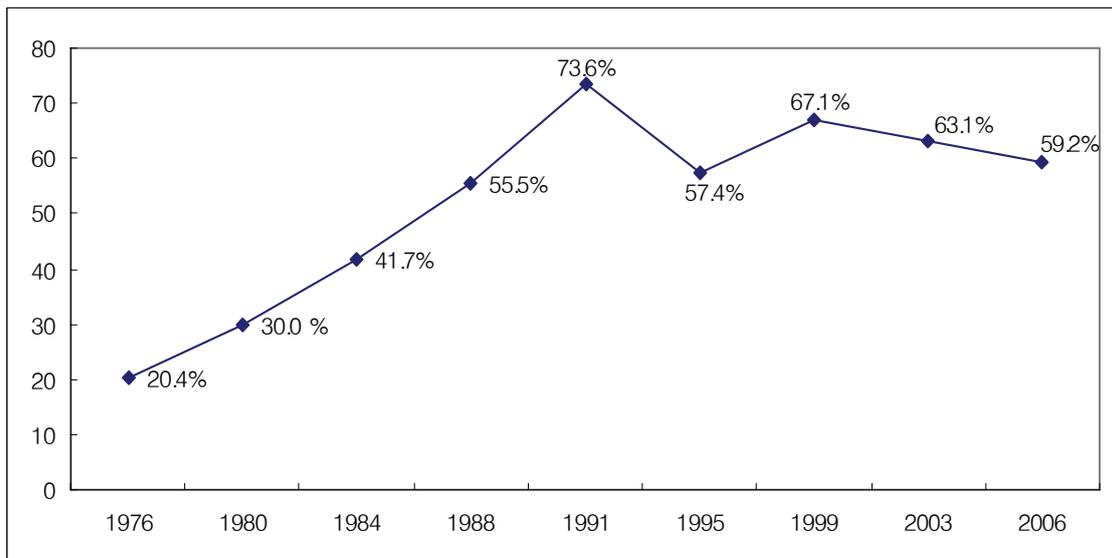
2) ( ) is the proportion(%) out of total.

## 2. Major growth factors of Korean SMEs

The quantitative and qualitative growth of Korean SMEs in the manufacturing sector since the mid-1970s can be attributed to the following factors.

First, as the heavy and chemical industries have developed since the mid-1970s, the sub-contract relationship between large companies, which assembled and produced finished products, and SMEs, which produced parts and materials, were established, so the strengthened cooperation with large companies on the backs of policies being promoted using local parts and materials was one of the major attributing factors. The proportion of manufacturing SMEs that produced and delivered parts and materials based on orders placed by other manufacturing companies increased from 20.4% in 1976, 30.0% in 1980, 41.7% in 1984 to 73.6% in 1991. It has shown a declining trend since 1991, but still the proportion remained at 59.2% in 2006, which still significantly high.

< Picture 1 > Transition of sub-contractions of SMEs in manufacturing industries



Source: Small and Medium Business Administration, Korea Federation of Small and Medium Business, 「Reports on Current Status of SME」, each year.

Second, the government has supported SMEs since the 1980s to protect business areas taken up by SMEs and help them secure business channels in the domestic market so that SMEs can enjoy a stable business environment. A business only for SMEs and a collective private contract system to protect SME business areas and securing business channels have been in place for more than 25 years since the 1980s.

Third, the significant growth of SMEs since the 1980s has been led mainly by newly emerged SMEs and the expansion of small companies accordingly. As shown in Table 2, the number of SMEs in the manufacturing sector increased by just 5,855 from 1963 to 1976, but went up by 47,177 from 1977 to 1991, and by 47,401 from 1992 to 2007, which shows the continuous growth of SMEs. In particular, the Korean government has systematically supported SME start ups by enacting the 「SME Start-up Support Act」 in 1986. After the financial crisis in 1997, the venture nurturing policy took effect, so a growing number of business were established, leading the quantitative and qualitative growth of SMEs.

Fourth, as technological innovation has accelerated, demands diversified, and development progressed, production methods have changed accordingly, which ultimately accelerated the rise and development of SMEs. As the life cycle of products and technology is shortened, demand patterns have also diversified, and globalization progressed, more specified markets have emerged in which technology and knowledge-oriented and small scale production methods can be more efficient rather than ways of pursuing "economies of scale". As a result, new types of SMEs have emerged and existing SMEs had to deal with such specified markets in a flexible way.

### **III. Policies for Korean SMEs by Economic Development Stage**

#### **1. Overview**

Korea's SME policy has been deliberately and systematically carried out with the 1st economic development 5 year plan starting in 1962.

From 1962 to 1971, during which the 1st and 2nd economic development 5 year plans were executed, the focus was on economies of scale that was possible based on increased exports. Therefore, SME policies were not fully initiated during this period.

From 1972 to 1981, when the 3rd and 4th economic development 5 year plans, were executed along with the development of the policy for the heavy and chemical industries policies were designed for SMEs, their modernization and differentiation between divisions and large companies that assemble parts and the SMEs that produce them.

From 1982 to 1991, when the 5th and 6th economic development 5 year plan were promoted, the imbalance stemming from the double structures of large companies and SMEs caused by rapid economic growth was corrected. The focus then shifted the economic policies to stabilization including adjustments to the investment in each sector, and improvement in the industrial structure. As a result, SME policies were diversified and became more intense during this period.

From 1992 to 1997, when the 7th economic development 5 year plan was executed, the policies for SMEs were concentrated on laying the groundwork for "autonomy and competition", which was in line with then economic policy stance to strengthen industrial competitiveness in the middle of opening of the market and promoting the autonomy of the Korean economy.

After the financial crisis in 1997, SME policy was transformed to nurture innovative SMEs such as venture businesses, while the overall restructuring of the Korean economy was underway. SME policies were

executed to promote mutual cooperation between large companies and SMEs and to establish a social safety net.

## **2. Policies for Korean SMEs by economic development stage**

Starting from the early 1960s, policies for SMEs were carried out with a legal system put in place to support them in Korea.

First, the Korean government put in place an "SME division" within the Ministry of Commerce in July, 1960 as a department dedicated to SME businesses, established the "Industrial Bank of Korea" in August, 1961 as a bank dedicated to SMEs, and enacted the SME Cooperative Act and SME Business Adjustment Act in December, 1961. Finally, an administrative system was established to nurture SMEs, and systematic rules were constructed to mediate disputes between SMEs and large companies and to avoid excessive competition among SMEs, while the government promoted financial and organizational support for SMEs.

