



Multiple Framework Contract FWC FPI PSF 2015

Lot 4 "Market Access and Trade & Investment Agreement Negotiation & Implementation"

Request for Service 2019/406071/1

Scoping Study for Bilateral Cooperation between the EU and Korea on SMEs and Start-Ups Policy

Authored by
Prof Yong Suhk Pak, Dr. SungHo Lee and Dr. Kyoung-jin Park

Reviewed and revised by
WTI Advisors

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ABBREVIATIONS

APEC	Asia - Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASEIC	ASEM SMEs Eco-Innovation Center
ASEM	Asia-Europe Meeting
CCEI	Center for Creative Economy and Innovation
CICO	Cost-in, Cost-out
DIHK	German Chamber of Commerce and Industry
DIN	German Standards Institute
EEN program	Enterprise Europe Network program
EIB	European Investment Bank
EIF	European Investment Fund
EQF	European Qualification Framework
EU	European Union
FTAs	Free Trade Agreements
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GVCs	Global Value Chains
ICT	Information and Communications Technology
iREG	Indicators of Regulatory Policy and Governance
KATS	Korean Agency for Technology and Standards
KCC	Korea Communications Commission
KCCI	Korea Chamber of Commerce and Industry
KDI	Korea Development Institute
KERC	Korea-EU Research Center
KFoF	Korea Fund of Funds
KIAT	Korea Institute for Advancement of Technology
KIPO	Korean Intellectual Property Office
KISED	Korea Institute of Start-up & Entrepreneurship Development
KOFIC	Korea Film Council
KOSBIR	Korean Small Business Innovation Research
KOTRA	Korea Trade-Investment Promotion Agency's
KSC	Korea Startup Center
KSPO	Korea Sports Promotion Foundation
KVIC	Korea Venture Investment Corporation
MCIE	Ministry of Commerce, Industry and Energy
MCM	Ministerial Council Meeting
MCST	Ministry of Culture, Sports, and Tourism
MHW	Ministry of Health & Welfare
MoEF	Ministry of Economy and Finance
MOTIE	Ministry of Trade, Industry and Energy
MoU	Memorandum of Understanding
MSS	Ministry of SMEs and Startup
NCP	National Contact Point
NCS	National Competency Standards
NTIS	National Science and Technology Knowledge Information Service
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
RIAS	Regulatory Impact Analysis Statements
RoI	Recovery on Investment
RPC	Regulatory Policy Committee
RRC	Regulatory Reform Committee
RRO	Regulatory Reform Office
SBC	Small & Medium Business Corporation
SMBA	Small and Medium Business Administration
SMEs	Small and Medium Enterprises
TBT	Technical Barriers to Trade

TEA	Total Early-stage Entrepreneurial Activity
TESI	Finnish Industry Investment Ltd
TIPA	Technology and Information Promotion Agency
TIPS	Tech Incubator Program for Start-ups
USA	United States of America
VC	Venture Capital
VCIC	Vietnam Climate Innovation Center
VET	Vocational Education and Training
WTO	World Trade Organization

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EXECUTIVE SUMMARY

SMEs hold a pivotal role in the South Korean national economy and are of prime focus and support by the South Korean government. Despite increased government support, SMEs continue to face multiple challenges including (i) low labour productivity, (ii) low export of goods and services and (iii) low utilization of online sale platforms.

The Paper introduces the country's main SME policies and the supporting regulatory and institutional frameworks and provides an overview of key government programs and measures supporting SMEs and start-ups. Taking note of the key challenges facing South Korean SMEs and inspired by ideas generated during discussions with stakeholders, the Paper explores ideas and presents suggestions for possible cooperation between the EU and the Republic of Korea to promote and support South Korean SMEs as part of the ongoing EU-Korea SMEs Policy Dialogue and beyond.

The findings in this paper are based on publicly available information and resources and, expert opinion and advice generated from a series of consultations with stakeholders complemented by legal and policy analyses.

The first chapter offers a brief overview of Republic of Korea's key SME policies and the supporting regulatory and institutional frameworks. The chapter offers an insight into the current policies and their (inadvertent) limitations to foster the growth of South Korean SMEs. It further analyses the network of institutions tasked with regulating South Korean SMEs coupled with exploring the existing policies to foster the exports and overseas activities of SMEs such as policies designed to promote SME exports, enhance the digitalization of SMEs, provide financial assistance to SMEs in addition to policies to promote R&D generally and in light of the recent trade tensions with Japan more specifically. This chapter explores the currently applied (positive-type) regulatory system in Republic of Korea. It is seen that such a system acts as a prohibiting element to business activities and business creation. Reversing the system to a negative-type regulatory system that allows for all business activities except those which are specifically prohibited would liberate untapped potentials and enable South Korean SMEs to grow their businesses locally and internationally.

The Paper observes that despite various government support schemes, South Korean SMEs lack participation in R&D projects and in global innovative collaborations. South Korean SMEs have also lagged behind in digitization, partially due to the lack of specialized human resources and partly due to leakage of internal technology to larger firms.

The second chapter introduces Republic of Korea's future policy directions and provides an overview of policy objectives announced by the Moon Jae-in administration. One such policy by the South Korean government is the regulatory sandbox program which aims to enable speedier launches of new services and goods and ensures reasonable levels of regulations.

While the South Korean government seeks to enhance internationalization of South Korean SMEs, the current administration appears more focused on expanding to the ASEAN markets seeking little economic cooperation with other regions including Europe.

The paper further explores the actions undertaken by the South Korean government to promote R&D in South Korean SMEs including in light of Japan's export restrictions directed at Republic of Korea. While the Ministry of Science and ICT has actively participated in international R&D collaboration in the public sector, MOTIE and MSS have not contributed much to R&D promotion schemes. The Paper explores policy options for the MOTIE and MSS to advance internationalization of R&D in South Korean

SMEs.

Also elaborated upon in this paper is the scope for vocational education and training (VET) to contribute to enhancing the productivity of South Korean SMEs. It has been highlighted that despite the budgetary expansions by the South Korean government, vocational education and training are not sufficiently delivered to the most needed SMEs.

The third chapter highlights the Republic of Korea's major ongoing bi-lateral and multi-lateral SME dialogues and cooperation initiatives on SME policies and provides an overview of the country's engagement in various processes and initiatives to advance SMEs and start-ups with its bilateral and regional partners.

The fourth chapter provides recommendations to leverage the bilateral relationship between the Republic of Korea and the EU especially in the context of the EU-Korea SME Policy Dialogue to advance the discussion on and promote SMEs and Startups. Building on ongoing bilateral and multilateral dialogues and initiatives to support SMEs and startups, the EU and Republic of Korea could focus on sector-specific or topic specific issues or explore cross cutting collaboration initiatives to promote SMEs and Startups. The ideas below serve to offer the EU and the Republic of Korea some suggestions and ideas for their bilateral collaboration on SME development and promotion:

- Share best practices and foster regulatory cooperation and convergence in areas of interest to SMEs including services and e-commerce;
- Enhance R&D collaboration between European SMEs including in Germany, the Netherlands, and other relevant European countries. South Korean SMEs could, in turn, provide an opportunity for import diversification;
- Develop a joint initiative on innovation and standardization for smart manufacturing, targeting SMEs (and large manufacturers) to revitalize their manufacturing competitiveness;
- Support the Republic of Korea's Smart Factory Initiative by sharing the experiences of Germany's "Platform Industrie 4.0" initiative and developing collaborative efforts with SMEs on both sides. This would enable EU firms to expand and share their experiences with the Republic of Korea;
- Expand EU's collaboration with South Korean SMEs for VET and to help them with training labour and enhancing labour productivity. Such training packages could be a service package or business model, which might provide business opportunities for European firms who have well-established career training and development programs;
- Upgrade the EU-South Korea Free Trade Agreement to foster and promote SMEs. The parties may want to consider modernizing or upgrading the FTA to address pertinent issues to SMEs including the creation of helpdesks, enhancing regulatory cooperation and cooperation on matters related to intellectual property rights and technical barriers to trade (TBT);
- Establish an international conference with experts from each region mandated to discuss various issues related to SMEs' future growth. Additionally, the Executive Training Program in South Korea, which started in early 2000 and terminated a few years later, could be re-envisioned.

INTRODUCTION

Context

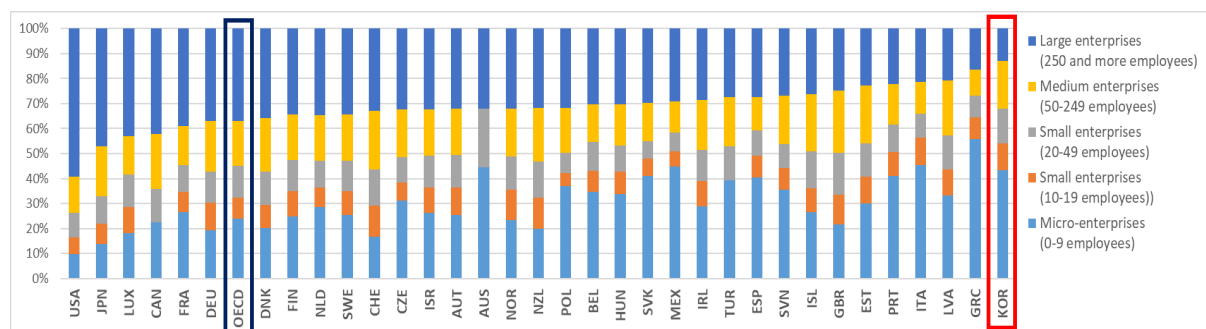
This Paper introduces Republic of Korea's main SME policies and the supporting regulatory and institutional frameworks and provides an overview of key government programs and measures supporting SMEs and start-ups offering insider insights into existing challenges and difficulties facing South Korean SMEs and the limitations of existing support measures in addressing these challenges. The Paper, further, introduces Republic of Korea's external engagements with its bilateral, regional and multilateral partners to advance the discussion and enhance bilateral, regional and international cooperation on SMEs.

Taking note of the key challenges facing South Korean SMEs and drawing on ideas generated from discussions with stakeholders, the paper explores ideas and suggestions and identifies areas for possible cooperation between the EU and Republic of Korea to promote and support Republic of Korea's SMEs as part of the ongoing EU-Korea Bilateral SME Dialogue and beyond.

Overview of the South Korean SME Economy

SMEs account for 99 percent of all firms, and 50-60 percent of value-added on average across OECD countries. SMEs also account for 60-70 percent of employment as illustrated in Figure 0-1 below, and the share of workers employed at SMEs in the Republic of Korea stood at 88 percent in 2015, the highest among OECD countries.

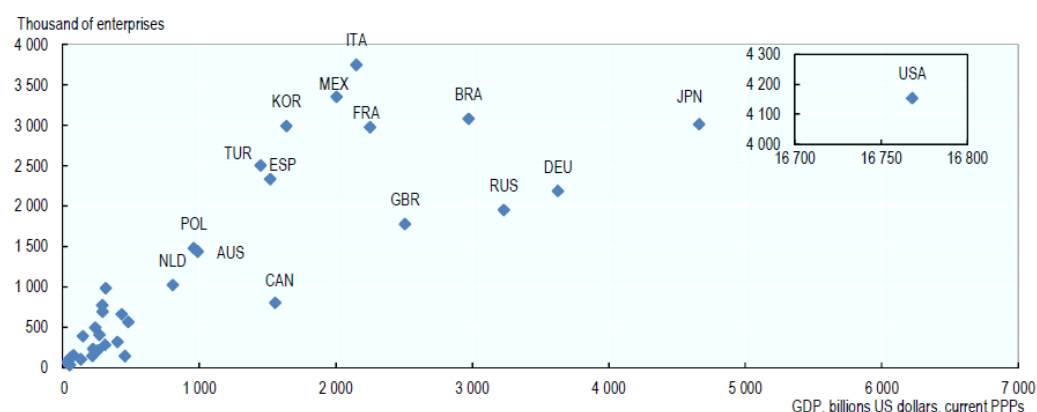
Figure 0-1: Percentage Share of employment by firm size (2015 or latest available year)



Source: OECD Structural and Demographic Business Statistics (database). Available at: dx.doi.org/10.1787/888933739376

The Republic of Korea has seen a growth in the number of SMEs disproportionate to its relative economic size (Figure 0-2). This is largely explained by the socio-economic role of SMEs in the Republic of Korea where many SMEs serve as social safety nets for those who left (or were asked to leave) their larger firms before reaching the retirement age. Investing their early retirement funds, many of those created small businesses.

Figure 0-2: Number of enterprises and GDP (2013 or latest available year)



Note: Over 99 percent of all the enterprises are SMEs in every country. *Source:* OECD (2016), *Entrepreneurship at a Glance 2016*, OECD Publication.

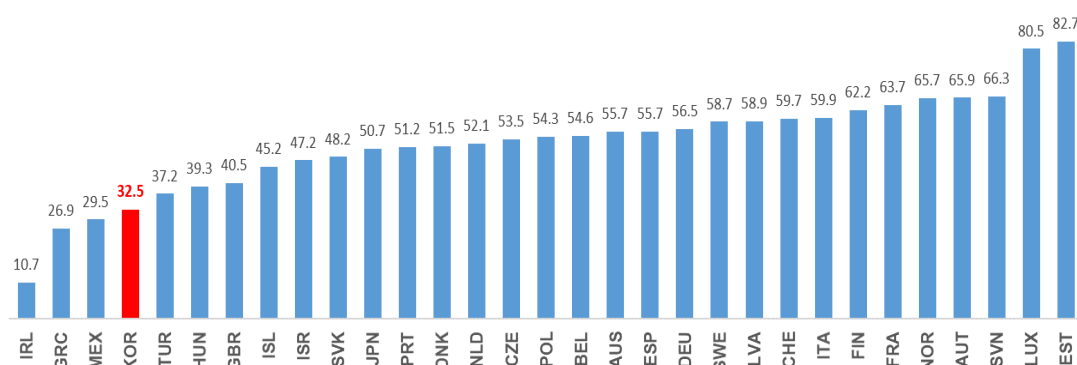
SMEs, as defined by the OECD, are firms with up to 249 employees, divided into, micro-enterprises (one to nine), small firms (ten to 49), and medium enterprises (50 to 249).¹ Until 2014, the definition of SMEs in the Republic of Korea was based primarily on the number of regular workers. In 2015, the definition changed to total assets (up to KRW500 billion) and revenues (thresholds vary between KRW 40 and 150 billion based on the industrial sectors). Annex I explains the different scopes for SMEs across industries in Korea.

