

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

코로나19 관련 중소기업 지원 정책 및 기업 대응: 대한민국과 UNDP 사례

Soonmok Kwon

Team Leader, Industrial Policy Division
Ministry of Trade, Energy and Industry of the Republic of Korea

JULY 23, 2020



Industrial Policy under COVID-19

July, 2020



Content

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

Protecting

the Vulnerable and Small Businesses



Preserving

Economic Resilience

Preparing

for the Post COVID-19 Era



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 : Δ 24.3%, the third largest decrease ever

** Increase and decrease of exports as of April '20 (% , year-on-year rate): (Automobiles) Δ 44.3, (Shipbuilding) Δ 59.7%, (Textiles) Δ 35.3%,

Automobiles

The export slump was accompanied by domestic consumption until March

a sharp decrease of exports from April → Growing concerns of a contraction of domestic production

Businesses, mainly SMEs, that lack the capacity to respond to the situation appealed difficulties regarding liquidity

Shipbuilding

The short-term shock is less severe than in other industries thanks to preexisting orders

Global order placings and new order intakes in Korea recently showed a dramatic decrease

Textiles

Exports on a dramatic decline due to the sharp reduction of global demand and delays in the supply of raw materials

Declining exports and scarce new orders for exports

Exhibition industry

Almost all exhibitions have been cancelled or postponed following the outbreak of COVID-19

* Out of 148 exhibitions scheduled to be held between February to May, only 15 exhibitions were held.

The amount of damage to the industry caused by the cancellation of exhibitions is around KRW 210 billion

Automobiles

Liquidity

P-CBO program (around 100 companies, apprx. KRW 300 billion), **Loan program exceeding the credit limit** provided by policy finance organizations (apprx. KRW 5 trillion)

Expansion of the financial support platform underway which supports exports of **small and medium sized component companies** based on cooperation between large companies and policy finance organizations

Burden relief for companies

Expand the number of components subject to exceptional tariffs on airfare

Permit the **long-term storage** of imported parts **in bonded areas**

Extend the due date for tariff payments and VAT for 2020 until the end of this year at maximum **and permit divided payments**

Improving Demand

Lower special consumption tax by 70% for new car buyers (Mar.1– Jun.30)

Support sales of finished vehicles by promoting the early purchase of business purpose cars in the public sector

Increase subsidies to support the purchase of electric trucks (5,500 vehicles → 11,000 vehicles)

Shipbuilding

Liquidity

Provide structured finance worth of KRW 8 trillion (due date in '20)

Maintain the issuance of RGs* and issue them at the proper time

* Amount of RG allocation per company (100 million \$): Hyundai Heavy Industries 63, Daewoo 35, Samsung Heavy Industries 37

Extend the due date for structured finance* for **ships or contracts that have been delayed** until the actual delivery is made

* Loans of funds actually used for shipbuilding from the beginning of construction to delivery of the ship

Expansion of public order placings

Promote **the early modification** of outdated government vessels **into eco-friendly vessels**

Promote early order placings of **deep-sea fishing vessels** and **coast guard vessels** within the year (total of 30 vessels)

Employment

Review an extension of the period of designating the shipbuilding industry as a target for special employment subsidies

(currently until Jun. '20 → until Dec. '20, six month extension)

▶ 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.

Textiles

Liquidity

Extend the due date for loans as well as guarantees for **companies experiencing management issues**

Provide technology guarantees to **start-ups and venture companies** utilizing COVID-19 special guarantees for start-ups and venture companies (KRW 400 billion)

* KRW 50 million per company, maximum KRW 300 million to be provided to the companies that maintain staff employment for a one year period

Extend the due date for tariff payments and VAT for 2020, which is related to imported raw materials **until the end of this year at maximum and permit divided payments**

Public procurement

Promote the **early execution of the budget** (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.)

Improving Demand

Promote the "**Korea Fashion Market**" by holding a **nationwide shopping festival with the participation of 50 fashion brand companies in Korea** (Jun.26-Jul.10)

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

Cluster establishment for the high-end industry

Establishment of the industrial complex specialized in materials, parts and equipment

Establishing the cluster for the high-end industry

Designation of the investment zone for the high-end industry: Support special exemptions from regulations and infrastructure according to demand from companies

Attraction of the high-end industry

Drastic increase of tax support for investment in high-end technology development

* Expand the targets for support, ease the condition for application, etc.

Promote customized support for the companies that **expanded investment**: Provide package support, such as smart factories, automatized production utilizing robots

Sector Deal

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

Make administrative support and investment by the government in response to cooperation between companies and investment expansion

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.