The following is the major content of Korean SME policies by stage, which were carried out together with the 1st economic development 5 year plan in 1962.

### **(1) SME policies during the 1st economic development 5 year plan (1962~1966)**

Above all, the government established the Kookmin Bank, dedicated to people in the mid-and low-income brackets, in 1963, in an effort to expand financial support for SMEs. In 1965, the government initiated a set number of mandatory loans extended to SMEs (30% of the total loan amount) to indicate more loans from commercial banks to SMEs.

Next, local labor unions and a federation for SME were established on the basis of the 「SME Cooperative Act」 enacted in 1961. In 1962, the Korea Federation of Small and Medium Business was founded for the systematization of SMEs.

When the government launched its policies to promote exports along

with the 1st economic development plan, it established the Korea Trade-Investment Promotion Agency (KOTRA) in 1962, which dedicated itself to exploring overseas markets and supporting the exports activities of SMEs. Besides, SMEs that were capable, of exporting items were selected and developed, while businesses that had contributed more to the trade balance and job creation were designated as "Special industries for SME export" and supported from 1966.

By utilizing surplus labor in agricultural and rural areas productively, the government initiated "Household Industry Centers" in 1965 in a bid to facilitate regional society development. From 1965, a "Measure to Nurture Special Industries in Regions" was implemented to support collective funds for businesses by designating specialized items such as sweaters and wigs and contacting the collectives involved.

In order to systematically support SMEs, the government enacted the 「Basic Act on SMEs in Korea」 in Dec. 1966. The act set basic directions of measures stipulated in each decree to nurture SMEs; moreover, it regulated the size of SMEs that were subject to SME policies. The "size of the SMEs" stipulated in the 「Basic Act on SMEs in Korea」 is 200 or fewer employees or 50 million won or less in total assets in the case of manufacturing, mining, and transporting industries and 20 or fewer employees or 10 million won or less in total assets in the case of commercial and other services industries.

## **(2) SME policies during the 2nd economic development 5 year plan (1967~1971)**

The necessity to guarantee the debts of SMEs with insufficient collateral emerged, so the government enacted the 「SME Credit Insurance Act」 in 1967 to support SMEs financially, established a "Committee for SME Financing" to encourage commercial banks to guide loans extended to SMEs, and instructed commercial banks to put in place a division dedicated to SME support. In 1969, a "Commercial Paper Discount System" was introduced to discount commercial papers that SMEs received

from large companies as proceeds.

In an attempt to enhance efficiency in industries and nurture SMEs at the same time by promoting the business division between large companies and SMEs, the government announced a facilitating plan as part of a scheme to develop the machine industry in 1969 and selected businesses that were to be subject to systematization in 1970, suggesting a standard by which to designate companies that produced items in selected business areas.

The 1st objective of the SME modernization policy was to enhance productivity and overcome the structural gap between large companies and SMEs during the 5 year period of the 2nd economic development plan. To this end, the government established an "SME Technology Instructing Center" in 1967, which trained engineers and gave overall guidelines to upgrade the technology used by SMEs.

As part of its effort to promote exports, the government supported miscellaneous businesses. It was relatively easy to move into exporting markets in these miscellaneous businesses since it was labor-intensive and required just simple technologies. In particular, the business had excellent foreign exchange earning capacity because most of the raw materials needed for that business were found in the domestic market, also, with respect to increasing jobs, the business was important in that it absorbed surplus labor from agricultural areas and potential labor in areas surrounding metropolitan areas.

The government drew up a "Policy to Create a Sideline Business Zone for Farmers" in 1968 in a bid to increase farmers' income by utilizing surplus labor and established 26 industrial complexes by designating "Districts for Regional Industry Development Facilitation" in 1969 mainly in small-and medium sized regional cities.

Also, the government put in place an "SME Policy Deliberation Committee" in 1967 based on the 「Basic Act on SMEs in Korea」 as a new SME administrative body and the committee served as a central body

to mediate SME policies in a comprehensive manner with holistic views.

On top of that, an "SME Department" was established in 1968 inside the Ministry of Commerce to go ahead with SME policies more efficiently and systematically as administrative duties concerning SMEs increased.

### **(3) SME policies during the 3rd economic development 5 year plan (1972~1976)**

As financial resources were concentrated with large companies due to the implementation of policies toward the heavy and chemical industries in the 1970s, the Bank of Korea took measures to increase available capital to SMEs such as strengthening the criteria in applying the ratio of loan extended to SMEs and adjusting the mandatory SME loan ratio of regional banks upward(30%→40%) in addition, by guaranteeing the debts of SMEs that suffered from lack of funds due to insufficient collateral, the government made it easier for SMEs to mobilize funds based on a "Korea Credit Guarantee Fund" established in 1976 as a special corporation.

For modernization of SMEs, the government, in 1972, classified SMEs by original SME type, professional subsidiary type, and large company type, and drew up SME development guidelines according to each type. In 1975, funds were swiftly provided by the government to support the replacement of dilapidated facilities of small textile companies. After 1976, it was determined to target 100 machine factories, which were the original SME type, every year based on the 5 year economic development plan.

In order to bolster the progress of the heavy and chemical industries in Korea, parts needed to be supplied smoothly. As a result, appropriateness and fairness of contract-based businesses as well as systematization were required. The systematization between companies was facilitated for long-term and stable contract-based businesses between assembling companies and parts companies, and order in such contract-based businesses needed to be established. Finally, the 「SME Systematization Promotion Act」 was enacted in 1975 for this purpose.

Efforts were made by the government to increase the ratio of foreign

exchange earnings through local product development made from traditional skills and goods that meeting foreign tastes. In 1972, 188 companies were designated through the "Guidelines to Designate and Support Indigenous Item Producing Companies." After 1976, exports of SMEs were further promoted through the systematization of general trading companies and SMEs.

The government promoted constructing the "Saemaeul Factory" in agricultural areas from 1973 to utilize surplus labor, distribute factories, create a foundation for exporting original industries in regions and increase the incomes of farmers.