SMEs are a prime focus of attention and support by the government as discussed in chapter 1 and 2 and elaborated in Annex V below. Despite increased government support, SMEs continue to face multiple challenges including (i) low labour productivity, (ii) low export of goods and services and (iii) low utilization of online sale platforms.

In terms of labour productivity, the growth of value-added per worker in SMEs has been decreasing. SMEs' labor productivity in the manufacturing sector fell from 53.8 percent of that in large firms in 1988 to 32.5 percent in 2014 (Statistics Korea, KOSIS database). The labour productivity gap between large firms and SMEs in the Republic of Korea is among the highest in OECD countries as shown below.

¹ Glossary of Statistical Terms, OECD Homepage: stats.oecd.org/glossary/detail.asp?ID=3123

Figure 0-3: Value added per employee in SMEs relative to large firms in 2015 or latest year available



Source: OECD Structural and Demographic Business Statistics database. Available at: stats.oecd.org/Index.aspx?DataSetCode=SSIS_BSC_ISIC4

In regard to exports, the share of South Korean SMEs in the Republic of Korea's total exports dropped from 21 percent in 2009 to 17 percent in 2018 despite government's efforts to secure market access rights for South Korean goods and services in export markets through FTAs and other trade agreements.

The low export performance of South Korean SMEs is partly attributed to subcontracting to larger firms which reduces the pressure on SMEs to seek export opportunities and partly due to reduced utilization of e-commerce and digital platforms to reach export markets in addition to the host of classical challenges facing SMEs in reaching export markets.

Table 0-1: Percentage of sales of manufactured products by customer type

	Domestic sales						Total
	Exports	Sales to large firms	Sales to other SMEs	Sales to public institutions	Retail sales	Sub-total	
2004	8.4	29.8	46.1	3.6	12.1	91.6	100
2015	8.7	29.9	47.6	4.9	8.9	91.3	100

Source: Statistics Korea, KOSIS database.

In terms of export markets, China, followed by the USA and Vietnam are the prime export markets for South Korean SMEs. European markets absorb only 9.5 percent of Republic of Korea's exports with only 1.4 percent of these exports are made or produced by the Republic of Korea's SMEs.

Table 0-2: Export and Import of the Republic of Korea's firms to/from the World and the EU in 2018

		Export		Import	
		Value (USD M)	Share	Value (USD M)	Share
To/From World	All firms	602,391	100.0%	527,922	100.0%
	SMEs	101,577	16.9%	123,188	23.3%
To/From EU	All firms	57,341	9.5%	60,692	11.5%
	SMEs	8,518	1.4%	17,327	3.3%

Source: Statistics Korea, KOSIS database (Data from Korea Custom Service)

In terms of the utilization of digital platforms and e-commerce, South Korean exports using online platforms reached KRW 3.58 trillion in 2018 compared to KRW 1.26 trillion in 2015. Although the online export market has surged over the past years, there has been a lack of support from the government in terms of infrastructure and system-related support. Similarly, digital platforms provide new opportunities for small enterprises to tap into foreign markets, but only 10.5 percent of exporting SMEs in the Republic of Korea used e-commerce according to a government survey (Lee, 2018), as firms rely more on face-to-face contacts.

Enhancing South Korean export performance generally and SME export performance more specifically is linked to lowering barriers to trade and investment - the second-highest in the OECD according to 2013 data – which would increase the participation of SMEs in high value-added GVCs. Interestingly, many of the key trade barriers affect services. Republic of Korea's service trade restrictiveness index is below the OECD average in 14 out of 22 sectors but still above the average in some sectors that play key roles in GVCs, such as telecom, broadcasting, legal and accounting services in addition to courier and rail freight transport. Given the concentration of SMEs in service industries, removing restrictions to services trade and investment would boost SMEs productivity and possibly increase their export competitiveness.

1. OVERVIEW OF THE REPUBLIC OF KOREA'S SMEs REGULATORY, INSTITUTIONAL, AND POLICY FRAMEWORKS

Providing an overview of Republic of Korea's regulatory framework pertaining to SMEs is a challenging task not least due to the sheer number of SME related regulations, the complexity of the regulatory framework and inconsistencies between some of these regulations, which incidentally pose a significant compliance challenge for SMEs.

This chapter attempts to provide an overview of aspects of Republic of Korea's regulatory framework of relevance to this Paper and describe associated institutional and policy frameworks in support of SMEs and startups.

1.1 Aspects of the Regulatory (and the Regulatory Reform) Framework

The South Korean SME policies and the criteria for target scope were first established with the enactment of the Framework Act on Small and Medium Enterprises (hereinafter referred to as the 'Framework Act') in 1966. The Framework Act aims *"to provide for basic matters concerning the direction-setting for small and medium enterprises and measures for fostering small and medium enterprises with the aim of supporting their independent growth and improving their industrial structure."*

In addition to the Framework Act, dozens of special laws were enacted to promote and/or protect business activities of SMEs in various sectors. A list of the key laws of relevance here and a brief description of what they try to achieve is provided in Annex III below. In a nutshell, these laws aim at strengthening the technological competitiveness of SMEs and improving their social and economic status.

“The Framework Act on Administrative Regulation” of 1998, addresses basic matters associated with regulatory reform taken by the government including the definition and scope of regulation, regulations registration system, examination of new or reinforced regulations, and quality management and sunset review of existing regulations.

The Prime Minister’s Office, through its Regulatory Reform Officer (RRO), maintains strong oversight on regulatory issues across central administrative agencies. A Regulatory Reform Committee (RRC), co-chaired by the Prime Minister and a representative from the non-governmental sector, reviews all regulatory proposals from central administrative agencies. RRC’s make-up is mainly oriented towards the private sector. While the RRC takes on the role of a central oversight body for regulatory management, the central and local governments and the private SME associations closely collaborate with each other to further facilitate reform efforts

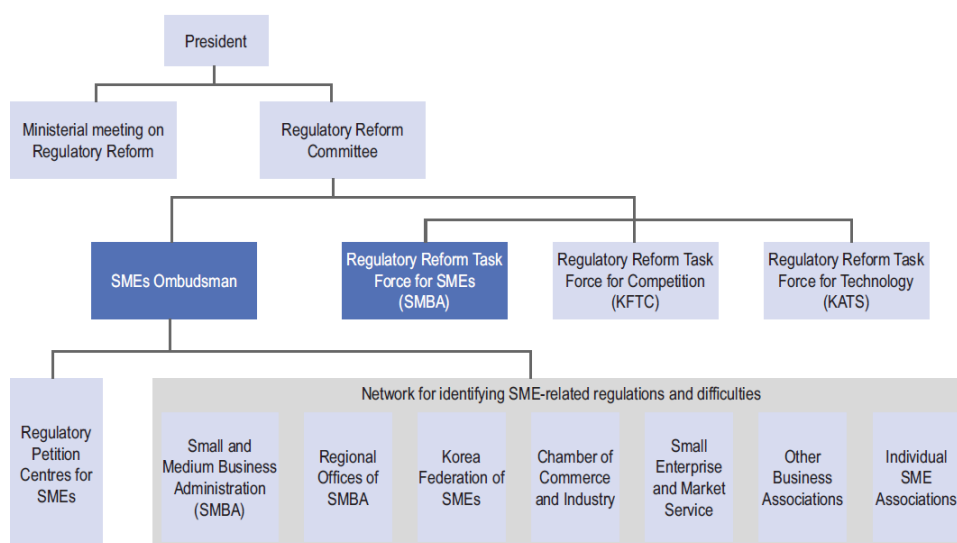
Regulatory impact analysis statements (RIAS), first introduced in 1998, are prepared by central administrative agencies and reviewed by the RRC. Since 2015, RIAS are drafted and processed through an online platform, which automatically compares regulatory costs and benefits. Research institutions with some degree of autonomy from the government also provide independent analysis on specific issues. A “Cost-in, Cost-out” (CICO) system restricting the cost increase of new or amended regulations by abolishing or relaxing regulations that produce equal or greater costs is in place since 2016. Each central administrative agency must also draft a plan of regulatory ex-post evaluation as part of each RIAS.

The Ministry of Economy and Finance (MoEF) supervises the regulatory reform for businesses with the objective to promote business investments and foster micro-enterprises.

For SMEs and start-ups, regulatory reform priorities are set annually by the SMEs Ombudsman, the Ministry of SMEs and Startups (MSS), and the RRC. As an independent agency, the SMEs Ombudsman is responsible for improving existing regulations of relevance to SMEs. The MSS has established and operated the Ombudsman Support Team to facilitate a smooth reform process.

However, regulatory reform processes apply exclusively to processes for developing laws initiated by the executive branch of the government. Unlike most OECD countries where primary laws are initiated by the executive branch of government, in the Republic of Korea most primary laws are initiated by the South Korean legislative government. The Republic of Korea did not establish any dedicated body that promotes regulatory quality within the National Assembly (Republic of Korea’s unicameral parliament) although the percentage of primary laws initiated by the National Assembly amounted to 86 percent in 2016. Most of these bills lack regulatory quality scrutiny or review. Hence, even if the executive branch of government deregulates, the legislative branch of government continues to regulate.

Figure 1-1: Organizational structure of SME regulatory reform process



Source: Ministry of SMEs and Startups Homepage

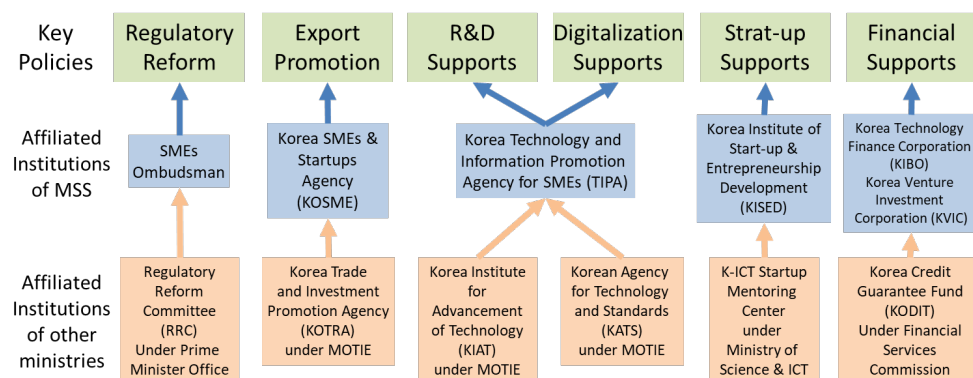
1.2 Key Institutions Supporting SMEs

In 1966, the Small and Medium Business Administration (SMBA) was created with six bureaus and 11 regional offices to implement various SME policies. SMBA established the International Cooperation Division in February 2017 and a few months later it was reorganized and expanded into the Ministry of SMEs and Startup (MSS). MSS has 12 regional offices and operates nine affiliated institutions. The organizational structure of MSS is summarized in Annex II.

Although the MSS and its affiliated institutions are in charge of all the SME support programs and initiatives, other government agencies such as the MOTIE, the Prime Minister's Office, the Ministry of Science and ICT, and Financial Services Commission also support SMEs through their affiliated institutions as illustrated in Figure 1-1. Annex II provides a more detailed overview of the roles of affiliated institutions of the MSS while Annex IV provides an overview of the other agencies that support SMEs and start-ups.

The section below provides an overview of the key institutions that support SMEs and startups in addition to MSS. Some of these agencies and others will be introduced in more detail in later sections especially in the context of the Republic of Korea's policies in support of SMEs and start-ups under chapter 1.3 and chapter 2 below.

Figure 1-2: Overview of SMEs-related Policies and Supporting Institutions



Based on the Korea Trade-Investment Promotion Agency Act (Act No. 1059 of 1962), the Korea Trade-Investment Promotion Agency (KOTRA) was established in 1962. KOTRA provides export supports tailored to the various stages of development of the enterprises targeting (1) enterprises which seek to transform from small local firms to exporting enterprises, (2) scaling-up enterprises that need to establish foreign branches for export expansion and (3) mid-sized enterprises or small but competitive firms that need to expand global marketing activities and diversify markets.

KOTRA provides various services to SMEs including matchmaking helping South Korean SMEs to meeting/collaborate with foreign buyers while KOTRA's Korea Business Center provides export consulting for foreign buyers to increase international trade. KOTRA also cooperates with local governments in organizing trade missions for SMEs wishing to engage in overseas business activities. In addition, KOTRA provides guidance to exhibitors and supports the cost of international trade shows so that SMEs can utilize trade shows for building brand image. The global B2B e-marketplace called "buyKOREA (www.buyKOREA.org)" is also operated by KOTRA. In addition, the Export-Import Bank of Korea (Eximbank) and Korea Trade Insurance Corporation (K-SURE) were established in 1976 and 1992 to provide financial supports for export and overseas investment projects.

1.3 Policies to Foster the Exports and Overseas Activities of SMEs and Associated Institutions

The socio-economic role SMEs play in the Republic of Korea is well recognized in the country's constitution which asserts that the "State shall protect and foster SMEs". Responding to the mandate in the constitution, the government offers a wide range of SME support programs. In 2017, 288 SME support programs were in place at the central government level and 1,059 at the local government level (OECD, 2018: pp. 120) in the Republic of Korea including in the form of large-scale financial support to SMEs through public funds and credit guarantees, which were the second largest in the OECD. The government also offers tax incentives to SMEs as illustrated below and further elaborated in Annex V in addition to other forms of support including export promotion related support, R&D support, digitalization supports and start-up support.

