Supporting SMEs and Businesses during the COVID-19 Pandemic: Examples from the Republic of Korea

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Industrial Policy under COVID-19

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1. Support Plan for heavily impacted industries and SMEs under COVID-19
   Background
   Automobiles / Shipbuilding / Textiles / Exhibition Industries

2. Promoting component, material and equipment industries
   GVC Innovation 2.0 Strategy
   Emerging as a global powerhouse of the global materials, parts and equipment industry
   Clustering of the high-tech industry
   Follow-up Steps
## Background

**Sluggish exports as a result of the global economic downturn → Maintaining the competitiveness of major industries is essential**

As the shock to exports grows due to the spread of COVID-19, industries such as automobiles, shipbuilding and textiles are hit harder

* Exports as of April ’20.4 : △24.3%, the third largest decrease ever
** Increase and decrease of exports as of April ’20 (% , year-on-year rate): (Automobiles)△44.3, (Shipbuilding)△59.7%, (Textiles)△35.3%,

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<th>Automobiles</th>
<th>Shipbuilding</th>
<th>Textiles</th>
<th>Exhibition industry</th>
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<tr>
<td><strong>The export slump was accompanied by domestic consumption</strong> until March</td>
<td>The <strong>short-term shock is less severe than in other industries</strong> thanks to preexisting orders</td>
<td><strong>Exports on a dramatic decline</strong> due to the sharp reduction of global demand and delays in the supply of raw materials</td>
<td>Almost all exhibitions have been cancelled or postponed following the outbreak of COVID-19</td>
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<td>A <strong>sharp decrease of exports from April</strong> → Growing concerns of a contraction of domestic production</td>
<td>Global order placings and <strong>new order intakes in Korea recently showed a dramatic decrease</strong></td>
<td>Declining exports and scarce <strong>new orders for exports</strong></td>
<td>* Out of 148 exhibitions scheduled to be held between February to May, only 15 exhibitions were held.</td>
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<td>Businesses, mainly SMEs, that lack the capacity to respond to the situation appealed difficulties regarding liquidity</td>
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<td><strong>The amount of damage to the industry</strong> caused by the cancellation of exhibitions is around KRW 210 billion</td>
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## Automobiles

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<tr>
<th>Liquidity</th>
<th>Burden relief for companies</th>
<th>Improving Demand</th>
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<td><strong>P-CBO program</strong></td>
<td><strong>Expand the number of components subject to exceptional tariffs on airfare</strong></td>
<td><strong>Lower special consumption tax by 70%</strong> for new car buyers (Mar.1 – Jun.30)</td>
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<td>(around 100 companies, apprx. KRW 300 billion), <strong>Loan program exceeding the credit limit</strong> provided by policy finance organizations (apprx. KRW 5 trillion)</td>
<td>Permit the <strong>long-term storage</strong> of imported parts in bonded areas</td>
<td><strong>Support sales of finished vehicles by promoting the early purchase of business purpose cars in the public sector</strong></td>
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<td>Expansion of the financial support platform underway which supports exports of <strong>small and medium sized component companies</strong> based on cooperation between large companies and policy finance organizations</td>
<td><strong>Extend the due date for tariff payments and VAT for 2020</strong> until the end of this year at maximum and permit divided payments</td>
<td><strong>Increase subsidies to support the purchase of electric trucks</strong> (5,500 vehicles → 11,000 vehicles)</td>
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<td>Liquidity</td>
<td>Expansion of public order placings</td>
<td>Employment</td>
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<td><strong>Provide structured finance</strong> worth of KRW 8 trillion (due date in ’20)</td>
<td><strong>Promote the early modification</strong> of outdated government vessels into eco-friendly vessels</td>
<td><strong>Review an extension of the period of designating the shipbuilding industry as a target for special employment subsidies</strong> (currently until Jun. ’20 → until Dec. ’20, six month extension)</td>
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<tr>
<td><strong>Maintain the issuance of RGs</strong>* and issue them at the proper time</td>
<td>Promote early order placings of <strong>deep-sea fishing vessels</strong> and <strong>coast guard vessels</strong> within the year (total of 30 vessels)</td>
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<td>* Amount of RG allocation per company (100 million $): Hyundai Heavy Industries 63, Daewoo 35, Samsung Heavy Industries 37</td>
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<td><strong>Extend the due date for structured finance</strong>* for ships or contracts that have been delayed until the actual delivery is made</td>
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<td>* Loans of funds actually used for shipbuilding from the beginning of construction to delivery of the ship</td>
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**Designating sectors to receive special employment support**
- (Mar.16th) travel, tourism and lodging, tourist transportation, performance industries
- (Apr. 27th) aircraft ground handling, duty free and travel retail, exhibition and international convention, airport bus industries
- Increasing support for employee retention and skills training, deferring the deadline for insurance contribution, easing the requirements for livelihood loan, etc.
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<td><strong>Extend the due date</strong> for loans as well as guarantees for companies experiencing management issues</td>
<td>Promote the <strong>early execution of the budget</strong> (90% target in the first half of ‘20) for textiles and purchasing for medical purposes in the public sector** (National Police Agency and National Fire Agency uniforms, etc.)</td>
<td>Promote the “<strong>Korea Fashion Market</strong>” by holding a nationwide shopping festival with the participation of 50 fashion brand companies in Korea (Jun.26-Jul.10)</td>
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<td>Provide technology guarantees to start-ups and venture companies utilizing COVID-19 special guarantees for start-ups and venture companies (KRW 400 billion)</td>
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<td>* KRW 50 million per company, maximum KRW 300 million to be provided to the companies that maintain staff employment for a one year period</td>
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<td><strong>Extend the due date for tariff payments</strong> and VAT for 2020, which is related to imported raw materials until the end of this year at maximum and permit divided payments</td>
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## Exhibition Industries