The "Industry Promotion Agency" was inaugurated in 1973 under the Ministry of Commerce to carry out industry standardization, quality management of industrial products and facilitation of industry development. Meanwhile, the government expanded the scope of SMEs in 1976 to catch up with the growing size of SMEs and to facilitate investment in modernizing SME facilities. For manufacturing, mining, and transporting industries, the scope was expanded to 300 or fewer employees or 500 million won or less total assets (it was 200 or less employees or 50 million won or less total assets before). When it comes to the construction industry, the limit was increased to 50 or fewer employees or 500 million won or less total assets. In the case of commercial or other service industries, the ceiling was raised to 20 or fewer employees or 50 million won or less total assets.

#### **(4) SME policies during the 4th economic 4th economic year plan (1977~1981)**

The Bank of Korea raised the mandatory ratio of loans extended to SMEs in 1980 (commercial banks: 30% → 35%, regional banks: 40% → 55%) as more funds were needed to enhance the productivity of SMEs and increase exports. Also, SMEs were allowed to tap into funds from the Korea Credit Guarantee Fund when they borrowed money from secondary financial institutions (such as insurance companies).

In order to execute SME modernization policies systematically, the government enacted the 「SME Promotion Act」 in 1978. It was allowed to establish an "SME Promotion Fund" in 1979 to prepare funds that were needed to pursue modernization, cooperation, management and technology guidelines pursuant to the act. The fund was mobilized through government's contributions and loans. For the efficient promotion of SMEs, modernization, cooperative businesses, operation management of the SME promotion fund, management diagnosis, technology guide, information provision, and training and education, the government founded the "Small and Medium Business Corporation" in 1979.

In Korea, the SME systematization policy was fully launched in 1976 after the 「SME Systematization Promotion Act」 was enacted. In 1977, specific industries and items were designated and announced with the support of funds.

In an effort to protect SMEs, the government attempted to block the advancement of large companies into business areas traditionally occupied by SMEs in 1978. As a result, the entry of large companies into SME business areas was blocked from 1979 based on designation of "Special Industries for SMEs" which were judged to be businesses desirable only for SMEs for equal development of the nation's economy.

In 1981, the stage was set for the government and public organizations to procure items produced by SMEs based on the enacted 「SME Product Procurement Promotion Act」. As a result, it was stipulated that from 1981, the government and public organizations sign collective private agreements first with SME cooperatives to procure items.

To help develop SMEs in specific regions, the government designated "SMEs dedicated to Crafted Product Production" in 1980. The designated SMEs were able to benefit from fund support, management and technology guides. Also, the government worked to develop and commercialize locally crafted products by holding a national product competition.

## **(5) SME Policies during the 5th economic development 5 year plan (1982~1986)**

The government increased the mandatory ratio of loans extended to SMEs from regional banks (55% or more → 80% or more) in 1986 to expand the loans available to SMEs. In addition, for effective financing of SMEs through direct financing, the government permitted SMEs in 1984 to issue corporate bonds with payment guarantees up to 200% of capital. Along with this, the government established the "Fund for SME Mutual-aid Projects" in 1982 to prevent bankruptcy and promote mutual SME businesses. In 1984, the Korea Federation of Small and Medium Business initiated its support for the SME mutual-aid projects fund.

The "System for Promising SMEs" had been implemented from 1983 in order to strengthen competitiveness by identifying and supporting promising SMEs that showed self-sufficiency. In 1982, industries that needed support were designated as "Priority Industries for SMEs" and received funds for facility modernizing from the SME promotion fund. The Small and Medium Business Corporation opened an "SME Training Center" in 1982 in Ansan, Gyeonggi province, to train SMEs effectively through various technologies and management skills.

The 23 "Priority Industries for SMEs" designated in 1979 by the government to protect the business areas occupied by SMEs were changed to "Businesses only for SMEs" in 1982. Using this as a turning point, the government implemented a full scale system of businesses only for SMEs thus preventing large companies from moving into these areas.

In order to lay the groundwork for autonomous systematization of industries, the government initiated an "SME Systematization Promotion Committee" inside the Korea Federation of Small and Medium Business that look for ways that the systematization could be developed further, outsourcing could be introduced, and disputes could be mediated autonomously. In the development they were asked to establish and operate a "Committee for Companies of Supply and Demand" in each division of the mother company so that support could be provided in supplying the

mother companies. In 1984, as a fair trade increased resulted from or wayed subcontracted businesses, the Act on Fair Trade based on Subcontracting」 was enacted to establish an order in trading through subcontracts.

In an attempt to support SME start ups, the government enacted the 「SME Starting-up Support Act」 in 1986 which included simplified start-up procedures in addition to financial and tax support available to starting-up SMEs.

The government promoted its "Industry based Technology Development Project" to support technology development of SMEs and assisted them in resolving technological difficulties in different regions by strengthening their tech support through regional industry testing centers. In order to improve the industry structure that relied on imports and address the chronic trade deficit with Japan, the government drew up a 5 year plan to use local machines, parts and materials in 1986 to provide funding, technology development, and tax support. Along with this, a "System of Research Centers under SMEs" was established in 1983 to facilitate technological development through SMEs.

The government decided to focus on mid-sized companies that had exported less than 8 million dollars annually, but would be able to increase the amounts to around 10 million dollars within 3 to 4 years based on the support from government. From 1985 to 1987, 1,000 mid-sized export companies were identified and supported.

In 1983, the 「Fishing and Agrarian Village Income Development Act」 was enacted to promote the development of regional economies in these villages. Based on this act, districts to promote industries in fishing and agrarian villages (agrarian and industrial complexes) were created. Along with this, the "Folk Handicraft Industry" was targeted in the same year to promote the exports of these goods, to use surplus labor and to increase incomes in agricultural villages. In particular, for the development and commercialization of traditional handicrafts provided for the then upcoming

Asian Games in 1986 and 1988 Seoul Olympic Games, the government designated companies dedicated to producing traditional handicrafts and provided them comprehensive support through fund support, design development, and technology guidance.

#### **(6) SME Policies during the 6th economic development 5 year plan (1987~1991)**

The government opened an "off-board stock market" in 1987 to give more opportunities for SMEs to mobilize funds through direct financing. This off-board market was a so-called unlisted stock market, which was a prior stage market for listing on the exchange. Furthermore, for active investment in new technology businesses, the government established a "Technology Credit Guarantee Fund" in 1989 that guaranteed debt repayments of companies that developed new technologies or commercialized new technologies.