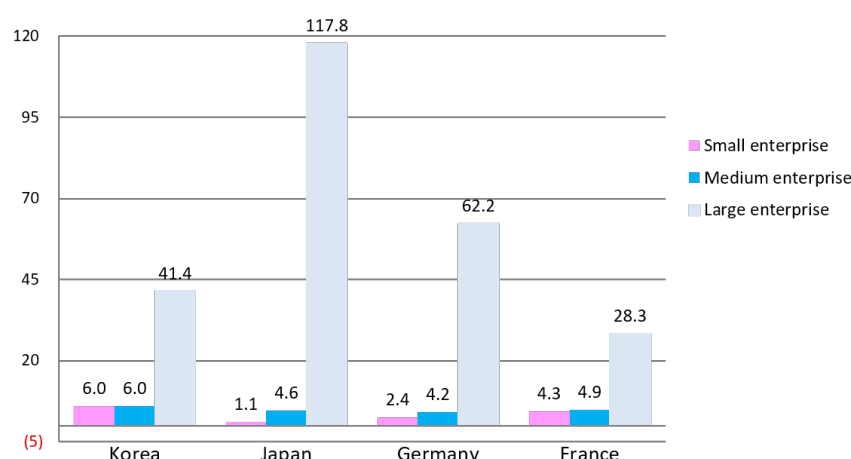
SME support programs and initiatives were instrumental to sustain and enhance the competitiveness of South Korean SMEs but some of these support programs have inadvertently created disincentives

for SMEs to grow as they strive to artificially stay below the thresholds in order to continue receiving government support (Kim, 2017).

R&D Promotion and Innovation Policies

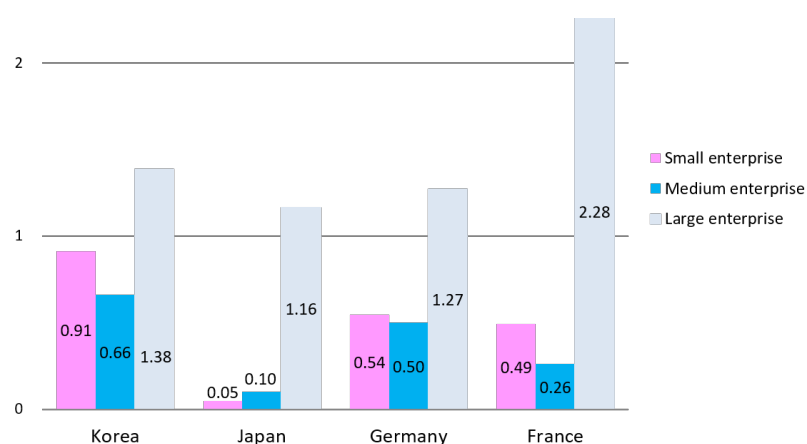
The Republic of Korea's total R&D spending has risen rapidly since 2000, reaching 4.2 percent of GDP in 2015, the second-highest in the OECD. Business expenditure on R&D at 3.2 percent of GDP is the highest in the OECD. Out of the entire government R&D budget (KRW 19 trillion) in 2016, KRW 3 trillion was earmarked for the innovation of SMEs in the form of R&D grants, making Republic of Korea the second-biggest spender next to the US among OECD members, ahead of Germany and Japan in absolute amount. Thanks to the government's direct grants and indirect tax benefits, the yearly R&D investment of South Korean SMEs exceeded KRW 13 trillion in the same year (with 36,026 affiliated research institutes). The Republic of Korea ranks fourth, or fifth when China is included, in total corporate R&D and second in SME R&D among OECD nations as shown in Figure 1-4 and 1-5. In particular, small firms with less than 50 employees, including start-ups, were found to invest more actively in R&D than medium-sized firms.

Figure 1-3: International Comparison of Total Corporate R&D Investment by FirmSize (USD 1 billion, PPP exchange rate)



Source: Main Science and Technology Indicators (OECD Stat webpage).

Figure 1-4: International Comparison of Government-funded R&D Costs by Firm Size (USD 1 billion, PPP exchange rate)



Note: Figures in parentheses denote government-funded R&D costs. Source: Main Science and Technology Indicators (OECD Stat webpage).

The South Korean government established the Korean Small Business Innovation Research (KOSBIR) program in 1998 and has steadily increased the budget in support of the program. Participation in KOSBIR is for government ministries and public enterprises with an annual R&D budget of KRW 30 billion or more provided they allocate at least 12 percent of their R&D budgets to SMEs. Owing to the KOSBIR program, 15.7 percent of all the government R&D budget is allocated to SMEs and this government's support accounts for 13.2 percent of the total R&D investment by SMEs in 2016.

According to the National Science and Technology Knowledge Information Service (NTIS) database in Republic of Korea, which integrates the management of all government R&D projects, among the 30,448 R&D projects awarded to firms in 2010-2014, the median fund amount was KRW 200 million while the top 20 percent marked KRW 525 million and the bottom 20 percent was less than KRW 100 million. Hence, about 80 percent of projects were funded with over KRW 100 million per project—this implies that there is a strong tendency to omit the initial proof-of-concept stage and begin with full-fledged support.

The Government evaluates R&D support projects based on the number of generated patents. Patent applications for SMEs have continued to rise from 34,547 in 2013 to 46,813 in 2016² – to qualify for government support. The government's R&D support has contributed significantly to SMEs' debt and equity financing. Utilizing such funds, firms have expanded their investments in intellectual properties, relational assets, and human capital but this has not necessarily enhanced the financial performance of recipient SMEs. Most SMEs have failed to see improvements in their value-added compared to their non-recipient counterparts, even recording significantly lower figures in sales and operating profit.

This can be seen with the KOSBIR program, where the medium-sized firms engaging in full-scale development projects benefitted more than small firms. Most startups received policy financing instead of R&D grants, but this left many in debt due to the high failure risk. The consequent losses

² Korea Intellectual Property Office, Intellectual Property Statistics FOCUS, 2014, 2017 (in Korean).

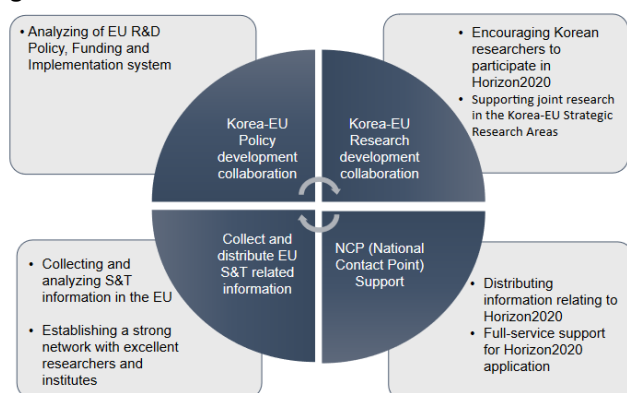
borne by public financial corporations made it harder to provide sufficient support to firms at the growing stage (Lee et al., 2015). If more R&D grants are allocated at the initial R&D stage, more investments and loans could be provided to SMEs at scale-up stages. Moreover, many government R&D support programs are run through project contests on designated research content, but they have been mostly inconsistent with the actual business needs of SMEs.

To promote startup and SMEs' participation in global innovation collaboration, the MOTIE has developed a plan to promote such co-operation, emphasizing the creation of a global network of overseas science and innovation outposts, promotion of international joint R&D, and sharing of large R&D facilities. These support interventions if coupled with efforts to reduce barriers to trade and investment would facilitate foreign investment in R&D and help the Republic of Korea connect to global science and innovation networks.

In the same spirit KIAT was established in 2009 under the MOTIE to support technology policy planning, enhance cooperation between the industry and academia, enhance the development of materials and components, and enhance international technology cooperation. In particular, KIAT supports South Korean businesses to build global networks, perform joint projects and research, and access world-leading technologies through the International Technology R&D Collaboration Program. KIAT international R&D collaboration activities consist of (1) bi-lateral co-funding R&D programs with Germany, China, France, Spain, Switzerland to name a few and (2) multilateral R&D collaboration programs such as the European programs of EUREKA, FP, EUROSTAR 2. Interestingly, KIAT was the first Asian institution that joined the EUREKA program in 2009 and has maintained the partnership for the past ten years.

The Korea-EU Research Center (KERC) was established in 2013 to collect and disseminate relevant information and develop R&D collaboration between the Republic of Korea and the EU. Its National Contact Point (NCP) seeks to help Korean researchers' access EU research funding program such as previously FP7 and currently Horizon2020, to provide the latest news and information related to R&D and relevant policies in the EU and to play a bridging role in building close networks between European and South Korean researchers. The Republic of Korea, as a third country under Horizon 2020, supports not only South Korean researchers, institutions, and enterprises who seek guidance for participation in the EU Horizon projects but also European counterparts interested in R&D collaboration with the Republic of Korea.

Figure 1-5: Mission of the Korea-EU Research Center



Source: Korea-EU Research Center Homepage

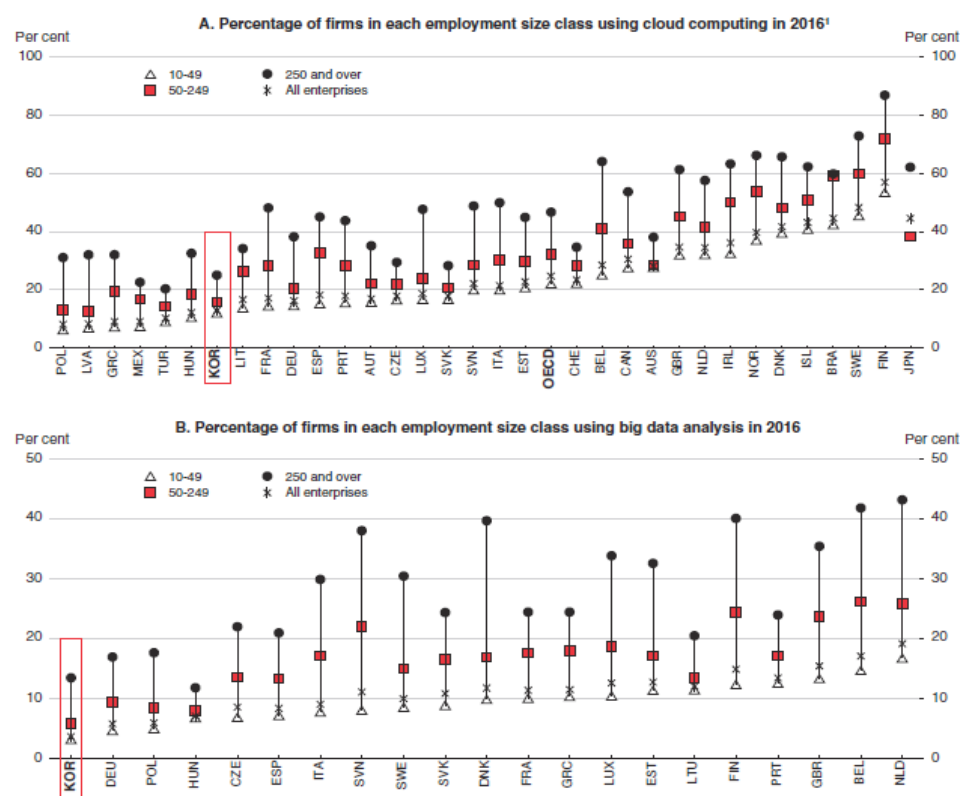
However, the annual budget for the International Technology R&D Collaboration Program has been decreasing. In 2019, the budget for all the bilateral co-funding is amounting to KRW 5.4 billion and the budget for multilateral collaboration is KRW 2.8 billion - jointly accounting for only 0.0004 percent of the total R&D budget of the South Korean government.

Although the South Korean government generously provides the second-largest R&D support to SMEs this did not translate into collaborations with foreign enterprises.

Digitalization of SMEs

While digitalization offers new opportunities for SMEs to reach global markets and cloud computing allows SMEs to reduce fixed costs associated with the use of “big data” - which is generated from electronic transactions and machine-to-machine communications – South Korean SMEs are yet to reap the benefits of technological development. In fact, South Korean SMEs are well below the 11 percent OECD average with only 10 percent of SMEs in 2016 using cloud computing and only four percent using big data analytics.

Figure 1-6: Percentage of firms using cloud computing and big data analysis by firm size in 2016



Source: OECD (2017), *OECD Digital Economy Outlook 2017*, OECD Publishing, Paris.

In terms of automation, only 37.5 percent of SME exporters have automated their manufacturing processes (Chang and Lee, 2017) but the level of automation introduced appears relatively basic, consisting of barcodes (17 percent) or radio-frequency identification (14 percent). The creation of smart factories occurs primarily among large firms, while the share of SME workplaces converted to smart factories stands at only 7.4 percent.

To bridge the digitalization gap and advance the digitalization of SMEs, the MSS made several

interventions over the past years including supporting the establishment of 7,800 smart factories (until 2018), allocating KRW 1.21 trillion to innovate small and mid-size smart manufacturing facilities in 2019.

Despite these efforts, systemic challenges remain to be addressed to truly advance the digitalization of SMEs. Accelerating the spread of smart factories, for example, requires addressing problems related to redundant investment due to delayed standardization, the leakage of internal technology to large firms and the rising fixed costs (Chang, 2017). Another systemic challenge is the lack of human capital with sufficient digitalization and data analytics capabilities.

Start-up Policies to Promote Entrepreneurship

A start-up is a new company initiated by an entrepreneur to seek and validate a scalable business model. The concepts of startups and entrepreneurship are similar. However, entrepreneurship refers to all new businesses including self-employment while startups refer to the new businesses that intend to grow large. Start-ups are a subset of SMEs.

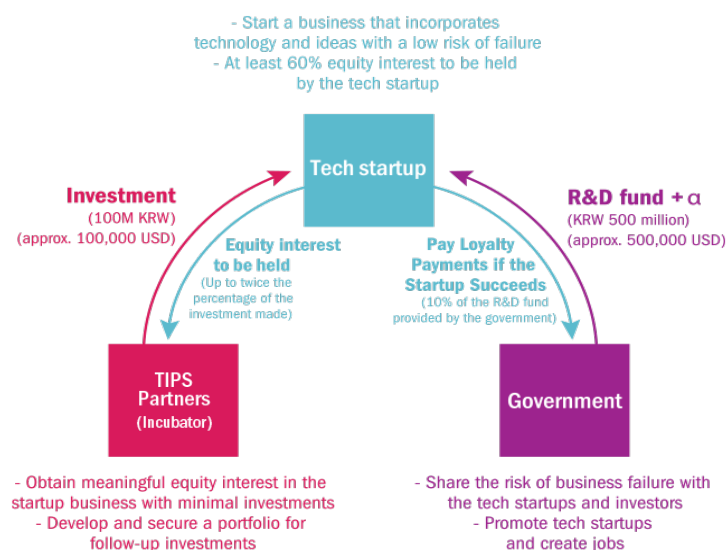
The South Korean government introduced start-up policies to promote entrepreneurship and created regulatory and institutional frameworks in support of these policies. The “Act on special measures for the promotion of venture businesses” was introduced in 1997 to promoting startup businesses. To this end, the Korea Institute of Start-up & Entrepreneurship Development (KISED) was established to support startup development and freelancer enterprises.