### Liquidity

- **Provide management stabilization funds** through public organizations such as the Korea SMEs and Startups Agency and Small Enterprises and Market Services
- **Extend the due date for bank loans and postpone the repayment of interest**

### Employment

- Provide employment relief by temporarily increasing **subsidies for the maintenance of employment** and **postpone the payment** of employment insurance and occupational health and safety insurance (upon application)
- **Add exhibition and international conference businesses to the list of “businesses subject to special employment support”** (Apr. 27)

### Tax support

- **Temporarily reduce allotments to traffic congestion causing** exhibition facilities
  - * Only imposition for 2020 (Aug.1’19 – Jul.31’20) to be reduced (payment due by Oct.’20)
- **Reduce property tax based on decisions by the local council** depending on the damage to exhibition businesses.

## Follow-up Steps

Constantly monitor the management status and difficulties of each business type, such as domestic and international trends of the economic and financial markets as well as liquidity
GVC Innovation 2.0 Strategy for the Materials, Parts and Equipment Industry

**VISION**: Emerging as a powerhouse of the materials, parts and equipment industry through global clustering of the high-end industry

**Crises**
Industries have experienced production delays due to export restriction of a materials and parts from neighbor country in 2019
Cross-border movement of people and goods has been restricted.
→ The global supply chain is expected to undergo continuous shock

**Opportunities**
Industries are successfully overcoming the crises without production delay
→ valuable experience and confidence

Pandemic reminded industries of supply chain risk → Solidarity and collaboration

With the success of quarantine in Korea, trust in Korea improved as a global production base.
* BBC introduced K-quarantine as the global success model (Mar.’20)

**Global powerhouse of the materials, parts and equipment industry**
Preoccupy next-generation technology
Expand the advancement into the global market

**High-end clustering recognized by the world**
Big3 + Next generation new industry
Clear attracting strategy + Tailored incentives
* Big3 : System semiconductor, future car, biohealth

Preemptive response to GVC restructuring
## Emerging as a global powerhouse of the global materials, parts and equipment industry

### R&D
- Secure stability in supplying key materials, parts and equipment
- Increase investment in R&D for promising next generation technology of materials, parts and equipment (KRW 5 trillion + @)
- Promote establishment of the AI platform → Reduce cost and period necessary for developing new materials more than 70 percent
- Expand the cooperation model
  - Between demanding and supplying companies
  - Between industries, univ., research centers
- Extend the test beds → Outcome of technology development is led to actual production

### Expansion of GVC participation
- Foster 100 best companies of materials, parts and equipment
- Reinforce global cooperation for technology: Promote joint development of technology between foreign demanding companies and domestic supplying companies
- Expand establishment of the global technology cooperation bases
  - (e.g.) Korea-Germany Technology cooperation center
  - Support diversification of the production bases utilizing the FTAs and others (ASEAN, etc.)

### Stability improvement
- Enhance SME’s supply chain management capacity, utilizing digital technology
- Establish the smart logistic system and the maritime logistics system
- Introduce the milk run typed common logistics system
  - * milk run: A type of common logistics that distributes the items after collecting them from multiple suppliers
- Promote to reserve scarce metals that are essential under the value chain
# Clustering of the high-tech industry

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<th>Attraction of the high-end industry</th>
<th>Sector Deal</th>
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| Establishment of the industrial complex specialized in materials, parts and equipment | Drastic increase of tax support for investment in high-end technology development  
* Expand the targets for support, ease the condition for application, etc. | Build a platform for voluntary cooperation between the government and industries, between companies within the same industry as well as between companies in the different industries |
| Establishing the cluster for the high-end industry | Promote customized support for the companies that **expanded investment**:  
Provide package support, such as smart factories, automatized production utilizing robots | Make administrative support and investment by the government in response to cooperation between companies and investment expansion |
| Designation of the investment zone for the high-end industry: Support special exemptions from regulations and infrastructure according to demand from companies | | |

## Follow-up Steps

The Korean gov. has established the Act on Special Measures for Materials and Components, and is operating the committee on enhancing competitiveness of the materials, parts and equipment industry and the supply and demand support center for materials, parts and equipment.

Plan to secure stability in supplying materials, parts and equipment, utilizing legislation and relevant organizations, while responding to the trend of GVC restructuring in a systemic manner.
Thank you.