In the second half of the 1980s, the management environment of SMEs deteriorated due to the rapid appreciation of the Korean won, increased labor disputes, and wage increases of the SMEs, so the government enacted the 「Act to Promote Restructuring and Stability of SMEs」 in 1989. This act supported sound business activities of SMEs in the short term, devising measures to strengthen management and established systematic policies to improve the structures of SMEs in the mid- and long term.

In a bid to support the convergence of technologies through active exchanges between SMEs in different business areas, the government launched its "Group for Exchanges in Different Businesses" in 1989 and drew up its "Plans to Advance Technology of the Group for Exchange" in 1990.

With regard to the SME system that had been used since 1983, a graduation system was introduced in 1988. In other words, promising SMEs that were judged to be self-sufficient after a certain period of support would then be "graduated" from the system, and many promising

SMEs would be identified and supported for their continuous growth and development.

From 1990, the "Business Transfer Project from Large Companies to SMEs" was promoted so that those businesses judged to be carried out by SMEs and not by large companies, could be transferred to SMEs.

For the protection of SME business areas, the government implemented a system of businesses strictly for SMEs. Since then the number of designated businesses increased to 237 in 1989. In order to prevent inefficiency that might be caused by long-term protection, the "System to Cancel the Designation for SMEs" was adopted.

Sound management and technology development were encouraged further through the "Public Organizations' Prior Procurement of SME Products" introduced in 1990 that supported sales channels.

To expand investment in starting-ups, the government introduced measures to organize and operate a "Cooperative to Invest in Start-ups" in 1987.

From 1990, "SMEs that Advanced Technologies" were selected so that they obtain technologies which would lead to upgraded technology levels. For more financial support and financing for SMEs in regional areas, the government established the Dongnam and Daedong banks in 1989 in Busan and Daegu respectively, which were dedicated to local SMEs.

#### **(7) SME Policies during the 7th economic development and new economy 5 year plan (1992 ~ 1997)**

To expand funds for SMEs, the government raised the ratio of mandatory loans extended to SMEs from commercial banks in 1992 (35% →45%). In addition, a "System of Credit with Total Limit" was introduced by the Bank of Korea in 1994 to increase the amount of loans to SMEs. Under the total limit system, the Bank of Korea supported financial institutions that extended loans to SMEs with low interest rates within on the basis of the institutions' loan performance. Meanwhile, the

government introduced an "Insurance System for Bills" in 1997 to prevent increased bankruptcy of insolvency by paper profits of SMEs, which might be caused by the defaults of other companies.

In an effort to revitalize the stagnant economy in the early 1990s and to strengthen the competitiveness of SMEs, the government promoted its "Project to Improve the SME Structure." For the successful implementation of this project, the government promised to provide 1 trillion won every year during the new economy 5 year development plan, which was from 1993 to 1997.

For protection from unfair businesses with consigning companies and to ensure fair business practices on subcontracts, the government put in place a "Center to Report SMEs' Troubles in Doing Business" in 1996. In addition, the government examined the status of businesses on subcontracts and ordered large companies whose unfair business activities were reported and took corrective actions, raising awareness on fair trade by announcing the cases.

The government introduced a "Competition System among SMEs" in 1995 to support the sales channels of SMEs and induce proper competition among SMEs, having limited competition or competition among designated SMEs when the government or public organizations procured the same items. In addition, as part of its project to secure areas to sell products, the government started constructing its "Comprehensive Distribution Center for SME Products" in 1996.

In the meantime, the government promoted its "Project to Support a Starting-up Instructing Center" from 1992 to facilitate the establishment of SMEs. From 1997, a "lecture on starting-up" and a project to support start-up groups was carried out.

In 1997, the government enacted the 「Special Measures Law on Venture Company Support」 only for 10 years. Those venture companies in the act were defined as "companies invested in by venture capitals," "a company with large amount of investment in R&D as a percentage of sales (5% of

more of sales invested into R&D)," and "a company with patents or new technologies."

The government opened the KOSDAQ, a stock market dedicated to SMEs and venture companies, in 1996 to mobilize funds directly.

In order to assist technology development of SMEs, the government supported the "Regional Consortium Project for Technology Development among the Industry, Academia, and Research Centers" from 1993 and implemented a "Certification System for New Technology Marks (NT marks)" from May 1993. Also, for technology innovation, an "SME Technology Innovation Development Project" was carried out from 1997. To expand credit guarantee support for SMEs that didn't have enough collateral, but with remarkable technologies, the government introduced and operated a "Special Support System for Technology Credit Guarantee."

In an effort to relieve the shortage of labor in the "3D" (Dirty, Difficulty, Dangerous) fields, the government introduced an "Industrial Technology Training System for Foreigners" in 1993, and "The Elderly Volunteer Group" was launched to give working opportunities to retired people with special skills as part of its efforts to support SMEs.

By identifying SMEs that had the potential for exports but suffered from difficulties due to a weak management foundation, the government closely supported them for 2 years based on the "Project to Promote Exports of SMEs" which was initiated and expanded from 1993.

For systematic implementation of regional SME support policies, the government enacted the 「Act for Balanced Regional Development and Support of Regional SMEs」 in 1994. With this act as a turning point, efforts were made to support SMEs by mobilizing funds to support SMEs in specific regions, designating and supporting SMEs in special support zones, putting in placesignarehensive support centers for SMEs in districts and cities, promoting special industries in regions, and establishing credit guarantees.

To contribute to the balanced national development through sound

management and restructuring as well as free production activities of small companies, the government enacted its "Special Measures to Support Small Businesses" in 1997. According to the law, small businesses subject to the law were limited to 50 or fewer employees in the manufacturing industry (in the manufacturing-related service industry, the number was 30 or fewer), with the industries being limited to the manufacturing and manufacturing-related services.

After recognizing the conventional market risks of competition if they did not adapt themselves, the government provided financial support for redevelopment of conventional markets in 1996, carrying out its "Small Store Modernizing Project" at the same time to strengthen support for small-scale retail businesses.

For practical support for SMEs and implementation of SME policies, the government launched its "Small and Medium Business Administration" in Feb. 1996. The establishment of the administration opened a new chapter in the history of SME support systems, making it possible to support SMEs quickly and closely through regional organizations (regional SME administrations).