In 2017, the MSS launched a “Plan to Create an Ecosystem to Nurture Innovative Start-ups” which includes provision on tax incentives for business angels, public-private venture capital funds, measures to promote mergers and acquisitions and strengthen KOSDAQ (established by benchmarking the US NASDAQ). The government further introduced a management plan for the Center for Creative Economy and Innovation (CCEI), offered tax exemption schemes and created the “Korea Fund of Funds” to attract private sector capital. The private sector-led “Tech Incubator Program for Start-ups (TIPS)” launched in 2014 is among the more successful initiatives.

Table 1-1: The Institutions to Promote Start-up firms

Institution	Supporting programs
Korea Institute of Start-up & Entrepreneurship Development (KISED)	Provides startup training; nurtures future entrepreneurs; assists SMEs with matters related to commercialization, the collection, and generation of statistics, access to finance, human resource development, SME internationalization, and re-startups.
Center for Creative Economy and Innovation (CCEI)	By 2016, 67 business incubation centres were established offering combined mentoring for start-ups with financial support services to 6,655 companies. However, the success of these incubation centres was moderate as most of those were located at universities and research centers that lacked business sector expertise and practical insight.
Tech Incubator Program for Start-ups (TIPS)	Modeled on Israel’s Technology Incubator, TIPS is designed to induce angel investors to provide incubation and mentoring, which is combined with government R&D grants. If a private-sector angel investor, for example, invests KRW 100 million in the start-up, the government matches that with KRW 500 million R&D grant.

Figure 1-7: The Operating Process of TIPS



Source: TIPS Homepage www.jointips.or.kr/about_en.php

Government support has successfully increased entrepreneurial activities in the Republic of Korea over the past years. For instance, the Republic of Korea's perceived opportunities and capabilities as measured by the Global Entrepreneurship Monitor (GEM) have increased rapidly over the past three years. In 2018, 45 percent of South Korean respondents see good entrepreneurial opportunities around them within six months, and nearly half of those believe that they are capable of pursuing these opportunities.

The Total Early-stage Entrepreneurial Activity (TEA) rate refers to the percentage of individuals aged 18-65 who are either nascent entrepreneurs or owner-manager of a new business (less than 42 months). The TEA rate in the Republic of Korea has also increased very rapidly over the past three years as demonstrated below placing the Republic of Korea the second-highest among East and South Asia.

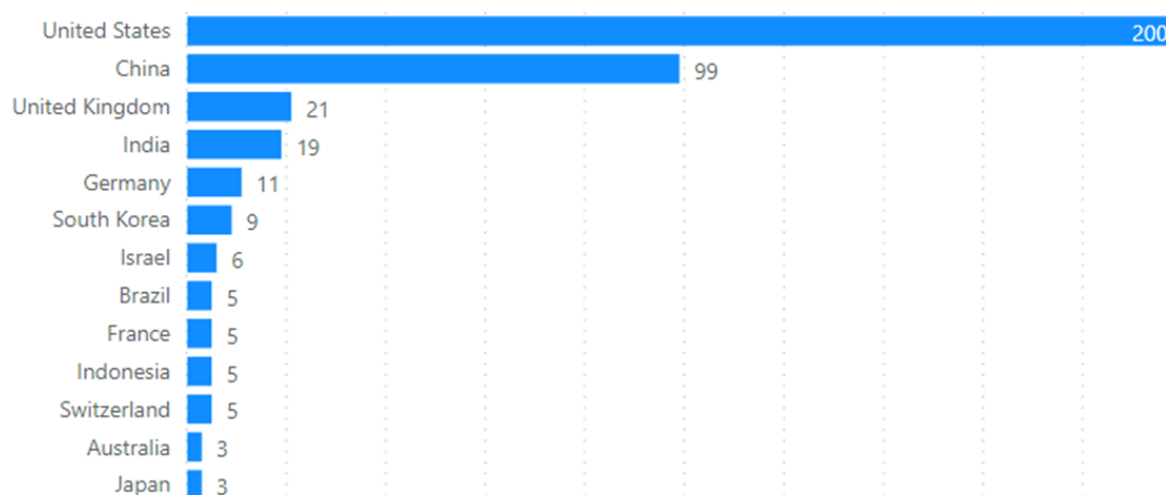
Table 1-2: TEA Rates in the Republic of Korea in 2016~2018

Total Early-stage Entrepreneurial Activity (TEA)	Value	Rank
TEA 2018	14.7	14/48
TEA 2017	13.0	21/54
TEA 2016	6.7	53/65
Established Business Ownership Rate	12.5	8/48
Entrepreneurial Employee Activity (EEA)	3.6	23/49

Source: Korea Entrepreneurship Foundation (2018). *Global Entrepreneurship Monitor(GEM) 2018 Korea*, pp. 30.

Many start-ups in Republic of Korea have grown into unicorn companies - privately held startup company with a current valuation of US\$1 billion or more each. Republic of Korea ranks sixth in terms of the number of unicorns according to the CB Insight as shown in Figure 1-9 below:

Figure 1-8: The Number of Unicorns by Countries (as of 17 October 2019)



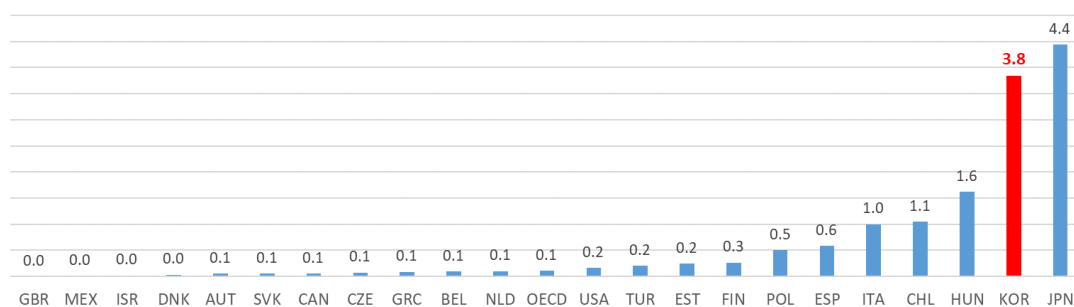
Source: Graph is made using data from CB Insight www.cbinsights.com/research-unicorn-companies

The sheer number of Republic of Korea's unicorn companies is a result of the government's start-up support policies which are the most successful among the six policy categories investigated in this report.

Financial Assistance to SMEs and Startups

The Republic of Korea offers considerable financial support to SMEs. The outstanding government-guaranteed loans stood at KRW 62.6 trillion in 2016. Public credit guarantees for SME lending amounted to 3.8 percent of GDP in 2016, down from 4.1 percent in 2014, but still the second-highest in the OECD after Japan. In most other countries, the value of credit guarantees is considerably smaller, as indicated by the median value of 0.1 percent.

Figure 1-9: Government credit guarantees for SMEs as a percentage of GDP

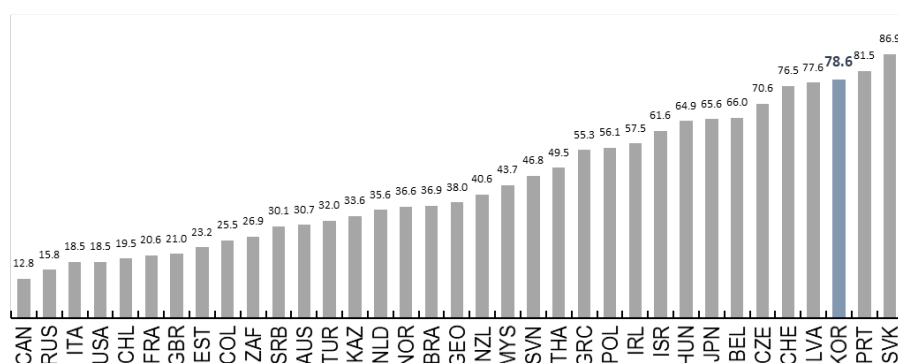


Source: OECD (2018), *Financing SMEs and Entrepreneurs*, OECD Publishing, Paris.

In addition, the government provides direct lending, amounting to KRW 4.5 trillion (0.3 percent of GDP in 2016) as well as a range of subsidy programs.

These financing support programs enhance the financial standing of SMEs. The SME share of business loans is 78.6 percent in 2016, which is high relative to international standards as shown in Figure 1-11. Further, the gap between the average interest rate on loans to SMEs and large firms fell from 79 basis points in 2008 to 23 in 2016.

Figure 1-10: SME loans as a percentage of total outstanding loans

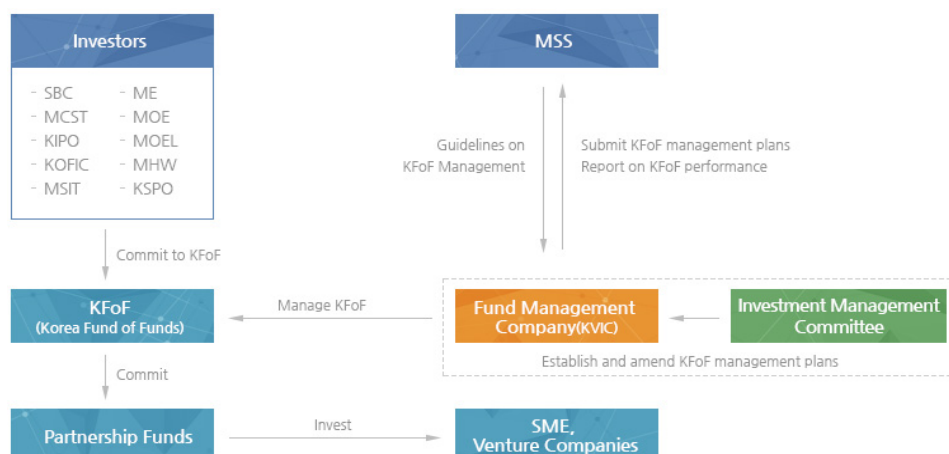


Source: OECD (2018), *Financing SMEs and Entrepreneurs 2018*, OECD Publishing, Paris.

However, financing support programs also risk lowering the productivity of recipient firms and increasing the survival probability of incompetent ones (Cho et al., 2016; Chang, 2016).

In order to promote innovative start-ups, it is important to provide not only debt financing support but also equity financing support. The Korea Fund of Funds (KFoF) was established in line with the “Special Measures for the Promotion of Venture Businesses Act” to provide a stable capital source for venture investment. The Korea Venture Investment Corporation (KVIC) manages KFoF as a general partner, and various government agencies provide investment funds as limited partners including the Small & Medium Business Corporation (SBC), Ministry of Culture, Sports, and Tourism (MCST), the Korean Intellectual Property Office (KIPO), the Korea Film Council (KOFIC), Korea Communications Commission (KCC), the Ministry of Employment and Labor (MOEL), the Ministry of Health & Welfare (MHW), the Korea Sports Promotion Foundation (KSPO) and others.

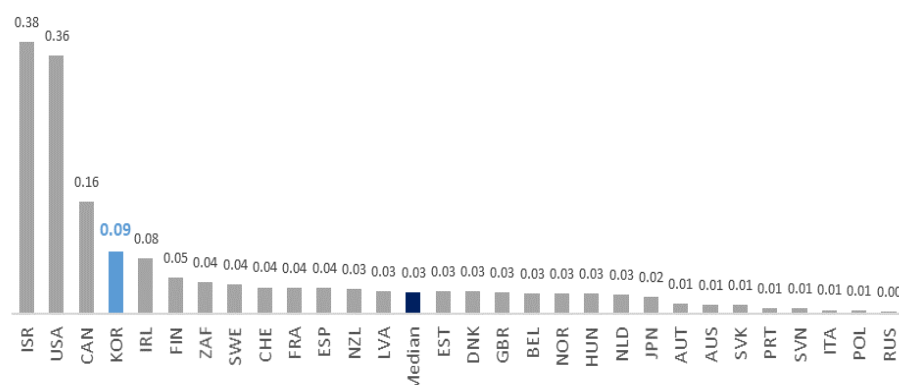
Figure 1-11: The Operation Structure of Korea Fund of Funds



Source: KVIC Homepage available at: www.k-vic.co.kr/eng/contents.do?contentsNo=184&menuNo=450

Owing to this government supports through KFoF, venture capital investments rebounded after the decline in 2008 reaching 0.09 percent of GDP in 2016, the fourth highest in the OECD and well above the average of OECD at 0.05 percent. The public sector’s share of venture capital investment fell from 49.3 percent in 2013 to 33.1 percent in June 2017, reflecting a large rise in private-sector activity.

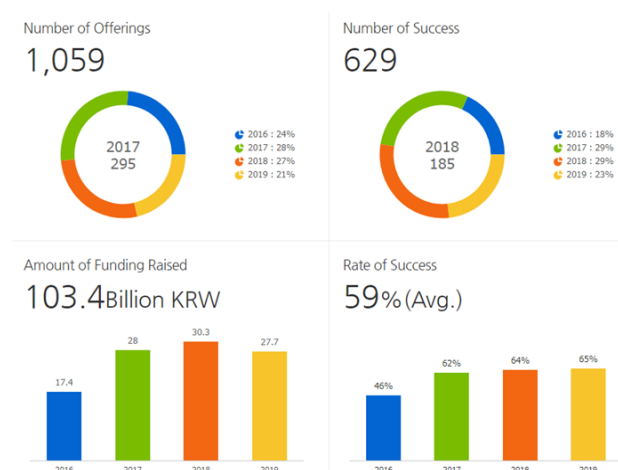
Figure 1-12: Venture capital investments as a percentage of GDP, 2016



Source: OECD (2018), *Financing SMEs and Entrepreneurs 2018*, OECD Publication.

Additionally, Republic of Korea's National Assembly passed the "Crowd-funding Act" legislation to legalize crowdfunding in the form of securities and loans in 2016 in an attempt to provide new opportunities for SMEs. Starting from 2016, the crowd-funding investment has increased substantially as shown in Figure 1-14.

Figure 1-13: Summary of Crowdfunding Statistics (01-25-2016 ~ 10-20-2019)



Source: Korea Securities Depository, CrowdNet Homepage (www.crowdnet.or.kr/eng/statistics)

Table 1-5 provides an overview of the major financing institutions that provide debt and equity financing to SMEs.

Table 1-3: Financial institutions responsible for government sponsored financing policies in the Republic of Korea

Financing institutions	Financial services for SMEs	Government Authority
Korea Credit Guarantee Fund (KODIT)	Based on credit rating, credit guarantee for SMEs to which IBK or banks loan money	Financial Services Commission
Korea Technology Finance Corporation (KIBO)	Credit guarantee for SMEs to which banks loan money through technology evaluation	MSS

Korea Federation of Credit Guarantee Foundations (KOREG)	Credit guarantee for local micro-enterprises	MSS and local governments
Korea SMEs and Startups Agency (KOSME)	Loans	MSS
Industrial Bank of Korea (IBK)	Loans and discount of trade cred	MSS
Korea Venture Investment Corporation (KVIC)	Equity injection to a private pool of VC fund or PEF	MSS
Korea Growth Investment Corporation	Equity injection to VC fund or PEF Financial Services Commission	Financial Services Commission

On the other hand, a major challenge that South Korean SMEs have to overcome is the inheritance tax that is among the highest in the world. The nominal top rate of the inheritance tax in the Republic of Korea is 50 percent, which is twice as high as 26.2 percent of the average inheritance tax rate of OECD member countries. In addition, if the successor of a company inherits the largest stock holdings, the tax rate can go up to 65 percent as a control premium. The inheritance tax sometimes forces second and third-generation successors to give up management rights.

SMEs can benefit from the deduction system for family business succession subject to strict requirements. The deduction for family business succession from the inherited property is 20 billion KRW (USD 17 million) for companies with more than ten years of history, 30 billion KRW (USD 26 million) for over 20 years and 50 billion KRW (USD 44 million) for over 30 years. The sticking points lie in the follow-through obligations that heirs must meet to qualify for tax relief, i.e. they can't sell more than 20 percent of the assets they've inherited, or change the field of business for ten years and they must maintain the 100 percent level of full-time employees at the time of inheritance. These are conditions that are hard to hold under the current rapidly changing business environment, which frequently witnesses merger and acquisition, exchange of stakes and restructuring. If an heir fails to comply with any one of these terms, they are required to repay the tax deductions plus a surtax.

Due to strict requirements, the number of cases using the deduction system for family business succession remained low - 76 cases in 2016. Instead, many SME owners often avoid taking up business ownership, worrying about succession. The South Korean government could learn from the British and German systems that charge lower inheritance taxes and impose more flexible regulations on sales figures, payroll scales and conditions attached to business maintenance in order to allow owner families to remain engaged in the business.

The Ministry of Economy and Finance proposed a "partial amendment to the Inheritance Tax and Gift Tax Act" to allow more flexibility in granting inheritance tax deductions for small family businesses. Changes will be reflected in the government's 2019 amended tax bill that will be submitted to the National Assembly for approval.

Table 1-4: Proposed changes in inheritance tax deduction law for SMEs

Category	Current Requirements	Proposed Changes
Companies subject to the hereditary tax deduction	SMEs whose inheritor has managed for 10 years or more SMEs with less than KRW 300 billion in annual sales	SMEs with less than KRW 300 billion in annual sales

Post-management period	10 years	7 years
Employment maintenance	Should maintain all regular workers	SMEs that maintain the same payroll costs
Business category change	Changes allowed only within small classification category under Korean standard industrial classification	Middle classification category allowed

Source: Ministry of Economy and Finance (2019.6.11)

If the above amendments are to pass, the lock-up period during which SMEs are obliged to sustain the family business, assets, and employment unchanged will be reduced from 10 to seven years in order to qualify for an inheritance tax break starting next year. The government will also allow greater flexibility in business criteria for the granting of inheritance tax deduction. Companies in larger classification will also be allowed to change the business category upon approval by a committee led by experts.

2. THE REPUBLIC OF KOREA'S FUTURE POLICY DIRECTION AND OBJECTIVES

This chapter provides an overview of future policy directions announced by the Moon Jae-in administration to support SMEs and startups. Most of these policy directions and plans have not been approved by the National Assembly and even if these plans were to be approved, the method of implementing these policy directions, their budget and the government entity tasked with implementing these plans remain to be seen. However, these future policy directions reveal the intentions of the government which is useful for purposes of conceptualizing potential collaboration between the EU and the Republic of Korea on SME development and promotion.

2.1 New Regulatory Sandbox Initiative

A regulatory sandbox is a mechanism for developing regulation that keeps up with the fast pace of innovation. To create the enabling regulatory environment and facilitate the introduction of regulatory sandboxes, the National Assembly passed amendments to laws on industrial convergence, ICT convergence and specialized regional development in 2018.

Subsequently, the government announced the blueprint for the regulatory sandbox program in January 2019 to help the Republic of Korea shift to a negative-list regulatory system instead of the currently practised positive-list regulatory system, which prohibits everything except what is specifically allowed for, causing a major obstacle towards creating new businesses in the Republic of Korea. Four ministries including the MSS, the MOTIE, the Ministry of Science and ICT, and the Financial Services Committee will operate separate sandbox programs to liberalize regulations on SMEs, manufacturing, ICT and financial industry.

The government's regulatory sandbox program aims to speed up the process of, first, approving firms to launch new services and goods and thereafter apply reasonable regulations. Under the sandbox program, the government will provide companies with information about whether their new businesses are compliant with the existing regulations within 30 days from the date of request. If the

government does not respond within 30 days, the firms can automatically assume compliance with existing regulations.

Temporary permission is also foreseen pending regulatory amendments in case issues of compliance with existing regulations exist.

The judging committee of the regulatory sandbox program is tasked with the responsibility to thoroughly check the potential threat to the safety and well-being of consumers. The government made it mandatory for companies to purchase related insurance policies and adopt tougher rules against firms in case of damages.

The government allocated KRW 2.89 billion to the Ministry of Trade, Industry and Energy, KRW 2.81 billion to the Ministry of Science and ICT and KRW four billion to the Financial Services Commission to support companies with carrying out related tests in 2019.

A number of companies have acquired the approvals to participate in regulatory sandbox programs. For example, Hyundai Motor which has been making a huge push in hydrogen fuel-cell technology won exemptions to add three hydrogen charging stations in Seoul, including one in front of the National Assembly. The government also expanded the scope of direct-to-consumer genetic testing for MacroGen, a genome research company. Charzin, a start-up company that specializes in electric vehicle charging, gained approval to build an app-based payment platform for electric charging stations that use standard 220-volt outlets. These pilot tests will take at least a year or more until they receive approvals on the safety of their products. In consultations with representatives from these companies, they expressed their hope of success in new experiments while they are still concerned with red tape behind such approvals.

As mentioned above, four ministries operate sandbox programs with little synergies between these programs with the result that firms are subjected to different requirements and conditions.

Earlier this year, the Korea Development Institute (KDI) and the UK's Regulatory Policy Committee (RPC) co-hosted workshops on best practice and regulatory reforms in both countries and looked for ways to design and promote the regulatory reform system (including regulatory sandbox) in rapid technological progress and changing socioeconomic conditions. Enhancing regulatory cooperation particularly in domains that are novel and not sufficiently tested like regulatory sandbox initiatives is worthwhile in facilitating doing business for SMEs.

2.2 The Republic of Korea's Efforts to Promote SME Internationalization

Efforts by the South Korean government to boost SME exports and enhance SME internationalization take different forms including enhancing market access for SME exports, support SMEs in utilizing digital platforms and enhance linkages with global markets and enhancing the greater use of ICT convergence technology, trade promotion, and financing.

Market Access

The Moon Jae-in administration launched the New Southern Policy as its key foreign economic policy at the beginning of its presidency in 2017. The key to Moon's New Southern Policy is to diversify markets and secure global competitiveness in digital innovation in cooperation with ASEAN and India,

which have young populations, fast penetration of smartphones and industrial ecosystems favorable to start-ups. The Presidential Committee on the New Southern Policy was then established comprising officials from 14 ministries tasked with furthering the Southern Policy.

In May 2019, the MSS proposed to its ASEAN partners to establish a start-up-focused international organization to facilitate mutual cooperation to develop SMEs and start-ups into global companies.

The MSS will intensify its efforts to enhance market access for Korean SMEs to their largest export markets such as China, Vietnam, Hong Kong, Thailand, and Russia. Also in an effort to enhance market access, the MSS is working on expanding South Korean cultural events in cooperation with the Ministry of Culture.

Since the MSS and the Moon Jae-in administration concentrates their efforts to expand South Korean SMEs export market into the ASEAN market, little economic cooperation has been sought with other regions, including the EU. Nonetheless, the South Korean government tries to overcome their excessive dependence on the Chinese, U.S. and Japanese economies, and intend to diversify the international linkages with other regions. The collaborative efforts to make an international organization for SMEs and start-ups with the ASEAN can be benchmarked for the potential EU-Republic of Korea collaboration.

Establish Online and Offline Platforms Worldwide

The key to success for small companies exporting a variety of products in small volumes on the internet to secure logistics competitiveness. MSS announced that a large-scale, hi-tech integrated logistics platform will be built with automated warehouses, online customs, and shipping-clearing services, as well as an automated database and documentation system. A standard information system will also be established to integrate information from production to delivery. The MSS aims to help 15,000 companies export through these online business support systems. The MSS also plans to support businesses in selling their products through overseas TV shopping channels owned by South Korean companies, such as CJ O Shopping in Thailand and Vietnam.

In addition, MSS is also operating a global acceleration program aimed at the globalization of start-ups in their initial phase. MSS selects start-ups in cooperation with foreign accelerators and provides each of them with KRW 30 million for overseas business expansion. MSS plans to establish the Korea Startup Center and provide a place where foreign accelerators and local start-ups can meet and build networks. Overseas bases will better help start-ups advance in the global market and boost exchanges with foreign companies. The cities of Gurgaon in India and Seattle in North America will be overseas bases for South Korean start-ups. Some of the Korea Trade-Investment Promotion Agency's overseas offices will also serve as international bases for e-commerce exporters.

Trade Promotion and Financing

The MSS plans to match South Korean start-ups with global companies, foreign venture capitals, and accelerators to attract investment funds.

For this purpose, the MSS will make use of KOTRA's global networks. Potential foreign accelerators include Germany's Bayer in health care, Japan's KDDI and China's Alibaba in information technology and Standard Chartered's Singapore office in financial technology. In addition, KISED will accelerate the internationalization of start-ups. Relevant outbound programs include the Strategic Forum for

Global Advancement of Startups which invites representatives of 15 embassies to share information about their start-up ecosystems and the Global Accelerating Program which helps the overseas expansion of South Korean accelerators to invest in foreign start-ups. Relevant inbound programs include the Exchange and Cooperation program which invites two start-ups from each of the 15 countries to search for opportunities and create a business network in the Republic of Korea. It is worth noting that the MSS pursues not only outbound programs but also inbound programs to attract foreign start-ups to the South Korean market. The experience has been encouraging so far with high levels of interest among foreign participants in meeting with the Republic of Korea's conglomerates and active start-ups.

2.3 Support SMEs to Develop Input-material & Components and Expand R&D Collaboration

The Ministry of SMEs and Startups recently announced its intention to support the Republic of Korea's small firms develop their own parts and materials in an effort to overcome rising global trade protectionism and trade tensions. The objective is to help local SMEs achieve technological independence in materials, parts, and components that are the foundation of growth for future new industries in the Republic of Korea. In addition to import-substitution efforts, the South Korean government aims at increasing R&D collaboration between SMEs and large enterprises, on the one hand, and enhance Republic of Korea's international R&D collaboration more generally.

"Self Sufficiency" in Input-Material and Component Industry

In July 2019, Japan restricted exports to the Republic of Korea containing three key materials used to manufacture semiconductors. In August, the Japanese government expanded the export curbs to all sectors by removing the Republic of Korea from a "whitelist" of preferential trade partners. Due to this decision, South Korean firms must apply for individual permission every time they want to import one of about 1,200 high-tech materials and components. South Korean industries have largely been dependent on Japanese input material and component parts. For semiconductors, Republic of Korea's major export product, only 50 percent of the materials and 18 percent of the equipment needed are produced domestically in the Republic of Korea.

In response to Japan's decision to take the Republic of Korea off its preferential trade partners, the MOTIE (2019.8.5.) collaboratively with the MSS and other nine ministries announced a plan to seek to achieve a stable supply of 100 key industrial materials by 2024 to offset recent trade restrictions imposed by Japan. Some of these industrial materials are expected to be produced by Republic of Korea's SMEs, and others can be imported from other countries. The MOTIE and MSS initially seek to secure a stable supply of 20 industrial materials most impacted by Tokyo's measures within one year including three semiconductor materials and machinery parts such as turbines and auto components including carbon fiber materials.

A consortium set up by the MOTIE and MSS will play a matching role to allow small firms to develop specific parts and materials that big conglomerates need. One-hundred small local firms will be selected by the end of 2019 to develop high-tech input materials and parts.

The MOTIE will allocate KRW 7.8 trillion to be spent over the next seven years in R&D to speed up local

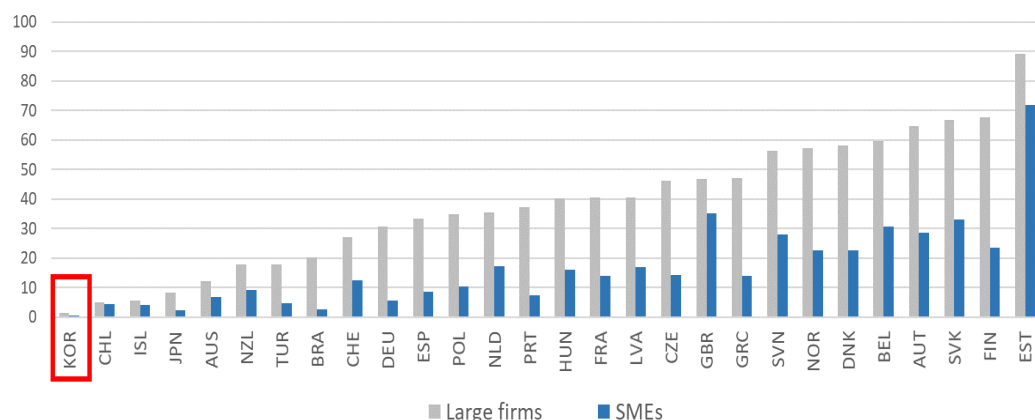
production of products imported from Japan and plans to inject KRW 273 billion this year into developing technologies for materials used in semiconductor, display, and rechargeable battery production alone.