Meanwhile, the government introduced more qualitative criteria (actual separation between ownership and management) in 1995 to those SMEs which had only had quantitative criteria, and expanded the scope of small companies (50 or fewer employees in manufacturing, 30 or fewer employees in construction, and 10 or fewer employee in the wholesale, retail businesses, and other service industries).

#### **(8) SME policies during the "Government of the People" period (1998~2002)**

Financial support and venture company development policies were key points promoted during the "Government of the People" era (1998~2002) to address the financial crisis in 1997.

After the agreement for emergency funds support signed between the Korean government and the IMF, the financial strain became worse with

the restructuring of companies and financial institutions, which caused higher risk of default by SMEs. As the result, the government drew up emergency measures to ease the financial difficulties of SMEs in 1998. The main details included extending the loan repayment period for SMEs by 6 months, expanding the BOK's credit system, implementing a direct loan system for policy funds for SMEs through the Small and Medium Business Corporation, establishing and operating a center to handle financial difficulties, and supporting SMEs' export and import financing (2 billion dollar borrowing for ADB and IBRD). In 1999, considering the funds needed for SMEs was for operating capital and not facility investment, after financial crisis, the government established a "fund for management stabilization" that was used solely for operating capital. In order to prevent bankruptcy with paper profits of promising SMEs, the government maximized its fund support to prevent bankruptcies including a bill insurance system and an SME mutual aid project fund. In addition, the government contribute 2 billion dollars borrowed from ADB and IBRD to a credit guarantee institutions to improve the BIS ratios of financial institutions and to expand the guarantees of credit related to exports by SMEs.

The government introduced an SME Asset-backed Securities(ABS) System. The system supported SMEs' issuance of corporate bonds through the Small and Medium Business Corporation reinforcing the credit of SMEs. Also, by benchmarking the Asset-backed Securities (ABS) system, the government introduced a "Venture Company Primary CBO System" in 2001.

Also, the government promoted the 2nd SME structural improvement project from 1998 to support restructuring of SMEs. Venture companies and "Inno-Biz" companies were identified and developed from 1998 and 2001 respectively, and in 1998, the "SMEM & A Center" was established and operated in the Small and Medium Business Corporation.

As it became more difficult for SMEs to manage their companies

because of the dramatic decrease in sales after the 1997 financial crisis, the government urged public organizations to buy SME products to expand sales channels and stabilize management.

In a bid to support sales, the government constructed an SME products distribution center(SME department store) in December 1999 so that around 10,000 products made by SMEs could be promoted directly at the center.

Meanwhile, the government used 400 billion won out of its borrowings from the IBRD to support SMEs start-ups in 1998. The government continued to expand its support from 1998. In addition, to enhance the success of start-ups after the financial crisis, the government expanded its "Project of Supporting the Establishment of Starting-up Instructing Center," to secure additional infrastructure for new companies. Since 1999, the government promoted its "Professor/Researcher Start-up Support System" and "Laboratory System Start Up" for universities and research centers.

To promote investment into venture companies, the government opened an investment mart in 1998 and provided benefits to cooperatives that invested into venture companies, allowing 20% of the amount invested to be deducted from general income. To facilitate financing of venture companies, a "Department for Venture Companies" was established in the KOSDAQ market in 1998. To facilitate the establishment of venture companies, the government allowed professors and researchers to have multiple duties after obtaining approval and participating in the management of start ups. Also, the number of people who received stock options was expanded to include professors and researchers. For effective support of venture companies, the government attracted foreign investment funds and established a Korea Venture Fund worth 100 billion won.

In an attempt to support technology development in SMEs, the government implemented the Korea Small Business Innovation Research Program(KOSBIR) in 1998, where a certain percentage of the R&D budget of the government and government invested institutions went towards

SMEs.

In order to support the technology innovation of SMEs, the government enacted the 「SME Technology Innovation Promotion Act」 in 2001. Also, the government recognized that supporting technologically innovative SMEs was an urgent matter, so they set up INNO-BIZ in 2001 and set a goal of identifying and supporting 5,000 technologically innovative SMEs, 1,000 each year from 2001 to 2005.

For rapid commercialization of new technologies, the government established a "Korean Techno-mart" in 1998, establishing Techno-Net, where SME technology-related information was loaded onto an "SME Technology Exchange" in the Small and Medium Business Corporation.

In 2001, the government constructed a "Technology Innovation Support Connecting System" where information such as research tools and professionals employed at universities and research centers could be searched. Also, the "Technology Development Project on condition of Procurement" was introduced in 2002 so that SMEs could concentrate on technology development based on established sales channels.

In 2000, an "SME Information Management System (IMS)" was introduced to promote the development of SMEs and to ensure efficient implementation of SME information projects, a "Center for Information Development of SMEs" was established in 2002.

From 2002, the government started its "Project to resolve Reasons of Avoiding Duties on the Field of SMEs" to improve the working environment in SMEs. Also, the government established and operated an "SME Personnel Information Network," a virtual meeting place for SMEs and job seekers.

For SMEs that intended to set up local subsidiaries overseas, the government put in place an "Export Incubator" in major overseas markets. Since the implementation of a local self-governing system, the government allowed for a foundation to guarantee local credit, which guaranteed the debt repayment of local SMEs by enacting the Local Credit Guarantee

Foundation Act」 in 2000.

The government established and operated "Small Businessman Supporting Centers" to provide counseling and information on how to start up a small business or how to improve management, and in 2000, enacted the Special Law on Supporting Small Businesses and Small Businessmen.

The government set up the 「Act on Supporting Women in Businesses」 in 1999. This act included government support for women entrepreneurs, equal business opportunities, assistance to women starting up companies, procurement of products made by female-managed businesses, preferential treatment toward female entrepreneurs for funding, establishment of the Korean Women Entrepreneurs Association and support center for female entrepreneurs. In addition, the Korean Women Entrepreneurs Association was established in July 1999 and has served as a key center for women's business activities.

In an attempt to strengthen SME policies during the government structural revision in 1998, the government established a "Presidential Commission on Small and Medium Enterprises" directly under the President. This commission has been in charge of mediating and coordinating SME support policies in which other ministries are involved.

#### **(9) SME policies during the 「Participatory Government」 period (2003～2007)**

In 2004, the government introduced a Network Loan system to collect from large companies in a more timely manner. In January 2005, "Korea Enterprise Data" was established to provide credit information of SMEs to relevant data companies.