Furthermore, the MOTIE and MSS will focus on supporting companies to diversify suppliers of the 20 materials through sourcing from European countries, China, and the United States. The Republic of Korea Customs Service will partially exempt companies from customs duties acquiring alternate sources from other countries or extend payment deadlines for customs duties. For the additional 80 materials, the MOTIE and MSS will offer over KRW 2.5 trillion through state-run banks to support mergers and acquisitions of overseas companies specializing in the targeted products. The MOTIE also emphasized easing regulations to help local industries, such as reducing the period for safety tests on chemical material production.

Expand R&D Collaboration

While the Ministry of Science and ICT has actively participated in international R&D collaboration in the public sector, MOTIE and MSS have not. Although the MOTIE and its KIAT maintained small international R&D programs to help South Korean companies collaborate with foreign researchers as we see in section 1.3, both large firms and SMEs in the Republic of Korea rank last in the OECD measure of international innovation co-operation. Only 0.4 percent of South Korean SMEs were engaged in international R&D collaboration. The Republic of Korea also ranked the third lowest in 2015 in its share of R&D funding from overseas.

Table 0-1: Percentage of firms engaged in international collaboration for innovation by firm size (2012~14)



Source: OECD (2017), *OECD Science, Technology and Industry Scoreboard 2017*, OECD Publishing, Paris

In order to increase the South Korean SMEs' participation in international R&D collaborations, the MOTIE and MSS need to increase their budget substantially for R&D in international business. Moreover, mutual interests between South Korean firms and foreign firms have to be developed.

Collaborations for developing high-tech industrial materials, components, and equipment are the potential areas where South Korean and European firms may share mutual interests. For instance, after Japan restricted exports of three key materials used in the production of semiconductors, Samsung Electronics and other large enterprises began to scope out collaboration with alternate suppliers in Europe, China, and the United States. As China began to reduce imports of industrial equipment and

components from Europe due to its economic slowdown, European firms also need to search for a new market. This may be a good opportunity for the MOTIE and MSS and the European counterparts to get aware of the importance of international business R&D collaboration to facilitate building a new global supply chain between Korea and the EU.

In the Internet and software industries, there appears to be a growth in mutual interests between South Korean firms and European firms. For instance, Naver, the South Korean Internet giant, opened its own startup accelerator office 'Space Green' within 'Station F', the startup hub in Paris in 2016. In 2017, Naver acquired the Xerox Research Centre Europe in Grenoble, France, and invested an additional EUR 100 million in French technology fund, called "K-Fund I" which was launched by Korelya Capital. The fund aims to offer financial support and mentorship to French and other European startups as well as those from the Republic of Korea who wants a presence in the burgeoning French startup ecosystem. Its investment portfolio includes Devialet, a French audio developer; Snips, an AI-based voice recognition platform; Jobteaser, a recruiting platform; and AB Tasty, a UK data analysis solution. Since the European economy wants to overcome the excessive dependence on the U.S. Internet services, Europe and East Asia may collaborate together to build its own integrated digital economy. South Korean firms can serve as a gateway to the East Asian Internet ecosystems since the Republic of Korea has the second-largest IT industry only next to China while it has a more advanced social institution for a digital economy such as personal information protection and intellectual property protection.

2.4 Smart Factory Initiative to Revitalize Manufacturing Industries

Germany pushes ahead with "Industry 4.0" in order to build smart production systems using ICT technologies. Similarly, Japan is pursuing a "Society 5.0" strategy to introduce ICT technologies in manufacturing, agriculture, medical care, and other services while China is developing "China Manufacturing 2025" to foster ten high-tech manufacturing sectors by 2025. As global manufacturing powerhouses are increasingly adopting smart manufacturing innovation strategies, the South Korean government seeks to boost the competitiveness of the manufacturing industry by promoting the development of smart factories.

The MSS along with eight economy-related ministries announced the launch of the small business smart manufacturing innovation strategy in 2018 with the hope that 30,000 smart factories are established by 2022 and that the manufacturing SMEs creates 66,000 jobs and increasing sales to KRW 18 trillion by automating 50 percent of their manufacturing facilities.

The MSS pledges to provide KRW two trillion in funds to be used in facility investments for smart factories (Korea Development Bank will provide KRW one trillion, Industrial Bank of Korea KRW 500 billion and the KOSME KRW 500 billion). The MSS will also invite regional entities to create a region-driven support model for the establishment of smart factories. From 2019, the MSS plans to add points to large companies backing SMEs to build smart factories when the MSS evaluates the mutual growth index of large enterprises. Four conglomerates – Samsung Electronics Co., Samsung Display Co., Hyundai Motor Co., and POSCO Group – have raised KRW 12.1 billion to support SMEs to build smart factories. Furthermore, the MSS will set up a big data center and platform to collect and analyze

manufacturing data at the national level later this year and incubate 100,000 skilled smart factory engineers by 2022.

In addition to the efforts by the MSS, the MOTIE will promote industrial complexes as the base of smart manufacturing innovation and create ten smart industrial zones by 2022. The MOTIE further plans to utilize regulatory sandbox to accelerate convergence between industries and intends to increase the number of special guarantee programs based on export contracts for SMEs to KRW 500 billion and the amount of trade insurance fund to KRW two trillion.

The MOTIE plans to revise the ‘Material and Part Special Act’ to include promotion policies for the equipment industry, so the corresponding policy will also affect smart factory technology. The MOTIE intends to invest one trillion KRW every year into the development of the top 100 major materials, parts, and equipment and it intends to advance the establishment of digital simulation platforms for metal, chemistry, ceramic, fiber, and machinery.

In light of these measures, the MOTIE anticipates an increase in value-added for the manufacturing industry from KRW 511 trillion in 2018 to KRW 789 trillion by 2030.

The Ministry of Employment and Labor (MOEL) will also contribute to this endeavor by creating a new cooperating robot support project in the high-risk industry to reduce industrial accidents.

Along with the government’s industrial policies, South Korean firms and their business associates also seek to advance smart manufacturing initiatives by collaborating with global partners. KCCI and the DIHK signed an MOU in 2018 to seek future cooperation on the standardization of industry 4.0. Additionally, KATS under the MOTIE and the DIN agreed on future cooperation on the standardization for industry 4.0. In July 2019, KCCI and DIHK discussed the need for specific cooperation measures to help South Korean firms better understand the direction of technological development and potential collaboration with German manufactures of advanced equipment.

2.5 Vitalizing SMEs and Start-ups through Risk Capital and Vocational Training

Affiliations of the MSS support SMEs and start-ups by providing risk capital.

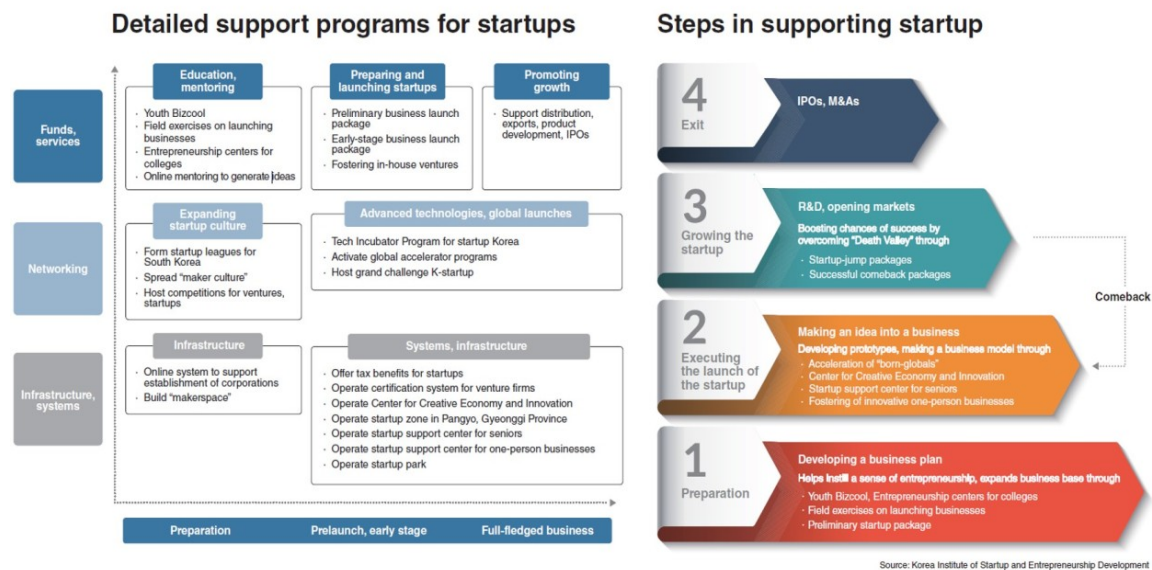
KISED supports start-ups through the various growth phase from preparation, early-stage (in the first three years), full-fledged business (from three to seven years) to exit by way of initial public offerings or mergers and acquisitions (after seven years).

During the preparation period, the KISED helps aspiring young entrepreneurs through entrepreneurship centers for colleges, field exercises on launching businesses and a preliminary start-up package. For the early-stage start-ups, KISED provides training such as the acceleration of “born-globals,” and helps innovative start-ups develop prototypes. When the business reaches the fully-fledged stage, KISED offers up to KRW 300 million for SMEs to scale up.

With the ‘Global young man start-up activation overseas expansion program’, KISED supports start-up companies to enter export markets including the USA (Silicon Valley), China (Shanghai), Vietnam (Hanoi), Cambodia (Phnom Penh), and Denmark (Copenhagen) with the help of special expert lectures, creating networking opportunities, conducting local market surveys and marketing support, and

creating an incubation space.

Figure 0-1: Startup promotion packages for each growth phase

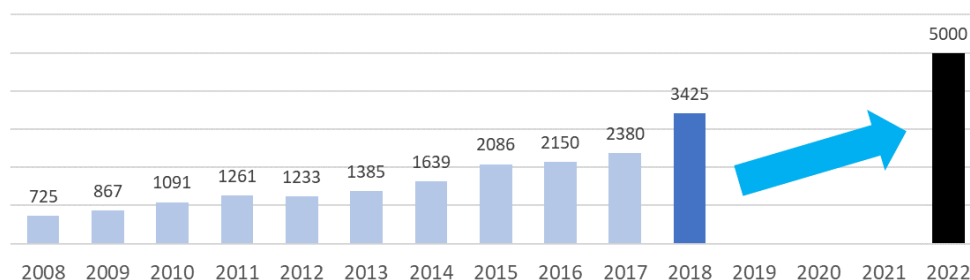


Source: The Korea Institute of Startup and Entrepreneurship Development Homepage

KVIC established a Foreign Venture Capital Investment Fund to support the entry of small South Korean startups into export markets and to promote the advancement of the venture capital ecosystem. KVIC has three overseas offices in the US, China, and Southeast Asia, and is considering establishing European presence in the UK, France, or Germany. Foreign investment firms or overseas subsidiaries of the South Korean venture capitalists can get funded from the Korea Fund of Funds under the same conditions that apply to domestic VCs. KVIC's Next Unicorn Program has invested in 4,600 South Korean startups since 2018, and the KVIC will continue to select new firms and support them to access foreign markets.

As a result of the direct and indirect government support, venture capital investments in startups has substantially increased over the past years. In 2018, alone it increased by 44 percent (KRW 3.4 trillion) as an investment in biotechnology and ICT services industries almost doubled. Thanks to the surging VC investment, nine South Korean startups have developed to unicorns as of 2019. MSS aims to increase VC investment to KRW five trillion in 2022 which is equivalent to 0.25 percent of the Republic of Korea's GDP.

Figure 0-2: Annual Investments on Startups by Venture Capital in the Republic of Korea (unit: Billion KRW)



Source: Korean Venture Capital Association, VC Statistics Summary Report 2019,1Q. Ministry of SMEs and Startups, Press release on 6 March 2019.

While the MSS has successfully increased risk capitals to innovative start-ups and SMEs, the South Korean government as a whole has been unsuccessful in developing the human capital of the SMEs' labor force. As mentioned in the Introduction, SMEs hire 88 percent of South Korean workers. Since SMEs tend to be more labor-intensive in comparison with large enterprises that tend to be more capital-intensive, vocational education and training (VET) can contribute more to enhancing the productivities of SMEs than financial supports do.

However, among various VET measures, the South Korean government is overly obsessed with increasing enrollment in upper secondary vocational schools. Enrollment in vocational schools in the Republic of Korea has declined from about half of upper secondary students in the 1970s and 1980s to around 20 percent today due to the expansion of higher education. Since 2010, the Ministry of Education (MOE) and the MOEL have sought to boost student interest in vocational schools and better align their programs and labor market needs with a series of reforms. The MOEL developed National Competency Standards (NCS) in 16 industrial areas and restructured upper secondary vocational schools to foster greater collaboration with industry partners. The MOE has also introduced Meister secondary schools, which are modeled on the Germany Dual System and focus on specific industries, such as banking, shipbuilding or semiconductor manufacturing. Another effort to expand options in vocational education is the pilot "work and study" program within the specialized vocational schools.

The MOE aims to increase students in vocational schools to 29 percent by 2022.

However, vocational education and training are not sufficiently delivered to the most needed SMEs despite budget expansions. The VET budget has increased by about 80 percent over the past ten years, but the number of participants peaked in 2009 (5.4 million people) which then decreased to 3.5 million people in 2016. The total participation rate is just 20 percent, but the VET participation rate of small enterprises with 29 or fewer employees is even smaller at 6.7 percent. The Republic of Korea needs not just an improvement of vocational schools, instead, it requires reforms to be introduced to the overall VET system in the Republic of Korea. For this purpose, the MSS and MOTIE must collaborate with MOE and MOEL in order to actualize the reform required for the South Korean VET system. Since the European economy has developed one of the most advanced VET systems in the world along with its competitive manufacturing industries, the Republic of Korea's MSS and MOTIE can learn much from their European counterparts. In other words, the VET service can become an important export item of the EU economy.