The government passed the 「Act to Promote SME Business Conversion」 in 2006 to support SMEs' business conversion.

Also, the "Cooperation Foundation between Large Companies and SMEs" was established in December, 2004 to strengthen companies' competitiveness through cooperation between large companies and SMEs. In 2006, the 「Act to Promote cooperation between large companies and

SMEs was enacted, to lay the groundwork for growth of these companies and to enhance their competitiveness.

In January 2007, the government abolished the collective private contract system and businesses designated only for SMEs, that had been in place from the early 1980s to protect SME business areas.

In 2004, the government legislated to include a set ratio of products from SMEs in their procurements be over certain ratios when public organizations submitted their procurement plans, and from 2005, the government urged public organizations to establish SME product procurement targets and requested to have 5% or more of their products come from SME technologies.

To facilitate establishing venture companies, the government increased the number of start-up instruction centers and expanded the facilities of these centers, providing operating cost support depending on the operation performances of these centers. As of the end of 2007, there were 269 centers.

The government revised the venture company confirmation process, so that confirmation that had been done by the Small and Medium Business Administration was transferred to the Kibo Technology Fund, Small and Medium Business Corporation, and venture capital companies.

As the 「Special Measure Law on Venture Company Support」 enacted in 1997 expired on December 31, 2007, the government extended the law for another 10 years.

The government has supported SMEs that intended to establish research centers affiliated with universities from 2005, and from 2007, by promoting its "Project to Support the Joint Use of Research Equipment" so that expensive state-of-the-art equipment owned by universities and research centers could be shared with SMEs.

In an effort to enhance the competitiveness of SMEs by upgrading the HR structure and supply of employees, the government enacted the 「Special Act on Supporting Employees for SMEs」 in 2003 and, in

response, SMEs have promoted a "Program to Support Customized Personnel" from 2005 to address the shortage of technicians and engineers.

The government established the "Small and Medium Business Promotion Agency" in 2006 to promote cooperation with and development of small and medium businesses. Also, the "Small Business Information System" was developed in July 2006 to suppose self-employed entrepreneurs.

To support female entrepreneurs, the government constructed female business centers in 14 regions nationwide from 2003 to provide start up instruction, education on business areas suited for women, and to support start-ups by low-income female applicants.

Also, the government enacted a 「Special Law on Supporting Conventional Markets and Commercial Districts」, which is effective only from October 2004 to October 2014. The act pursues balanced growth of the distribution industry.

In 2005, the 「Act to Promote Business Activities of the Disabled」 was enacted to raise the economic and social status of the disabled through facilitated start-up and business activities.

The "SPi-1357" system was set up and operated by the Small and Medium Business Administration from January 2006 and provides SME policy information in real time on and off line. The customized policy information system (SPi: [www.spi.go.kr](http://www.spi.go.kr)) is a consolidated database which is categorized into 9 areas including funds, technology, HR, sales channels, exports, information progress status, SMEs, and venture. Policy information from 234 institutions such as government ministries and guaranteeing institutions is also available.

## IV. Performances of Korean SME Policies

### 1. Overall performances

The development of SMEs in Korea over the past 45 years(1962~2007) has been closely related to the SME policies of the Korean government.

< Table 3 > SME development and contribution to growth of the manufacturing sector (1963~2007)

Unit: number, 1,000 persons, 100 million won, %

		1963 (A)	2007 (B)	B-A	Growth contribution rate (1963~2007) (%)
Number of enterprises	SMEs	18,073	118,506	100,433	99.6
	Large companies	237	627	390	0.4
	Total	18,310	119,133	100,823	100.0
Number of employees	SMEs	266,822	2,199,951	1,933,129	78.6
	Large companies	135,159	662,555	527,396	21.4
	Total	401,981	2,862,506	2,460,525	100.0
Production	SMEs	977	4,816,209	4,815,232	48.7
	Large companies	692	5,077,883	5,077,191	51.3
	Total	1,669	9,894,092	9,892,423	100.0
Value added	SMEs	325	1,746,956	1,746,631	50.6
	Large companies	290	1,704,261	1,703,971	49.4
	Total	615	3,451,217	3,450,602	100.0

Source: Korea National Statistical Office, 「A Report on Mining and Manufacturing Industries」, each year

Korea Federation of Small and Medium Business, 「2009 SME Status Index」, 2009.

Note: 1) The size to be defined as SME is 5~200 in 1963 and 5~300 in 2007

2) Growth contribution rate is a percentage(%) of SMEs(or large companies) growth out of total growth

As a result of timely implementation of SME policies by the government to facilitate development, the number of SMEs in Korea increased to 100,433, the number of employees to 1,933,129, production grew to around 481.52 trillion won, and value added increased to around 174.67 trillion from 1963 to 2007. When the development of SMEs is considered in regards to their contribution to overall growth, the rates in terms of the number of enterprises is 99.6% (large companies: 0.4%), and is 78.6% (large companies 21.4%), 48.7% (large companies 51.3%), and 50.6% (large companies 49.4%) in terms of the number of employees, production, and value added respectively. In conclusion, the percentage of SME's contribution to growth is much higher than that of large companies.

Hence, Korean SMEs in the manufacturing sector took up a high proportion of the nation's economy, even becoming stronger as of the end of 2007 compared to Chinese Taipei and Japan. When the number of SMEs and the number of employees are compared in absolute terms with Japan, they are 46.5% and 38.2% of Japan's respectively (255,016 enterprises and 5,765,000 employees as of 2006 in Japan). However, Korean SME's proportions in terms of the number of enterprises and employees in the manufacturing sector are higher than those of Japan (98.7% in terms of the number of enterprises, and 70.3% in terms of the number of employees). When compared to the proportions of Chinese Taipei (96.6% and 76.7% in terms of the number of enterprises and the number of employees respectively), again Korean SMEs score higher (99.5% and 76.9% in terms of the number of enterprises and the number of employees respectively).

< Table 4 > Comparison of SMEs in Korea, Japan, and Chinese Taipei

Unit: number, 1,000 persons, %

	Number of enterprises		Number of employees	
	SMEs	proportion (%)	SMEs	proportion (%)
Korea (2007)	118,506	99.5	2,200	76.9
Japan (2006)	255,016	98.7	5,765	70.3
Chinese Taipei (2006)	133,312	96.6	2,180	76.7

Source: Korea Federation of Small and Medium Business, 『Statistics of Overseas SME』, 2008. 12.