3. SOME OF THE REPUBLIC OF KOREA'S ONGOING MULTILATERAL AND BILATERAL DIALOGUES AND COOPERATION INITIATIVES ON SMEs

3.1. Multilateral SME Dialogues and Cooperation Initiatives

The Republic of Korea is engaged in several multilateral dialogues and cooperation initiatives in an effort to promote SMEs, including at the level of APEC; the OECD; the WTO; and ASEM with the aim to promote and support SMEs in global markets.

Asia-Pacific Economic Cooperation (APEC)

The Republic of Korea participates in the Asia Pacific Economic Cooperation (APEC) meetings, an inter-governmental forum by 21 Pacific-region countries working towards greater prosperity for the Asia Pacific region by accelerating regional economic integration. Since 1994 the APEC holds SMEs Ministerial Meetings on a regular basis. In the case of the Republic of Korea, the Ministry of SMEs regularly participated in the APEC SMEs Meetings to discuss and build the framework to promote and support SMEs in the Asia-Pacific region.

The 2019 APEC SMEs Ministerial Meeting, to be held in Chile, focuses on four priority areas including internationalization of SMEs, fostering financing for SMEs and entrepreneurs, women-led SMEs and digital transformation for SMEs. APEC member economies will, therefore, promote the economic integration of SMEs in international trade in the APEC region through reducing trade barriers, simplifying regulations, improving market access, and strengthening the capacities of SMEs to realize the benefits of globalized trade, particularly in the area of digital trade.

In particular, the APEC provides the Boracay Action Agenda to globalize MSMEs, which received broad support during the 2015 meeting. The agenda has eight priority areas including, amongst others, access to finance for MSMEs, facilitate documentation and business procedures, and streamline customs-related rules and regulations.

Organization for Economic Co-operation and Development

The 2019 OECD Ministerial Council Meeting (MCM) was held at the OECD headquarters in Paris from May 22 to May 24, under the theme “Harnessing Digital Transition for Sustainable Development: Opportunities and Challenges.” Every year, the MCM is held attended by the Ministers of Finance, Economics, Foreign Affairs, Trade, and other related ministers. In 2019, the Ministers shared their view that the digital transformation poses both opportunities and challenges and stated that digital innovation should be utilized while maintaining human-centered principles.

As Vice-Chair of the MCM, along with Canada, the Republic of Korea participated in activities such as high-level panel discussions and other sessions, including lead remarks attended by high-level delegates from the Trade Minister at the Ministry of Trade, Industry and Energy; the First Vice-Minister of the Economy and Finance; and the Second Vice-Minister of Science and ICT. During the trade and investment session, the Republic of Korea expressed its views on the importance of SMEs for establishing an inclusive digital ecosystem which results in maximizing the benefits of digital trade. The Republic of Korea also played a key role as the Chair of the Digital Economic Policy Committee in developing the “Recommendations on Artificial Intelligence,” which is considered as one of the major achievements of the 2019 MCM.

World Trade Organization

The Republic of Korea is an active member of the WTO and participates in the negotiating function and the regular work of the WTO. Matters related to SMEs are discussed and addressed at the WTO including in the context of the WTO Work Programme on Electronic Commerce. The MOTIE represents the South Korean government and the Republic of Korea is a co-sponsor of the Joint Statement

Initiatives (JSIs) concluded at the WTO Ministerial Conference in Buenos Aires in 2017 on MSMEs, Investment Facilitation, and E-Commerce. All three JISs address SMEs and issues of relevance to SMEs. Currently, progress in the JIS discussions varies from one area to another with discussions on e-commerce advancing more rapidly, followed by discussions on an investment facilitation framework. Should WTO Members advance these discussions and develop disciplines on areas covered by the JSIs, these will have an immediate impact on SMEs.

Asia-Europe Meeting

The Asia Europe Meeting (ASEM) was established in 1993 to foster dialogue and cooperation between Asia and Europe. An ASEM summit is held every two years and attended by Heads of State and Government, the President of the European Council, the President of the European Commission, and the Secretary-General of the Association of Southeast Asian Nations.

The ASEM SMEs Eco-Innovation Center (ASEIC) - initially proposed by the Republic of Korea during the eighth ASEM Summit, was established in 2011 to promote cooperation of green growth in Europe and Asia, with a particular emphasis on enhancing eco-innovation of SMEs in both regions. ASEIC offers advisory services to SMEs in developing countries focusing on how to utilize green technology. Furthermore, the ASEIC hosts the global forum on Eco-innovation every year to promote awareness and practices for eco-innovation by international society. As of now, the ASEIC is actively engaged in eco-innovation consulting projects by dispatching consultants to SMEs in developing countries.

Free Trade Agreements

The South Korean government concluded 15 Free Trade Agreements (FTAs) with its major trading partners including the USA, the EU, and China with the aim to enhance market access for its goods, services, and ideas in export markets.

In addition to classical market access provisions in FTAs, recent FTAs include specific provisions on SMEs, at times as part of the so-called Development Chapters, in sector-specific chapters such as those on e-commerce or in dedicated chapters such as that contained in CPTPP. Many of South Korean FTAs contain provisions on SMEs as illustrated in Annex VI. Many of those provide soft obligations for parties to cooperate on, in an effort to enhance and promote SMEs and to reduce barriers and challenges faced by SMEs. Other SME-related provisions in South Korean FTAs relate to cooperation between the parties in areas such as e-commerce or government procurement.

The soft obligation on the parties to collaborate offers significant opportunities to exchange views, share best practices and possibly create standing structures and mechanisms such as the Working Group on SMEs under the Korea – US Trade Agreement and possibly the ongoing EU-Korea SME Policy Dialogue. These standing structures or mechanisms could serve as discussion and consultation fora or be mandated to undertake specific assessments.

For example, the Working Group on SMEs (Korea – US Agreement) is mandated to (i) analyze and evaluate the impact of the implementation of the Agreement on production, distribution, and trade by SMEs; (ii) explore and develop ways for SMEs to take greater advantage of the economic opportunities created by the Agreement and (iii) address any specific issue affecting SMEs relating to the provisions of the Agreement.

The Republic of Korea participates in several multilateral and regional forums to promote and strengthen the competitiveness and internationalization of SMEs. Although some multilateral forums are limited to a particular region, there still remain great possibilities to create opportunities for SMEs in the Republic of Korea.

3.2. Bilateral level Dialogues and Cooperation Initiatives

The Republic of Korea is engaged with some of its trading partners bilaterally on advancing discussions and initiatives to enhance SMEs and start-ups more specifically. These dialogues have, more often than not, led to the establishment of Korea Startup Centers along with developing SMEs networks and enabling R&D cooperation between these participating countries.

Bilateral Startup Summits and the Korea Startup Center

During President Moon Jae-in's visit to Europe in October 2018, the South Korea-France Startup Summit was held to foster exchanges between the two countries on matters relating to start-ups. France, having one of the most developed start-up ecosystems in Europe, shared with its South Korean counterparts relevant experiences including "La French Tech" and "Station F".

The summit further provided networking and business opportunities for start-ups from both sides. Four MOUs between French and South Korean start-ups were concluded on the margins of the summit including that between BPI France and the Small and Medium Business Corporation of South Korea and 12 South Korean start-ups developed networks with French start-ups and participated in incubation programs.

The 2018 Korea-Denmark Eco-innovation Summit was held on October 2018 to support SMEs specialized in Green Industry. The Summit, a follow-up to the Korea-Denmark Presidential Summit, was pursued as a part of expansion measures for the circular economy, the fourth industrial revolution, and the private sector cooperation by both countries.

In June 2019, the Korea-Finland Startup Summit was held in Helsinki. On the margins of the Summit, the Republic of Korea's Ministry of SMEs and Start-ups and Finland's Ministry of Economic Affairs and Employment agreed to set up a Korea Startup Center (KSC) in Finland. KSC is envisaged as an office-sharing space that provides various networking programs for start-ups to facilitate communication with investors and other entrepreneurs. The KSC offers South Korean start-ups the opportunity to strengthen their partnerships with local companies in Finland.

In July 2019, South Korean President Moon Jae-in and Swedish Prime Minister Stefan Lofven agreed to broaden the South Korea-Sweden partnerships including in areas of relevance to SMEs, start-ups, science and technology, climate and the environment. To that end, the Korea Startup Center is planned to open in Stockholm next year to serve as a center for cooperation between South Korean and Swedish start-ups.

In August 2019, KSC has officially opened in Seattle, United States. The US has the biggest start-up market in the world and the demand for penetrating this market is high. The MSS moved its business incubators KSC and is planning to open a similar center in New Delhi, India as agreed during President Moon Jae-in's visit to India in June 2018.

Developing Networks

The Republic of Korea undertook several steps over the past years to develop and enhance its support network for SMEs and start-ups.

The Enterprise Europe Network program (EEN) helps businesses innovate and grow on an international scale. It is the world's largest support network for SMEs with international ambitions (EEN leaflet). As of August 2018, there were 66 member countries (18 from Europe) and 150 member organizations. The Republic of Korea joined the EEN program as a consortium, composed of four organizations, KIAT, KITA, DeltaTech Korea and ED Research.

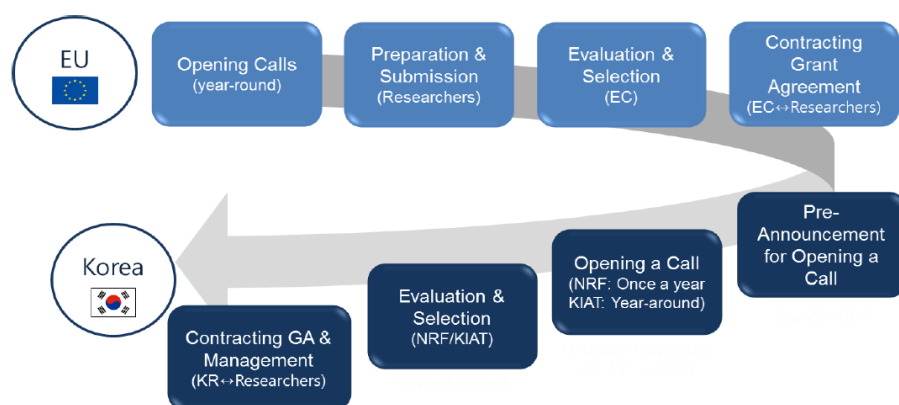
The KVIC has actively built its global network by concluding MOUs with other institutions including concluding an MOU with the European Investment Fund in December 2018, with Vietnam Climate Innovation Center (VCIC) in January 2019, and with the Finnish Industry Investment Ltd (TESI) in June 2019. KVIC also operates various joint fund programs with China and Indonesia, such as Shenzhen China-Korea Industrial Investment Fund, KCA Advantage Fund, and InterVest Star SouthEast Asia Growth Fund.

R&D Program

The Republic of Korea concluded various agreements and MoUs to enhance research and development cooperation with various partners including European partners.

- The Korea-EU Agreement for the S&T Cooperation was concluded between the EU and the Republic of Korea in 2006;
- The Korea-EU Framework Agreement was signed in 2010. "EU Framework Participation Agreement" was signed in 2014;
- The EU Horizon 2020 is a EUR 77 billion funded programme in the field of research and innovation from the European Commission, running from 2014 to 2020. South Korean participants can apply for the matching fund of the South Korean government. EU-Korea Priority areas of future cooperation are ICT (5G technologies and systems, Internet of Things, Cloud computing, AI), Clean energy innovation, Advanced nanoelectronics, Nanosafety, Health and biomedical challenges, Applications for global navigation satellite system, Automated road transport, Innovation for disaster-resilient societies, Cryosphere research and Nuclear energy (Chung, 2018);
- The EUREKA is a joint R&D funding program founded in 1987, centred on EU countries involving over 40 countries. EUREKA is a leading open platform for international cooperation in innovation. It remains to this day the only initiative of its kind committed to the 'bottom-up' principle - ensuring that any R&D project with a good business plan receives the support it deserves, independent of its technological nature, or the type of organizations involved (EUREKA homepage). KIAT was the first Asian country to join EUREKA program in 2009 to have accumulated a continuous network for ten years. Using this network, 80 percent of the 14 countries in the bilateral R&D are European countries, such as UK (private fund founded in 2019), Germany, Switzerland, Czech Republic, Spain, the Netherlands, and Denmark.

Figure 3-1: Research cooperation with European partners: The Process for matching fund



Source: Chung, Y. (2018). *Korea in Horizon 2020*. EU delegation to Korea.

- The Republic of Korea and Switzerland concluded the Agreement on Scientific and Technical Cooperation in 2008, and have continued scientific and technological cooperation, building on the five Joint Committee on Science and Technology Cooperation. The Korea-Swiss Joint Committee on Science and Technology Cooperation plans to promote joint research cooperation in the fields of digital health, new materials, and molecular physics through the next innovation research program which will be launched in 2019. They have agreed to host the Korean-Swiss Innovation week with participation from industry, academia, and research institutes in the fields of virtual reality and augmented reality on the theme ‘Smart living – Sustainable City and Intelligent Health Management’.

The bilateral dialogues aim to strengthen and facilitate cooperation and exchange information on SMEs and start-ups. They have enabled the Republic of Korea and its trading partners to tailor initiatives for SMEs development based on their core areas of excellence.

4. THE EU-KOREA SMEs POLICY DIALOGUE: POTENTIAL AREAS OF COOPERATION

Building on ongoing bilateral and multilateral dialogues and initiatives to support SMEs and startups, the Republic of Korea and the EU could leverage their bilateral relationship especially in the context of the EU-Korea SME Policy Dialogue to advance the discussion on and promotion of SMEs and Startups. This bilateral cooperation could focus on sector specific or topic specific issues or explore cross cutting collaboration initiatives.

The following are ideas and suggestions for the EU (or European Member States) and the Republic of Korea to further their collaboration and enhance their discussions and dialogues on SMEs in the context of the ongoing SME Policy Dialogue drawing inspiration from successful experiences and responding to unfulfilled needs and gaps to advance the Republic of Korea’s SME and start-ups.

The suggestions and ideas below are based on the research and reflections undertaken by the Expert Team whose task was to provide a better understanding of the South Korean context. The Expert Team is less familiar with the interests of European stakeholders and SME support opportunities and

interventions in Europe and therefore is not well-positioned to or identify the possible benefits of the suggestions below to the EU partners.