Note : The scope of Korean SME is 5~299 employees, and that of Japan is 4~299 employees. In Chinese Taipei, the companies with less than 80 million NT\$ paid-in capital are defined as SME.

## **2. Performances by economic development stage**

### **(1) Performances of SME policies during the 1st ~ the 3rd economic development 5 year plans**

This period can be considered as period of rapid development of SME policies and period of sluggish SME business activities because of the business consolidation trends at that time, which was intended to promote exports. As a result, it was inevitable that SME policies during this period were not effective.

#### **1) The 1st economic development 5 year plan period(1962 ~ 1966)**

From 1963 to 1966 during which the 1st economic development 5 year plan was implemented, the number of SMEs increased by 4,266 and the number of employees rose by 74,000. Production went up by 92.5 billion won and value added increased by 33.9 billion won. When the development of SME is examined with regard to the contribution of the overall growth of the manufacturing industry, SME's contribution rates are 45.1%(large companies: 54.9%), 36.9%(large companies: 63.1%), and 35.8%(large companies: 64.2%) in terms of the number of employees, production, and value added respectively. Hence, SME's contribution to the growth of the manufacturing sector was not remarkable compared to that of large companies during this period.

#### **2) The 2nd economic development 5 year plan period(1967 ~ 1971)**

During this period, the number of SMEs increased by 311, the number of employees rose by 51,000, production increased by 272.6 billion won, and

value added increased by 126.8 billion won. When the development of SME is examined in regard to the contribution to overall growth of manufacturing industry, SME contribution rates are 18.1%(large companies: 81.9%), 21.7%(large companies: 78.3%), and 23.7%(large companies: 76.3%) in terms of the number of employees, production, and value added, respectively. Hence, SME's contribution to the growth of the manufacturing sector was not remarkable compared to that of large companies during this period.

During this period when the 2nd plan was carried out, the number of SMEs had gone up by 311, the number of employees had risen by 51,000, production amount had increased by 272.6 billion won, and added value had increased by 126.8 billion won. When the development of SME is examined in regard to the contribution to overall growth of the manufacturing industry, SMEs' contribution rates are 18.1%(large company: 81.9%), 21.7%(large company: 78.3%), and 23.7%(large company: 76.3%) in terms of the number of employees, production amount, and added value respectively. Hence, it turned out that SME's contribution to the growth of the manufacturing sector was not remarkable compared to that of large companies during this period.

### **3) The 3rd economic development 5 year plan period(1972 ~ 1976)**

During this period, the number of SMEs rose to 1,278, the number of employees went up by 1,278, the number of employees increased by 365,000, production rose by 1.76 trillion won, and value added increased by 1.29 trillion won. When the development of SMEs is examined in regard to the contribution to overall growth of the manufacturing industry, SMEs' contribution rates are 42.0%(large companies: 58.0%), 29.7% (large companies: 70.3%), and 30.4% (large companies: 69.6%) in terms of the number of employees, production, and value-added respectively. Still, SME contribution to the growth of the manufacturing sector was not remarkable compared to that of large companies during this period.

< Table 5 > SME development and contribution to growth  
during the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> economic plans

Unit: number, 1,000 persons, 100 million won, %

		During the 1st five year plan (1963~1966)	During the 2nd five year plan (1967~1971)	During the 3rd five year plan (1972~1976)
Number of enterprises	SMEs	4,266 (96.8)	311 (44.8)	1,278 (82.7)
	Large companies	142 (3.2)	383 (55.2)	267 (17.3)
	Total	4,408 (100.0)	694 (100.0)	1,545 (100.0)
Number of employees	SMEs	74 (45.1)	51 (18.1)	365 (42.0)
	Large companies	90 (54.9)	231 (81.9)	504 (58.0)
	Total	164 (100.0)	282 (100.0)	869 (100.0)
Production	SMEs	925 (36.9)	2,726 (21.7)	17,591 (29.7)
	Large companies	1,580 (63.1)	9,827 (78.3)	41,704 (70.3)
	Total	2,505 (100.0)	12,553 (100.0)	59,295 (100.0)
Value added	SMEs	339 (35.8)	1,268 (23.7)	10,290 (30.4)
	Large companies	608 (64.2)	4,075 (76.3)	23,556 (69.6)
	Total	947 (100.0)	5,343 (100.0)	33,846 (100.0)

Source: Korea National Statistical Office, 「A Statistical Report on the Mining and Manufacturing Industries」, each year

Korea Federation of Small and Medium Business, 「The Status of SMEs」, each year

Note: The above-mentioned statistics is the up and down status during the economic development 5 year plan period, and the contribution rates in ( ) is up and down proportion of SMEs(or large companies) out of total up and down of all businesses.

## **(2) performances of SME policies during the 4th ~ the 6th economic development 5 year plans**

During this period, policies for heavy and chemical industry development were aggressively promoted with more active SME policies including promotion projects and the SME business protection system were carried out to facilitate business with large companies and to modernize facilities of SMEs. As a result, the number of SMEs grew rapidly. In conclusion, the effectiveness of SME policies during this period was very remarkable.

### **1) The 4th economic development 5 year plan period(1977 ~ 1981)**

During this period, the number of SMEs increased by 8,456 and the number of employees increased by 288,000. Production rose by 12.88 trillion won and value added grew by 4.14 trillion won. When the development of SME is examined in regard to the overall growth of the manufacturing industry, SME's contribution rates are 88.1%(large companies: 11.9%), 32.9%(large companies: 67.1%), and 36.5%(large companies: 63.5%) in terms of the number of employees, production, and value added respectively. In particular, SMEs significantly contributed to job creation. In terms of production and value added, the contribution rates were relatively higher than those during the previous economic development plans.

### **2) The 5th economic development 5 year plan period(1982 ~ 1986)**

During this period when the 5th economic development 5 year plan was implemented, the number of SMEs increased by 16,499 and the number of employees increased by 533,000. Production rose by 19.65 trillion won and value added rose by 7.47 trillion won. When the development of SME is examined in regard to the overall growth of the manufacturing

industry, SMEs' contribution rates are 76.8%(large companies: 23.2%), 43.4%(large companies: 56.6%), and 42.8%(large companies: 57.2%) in terms of the number of employees, production and value added respectively. Thus, SME contribution to growth of the manufacturing industry increased dramatically during this period.

### **3) The 6th economic development 5 year plan period(1987~1991)**

During this period, the number of SMEs increased by 22,222 and the number of employees rose by 275,000. Production increased by 57.82 trillion won and value added rose by 26.73 trillion won. When the development of SME is examined in regard to the overall growth of the manufacturing industry, SME's contribution rates are 152.8%(large companies: -52.8%), 50.1% (large companies: 49.9%) and 50.0% (large companies:50.0%) in terms of the number of employees, production, and value added, respectively. Thus, SMEs' contribution to the growth of the manufacturing industry was much bigger than that of large companies during this period.

< Table 6 > SME development and contribution to growth  
during the 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> economic plans

Unit: number, 1,000 persons, 100 million won, %

		During the 4th five year plan (1977~1981)	During the 5th five year plan (1982~1986)	During the 6th five year plan (1987~1991)
Number of enterprises	SMEs	8,456 (99.8)	16,499 (99.2)	22,222 (100.3)
	Large companies	18 (0.2)	133 (0.8)	-72 (-0.3)
	Total	8,474 (100.0)	16,632 (100.0)	22,150 (100.0)
Number of employees	SMEs	288 (88.1)	533 (76.8)	275 (152.8)
	Large companies	39 (11.9)	161 (23.2)	-95 (-52.8)
	Total	327 (100.0)	694 (100.0)	180 (100.0)
Production	SMEs	128,788 (32.9)	196,461 (43.4)	570,082 (50.1)
	Large companies	262,364 (67.1)	255,861 (56.6)	567,412 (49.9)
	Total	391,153 (100.0)	452,321 (100.0)	1,137,494 (100.0)
Value added	SMEs	41,393 (36.5)	74,683 (42.8)	267,332 (50.0)
	Large companies	71,984 (63.5)	100,008 (57.2)	267,509 (50.0)
	Total	113,377 (100.0)	174,691 (100.0)	534,841 (100.0)

Source: Korea National Statistical Office, 「A Statistical Report on the Mining and Manufacturing Industries」, each year

Korea Federation of Small and Medium Business, 「The Status of SMEs」, each year

Note: The above-mentioned statistics is the up and down status during the economic development 5 year plan period, and the contribution rates in ( ) is up and down proportion of SMEs(or large companies) out of total up and down of all businesses.

### **(3) Performances of SME policies during the 7th economic plan ~ The participatory government**

From 1992, when the 7th economic development 5 year plan was implemented, until the “participatory government” period (2003~2007), SME restructuring was aggressively promoted. In addition, restructuring among SMEs and moves to increase their capacity were pursued during this period.

#### **1) The 7th economic development 5 year plan period(1992 ~ 1997)**

During this period, the number of SMEs increased by 20,219 with the number of employees rising by 17,000. Production rose by 109.71 trillion won and value added grew by 44.58 trillion won. When the development of SME is examined in regard to the overall growth of the manufacturing industry, SMEs' contribution rates are 7.7%(large companies: -107.7%), 47.9% (large companies: 52.1%), and 47.1%(large companies: 52.9%) in terms of the number of employees, production and value added. Therefore, SME contribution to the growth of the manufacturing industry decreased compared to their contribution in previous periods.

#### **2) ‘The government of the people’ period(1998 ~ 2002)**

During the period (1998~2002), the number of SMEs increased by 17,495 and the number of employees rose by 188,000. Production grew by 117.5 trillion won and value added increased by 40.45 trillion won. When the development of SME is examined in regard to the overall growth of the manufacturing industry, SMEs' contribution rates are 854.5%(large company -954.5%), 60.8%(large company 39.2%) and 67.7%(large company 32.3%) in terms of the number of employees, production amount and added value respectively. Hence, it turned out that SMEs' contribution to the growth of the manufacturing industry was much bigger than that of

large companies during this period.

According to the analysis, this is attributed to the fact that SME policies after the financial crisis were promoted in earnest and restructuring at large companies was much more serious during this period.

### **3) ‘The participatory government’ period(2003 ~ 2007)**

During the period(2003~2007), the number of SMEs increased by 9,687 and the number of employees rose by 142,000. Production increased by 162.66 trillion won and value added grew by 50.12 trillion won. When the development of SME is examined in relationship to the overall growth of the manufacturing industry, SMEs' contribution rates are 75.5%(large companies: 24.5%), 45.0%(large companies: 55.0%) and 48.1%(large companies: 51.9%) in terms of the number of employees, production and value added respectively. In conclusion, in areas other than the job creation, SME's contribution to the growth of the manufacturing sector decreased compared to that of large companies.

< Table 7 > SME development and contribution to growth  
during the 7th plan ~ The participatory government

Unit: number, 1,000 persons, 100 million won, %

		During the 7th five year plan (1992~1997)	During the government of the people (1998~2002)	During the participatory government (2003~2007)
Number of enterprises	SMEs	20,219 (101.5)	17,495 (100.8)	9,687 (100.4)
	Large companies	-294 (-1.5)	-144 (-0.8)	-43 (-0.4)
	Total	19,925 (100.0)	17,351 (100.0)	9,644 (100.0)
Number of employees	SMEs	17 (7.7)	188 (854.5)	142 (75.5)
	Large companies	-238 (-107.7)	-210 (-954.5)	46 (24.5)
	Total	-221 (-100.0) (-100.0)	-22 (-100.0)	188 (100.0)
Production	SMEs	1,097,094 (47.9)	1,174,975 (60.8)	1,626,590 (45.0)
	Large companies	1,194,866 (52.1)	758,928 (39.2)	1,984,649 (55.0)
	Total	2,291,960 (100.0)	1,933,903 (100.0)	3,611,239 (100.0)
Value added	SMEs	445,849 (47.1)	404,283 (67.7)	501,194 (48.1)
	Large companies	501,344 (52.9)	193,174 (32.3)	541,658 (51.9)
	Total	947,194 (100.0)	597,456 (100.0)	1,042,906 (100.0)

Source: Korea National Statistical Office, 「A Statistical Report on the Mining and Manufacturing Industries」, each year

Korea Federation of Small and Medium Business, 「The Status of SMEs」, each year

Note: The above-mentioned statistics is the up and down status during the economic development 5 year plan period, and the contribution rates in ( ) is up and down proportion of SMEs(or large companies) out of total up and down of all businesses.