4.1 Regulatory Cooperation and Convergence

The Republic of Korea and the EU could share best practices and foster their regulatory cooperation and convergence in areas of interest to SMEs including, but not restricted to, services and e-commerce. For example, bilateral cooperation on matters related to regulatory sandboxes could benefit from information sharing and cooperation between the parties.

4.2 Expansion of the EU-Korea Industrial R&D Collaboration

The South Korean government established the KOSBIR program in 1998 and has steadily increased its budget. Government spending on SME-operated government R&D projects recorded KRW 2,897 billion in 2016, which is equivalent to 15.2 percent of the government's total spending on R&D. While the Republic of Korea's R&D support has served as a catalyst for private sector investment, it has not enhanced the financial performance of the recipients as mentioned earlier. Most SMEs failed to see improvements in their value-added compared to their non-recipient counterparts, with some recording significantly lower figures in sales and operating profit. South Korean companies have unilaterally and independently pursued their R&D efforts with moderate success.

South Korean government agencies such as the Korea Technology and Information Promotion Agency (TIPA) and KIAT could lead the way in identifying and finding suitable R&D partners in Europe and enhance the R&D cooperation between these partners and South Korean SMEs. In fact, this was strongly echoed by CEOs of SMEs consulted within the context of this paper, who would cherish the opportunity to collaborate with European R&D partners

With a similar intention, the MOTIE established KIAT in 2009 to facilitate foreign investment in R&D and help South Korean firms connect to global science and innovation networks. KIAT's current international R&D collaboration activities consist of bi-lateral R&D programs with Germany, China, France, Spain, Switzerland, and others. KIAT's multilateral R&D collaboration programs include European programs such as EUREKA, FP, and EUROSTAR 2.

The EU and the Republic of Korea are well-advised to enhance their R&D collaboration by offering and promoting the exchange of researchers with their respective R&D centres. The KEREC, established in 2013, collects and disseminates relevant information to South Korean researchers and attempts to build networks to advance R&D collaboration between the Republic of Korea and the EU.

R&D collaboration could prove useful in areas of industrial and sectoral complementarity. The Republic of Korea seeks to obtain international R&D collaboration in material and component industries to overcome its heavy reliance on Japan. European firms have strong competitiveness in these sectors. Recently Japan dropped the Republic of Korea off its preferential trade partners. Therefore, enhancing R&D collaboration between European SMEs including Germany, the Netherlands and other relevant European countries and South Korean SMEs in those urgently needed areas such as high-tech raw

materials, components, and equipment could provide a great opportunity for both parties satisfying the import diversification policy currently promoted by the MOTIE and MSS.

As China began to reduce imports of industrial equipment and components from Europe due to its economic slowdown, the South Korean –Japanese trade conflict may provide European firms with an opportunity to grow a new market. Both parties need to take advantage of this situation and build a new global supply chain between the Republic of Korea and the EU. By forming R&D alliances with South Korean firms the EU firms may take advantage of economies of scope and scale and have an opportunity to expand their businesses and increase their chances to supply for South Korean Chaebols.

4.3 Industry 4.0 Collaboration to Co-develop Industrial Equipment

The EU may want to consider supporting the Republic of Korea’s Smart Factory Initiative by sharing the experiences of Germany’s “Platform Industrie 4.0” initiative and developing collaborative action plans between SMEs and large companies of both sides. This could help in bridging the digitalization gap amongst South Korean SMEs.

Germany’s Platform Industrie 4.0 has developed various tools for SMEs within its Industry 4.0 approach, like the online map on the “Platform Industrie 4.0” (www.plattform-i40.de), which shows more than 260 examples of Industry 4.0 implementation; eleven SME 4.0 Competence Centres which provide SMEs with information and testing environments for digitization projects; 36 test environments and “Labs Network Industrie 4.0” where SMEs can test their solutions before implementing them; and recommendations for SMEs on how to deal with challenges like IT-Security or regulatory issues.

The Republic of Korea and Germany could develop bilateral cooperation building on and inspired by the Germany-China collaboration in the context of the joint initiative “Shaping Innovation together!” and the cooperation initiatives in AI. The German collaboration with Japan through Platform Industrie 4.0 and the Japanese Robot Revolution & Industrial IoT Initiative could provide an impetus to this collaboration.

Cooperation with European counterparts such as Germany to further digitized production could also be of interest to the Republic of Korea by building on Germany’s recent cooperation for digitization in production with France, Italy, the Netherlands, and Austria.

The KCCI and the DIHK are discussing specific cooperation measures based on the MOU in 2018 seeking for future cooperation on the standardization of industry 4.0. The KATS under the MCIE and the DIN also seek for cooperation on the standardization for Industrie 4.0.

Built on the discussion of KCCI and DIHK in the summer of this year, a potential collaboration with German manufacturers of advanced equipment may be actualized in the near future. The EU and the Republic of Korea may want to consider developing a joint initiative on innovation and standardization for smart manufacturing, targeting SMEs as well as large manufacturers to revitalize their manufacturing competitiveness.

4.4 Establishing an EU-Korea SMEs Agency

The MSS and the Moon Jae-in administration are currently concentrating their attention and energy on entering the ASEAN markets. In May this year, the MSS proposed to establish a start-up focused international agency with ASEAN to develop SMEs and start-up in the region. However, little attention is paid to other regions including the EU. This might be an inadvertent result of the efforts taken by the South Korean government to avoid excessive economic dependence on China, US, and Japan and instead diversify its regional coverage. The bilateral trade volume and business transactions between the EU and the Republic of Korea are significantly low compared to other competing regions. Regardless, considering the current drive for diversifying sources of key materials and their components, a consistent effort could be developed for promoting collaboration between South Korean and EU businesses.

Consequently, the EU and the Republic of Korea may want to consider establishing an agency or institution which will facilitate business transactions specifically for SMEs between the EU and the Republic of Korea. The agency will enhance market diversification, expedite market penetration for South Korean SMEs in export markets and foster internationalization of SMEs. The agency would serve as a platform for sharing information and best practices.

A program, akin to the agency described above, called Gateway to Europe or the Republic of Korea sponsored by government agencies, functions on an ad hoc basis in terms of participating industry sectors and firms. However, such an ad-hoc approach would not result in a sustainable business or industry development between the two regions. Creating a well-established platform in the form of an EU-Korea SMEs Agency or Secretariat may provide a much-needed continuity of services and supports for SMEs in both parties.

Building on the relatively similar experience between KDI and the UK's RPC mentioned above and learning from the EU experience with the EU SME Centre in China established in 2010, the proposed EU-Korea Agency/Secretariat could offer service ranging from information to companies and intermediary organizations via market reports, guidelines, training, B2B facilitation and missions to the Republic of Korea/the EU.

The Agency could also offer information related to domestic regulations in Europe for South Korean SMEs interested in European markets and could also offer language training for South Korean SMEs to support them navigate European languages. The EU-Korea Agency could also facilitate regulatory cooperation between the parties including in areas such as regulatory sandbox initiatives.

Additionally, the EU-Korea SMEs Agency can facilitate investment flows in start-ups on both sides including at the level of venture capital funds. Building on existing initiatives and cooperation structures, South Korean and EU financing support institutions including KVIC and the European Investment Fund (EIF) could envisage creating joint financing support structures like a bilateral fund of funds.

Another area of cooperation between European and South Korean financing institutions is in the venture capital market. The South Korean venture capital market, the second-largest in Asia, enjoys friendly and unified financial regulation. It has established extensive networks with Japanese and South Asian venture capitals. The EIB and other European venture capital funds can leverage the Korean market as a gateway to the East Asian venture capital market.

4.5 Vocational Education and Training

The South Korean government has restructured upper secondary vocational schools to foster greater collaboration with industry partners. It also introduced Meister secondary schools, which are modelled on the Germany Dual System and focus on specific industries, such as banking, shipbuilding or semiconductor manufacturing. Another effort to expand options in vocational education is a pilot “work and study” program within the specialized vocational schools.

SME labour productivity remains low. A well-functioning VET system may support the Republic of Korea bridge the productivity gap. Such a system could comprise of school-based and work-based learning that can help the youth acquire appropriate knowledge and practical work experience. The general principle of dual vocational training is “learning in practice for practice”, and entrepreneurial thinking is taught by direct experiences and exposure to innovation and business reality.

Since SMEs involved in apprenticeship training can train their own future professionals, they depend less on the supply of skilled employees from the labour market. The creation of training alliances of SMEs helps smaller firms to provide needed training despite their limits with resources.

Learning about VET from European experience is quite instructive. The European Alliance for Apprenticeships has mobilized approximately 250,000 in-company training and job opportunities for young people, and the European Qualification Framework (EQF) contribute to developing an important culture of training quality all over Europe (SME Envoys Network, 2017). The Blueprint for Sectoral Cooperation on Skills proposed by the European Commission is offering an opportunity to adapt VET to labour market requirements. Austria, Denmark, Germany, Luxemburg, and Switzerland – with proven dual VET systems – have formed a structured partnership to promote the development of work-based VET systems in Europe and develop an integrative and analytical digital toolbox for work-based systems (www.apprenticeship-toolbox.eu).

A more holistic approach needs to be taken regarding the VET system. In order to reform the overall VET system, the MOE, MOEL and specifically, the MSS and MOTIE must be involved in the reform process. Since the European economy has developed one of the most advanced VET systems in the world along with its competitive manufacturing industries, the Republic of Korea’s MSS and MOTIE can learn much from the EU. If EU countries are able to develop their competitive VET program as an educational experience for a business service package, South Korean government may become interested in importing such service packages. In other words, the VET service can become an important export item of the EU economy. As a result, the EU may expand its collaboration for VET beyond its member countries and help South Korean SMEs better train their workforces by exporting the European vocational education and training programs to the South Korean labour market.

To advance the conceptualization on and develop the features of EU-Korean collaboration on VET, specialized institutions such as the European Chamber of Commerce, MSS, SMBC, the Human Resources Development Service of the Republic of Korea, which supports human resource development for Korean companies and executes vocational training, under the Ministry of Employment need to be consulted and engaged. Other institutions such as the Korea Polytechnics and KOREATECH and HRD Centers of KCCI are relevant to target institutions that the EU may want to consider engaging to develop a VET program.

4.6 Upgrade to EU-Korea FTA

In addition to enhancing market access in export markets, trade agreements including FTAs increasingly address other matters of relevance to SMEs including enhancing cooperation between the parties more generally or in regard to certain aspects or sectors more specifically such as in regard to e-commerce, government procurement, TBT and among others.

The EU-Korea FTA, as illustrated in Annex VI, requires the parties to the FTA to (i) exchange information and experiences on creating framework conditions for SMEs, and (ii) facilitate SME activities.

During the eighth Trade Committee meeting in April 2019 under the EU-Korea trade Agreement Korea and the EU agreed to look into ways to modernize the agreement. Recent FTAs including those concluded by the Republic of Korea provides inspiration for a possible modernization or upgrade of the FTA.

Establish SME Help desk

The EU already operates similar helpdesks including the IPR SME Helpdesk, TDI SME Helpdesk, and Export Helpdesk.³ These helpdesks enable SMEs to enquire and receive assistance in expanding to international markets and capitalizing on new trends which necessitate time-bound interventions.

Establishing complementary structures including possibly a helpdesk on the Korean side could provide useful information to SMEs dealing with the Republic of Korea.

Protection of IP Rights

The EU–Japan FTA includes provisions on cooperation on intellectual property rights under Article 14.52. The Agreement recognizes the growing importance of intellectual property in promoting trade and investment while identifying cooperation on the levels of exchange of information and sharing experiences and skills. Similarly, the Mexico – EU FTA calls for cooperation in the field of science and technology, under Article 29, through the exchange of information and technological know-how, human resource training, and maintain relations between the two Parties' scientific communities.

Regulatory Cooperation

It is suggested to create a provision in the EU-Korea FTA, for conducting impact assessments of major regulatory measures in order, to re-assess the regulatory framework in each of those states, party to the FTA. This would enable the revision of national legislation for the benefit of SMEs in states of those parties to the FTA. A similar provision is found under the recent EU-Japan FTA under Article 18.8.

Cooperation and Technical Assistance on TBT

The Central America – EU FTA identifies the need to enhance institutional cooperation along with

³ https://trade.ec.europa.eu/doclib/docs/2014/september/tradoc_152792.pdf

relevant training and technical assistance in areas of technical regulations, standardization, conformity assessment, accreditation, and metrology. The Agreement also calls for harmonization of TBT legislation and procedures to facilitate the movement of goods under Article 57 (a) and (b).

Similar provisions could be devised and incorporated into the EU-Korea FTA.

4.7 Follow-up (international) Dialogue of Experts and re-birth of ETP

For a sustainable and continuous collaboration related to the growth of SMEs of the two regions, two additional arrangements are recommended. The first is setting up of an early dialogue of experts from the Republic of Korea and the EU. The experts should comprise of individuals with a background in trade economics, trade law, and international business. They could be from private research institutions or are government officials and academicians whose regional speciality is focused on the Republic of Korea and the EU. In order to enable the collaboration of SMEs from the two regions, the dialogue should be conducted annually until certain targets are achieved such as bilateral trade volume and FDI flows, amongst others. Through this initiative, the government officers who are responsible for cooperative programs and measures would have a chance to voice their opinions. The scholars would have to produce a research project based on which they will present their findings. A personal opinion without an in-depth study would not contribute much for effective guidelines of the collaboration.

Furthermore, it is suggested that the ETP, the Republic of Korea which had been terminated several years ago, could be renewed for greater scope in the internationalization of SMEs. ETP Korea was kicked off in early 2000 for mainly teaching Korean language to European managers. Between 2008 and 2010 the second round of ETP Korea had been offered and the 3rd round of ETP Korea was the final program of its kind which ended in 2015. Both were operated by Sangnam Institute of Management, Yonsei University; The second and third rounds of ETP Korea were similar in a sense that they focused on teaching Korean and South Korean business practices. The program lasted for about 10~11 months in each year. The contribution of ETP to the realization of business transactions had been questioned and due to the budgetary constraints, the program was terminated. However, ETP Korea has contributed in terms of compelling European business community to think about South Korean markets and make efforts to enter these markets. As a result, those who completed the ETP Korea have all become South Korean experts. Such programs can be a manifestation of EU's serious intention to promote the development of areas related to SMEs.

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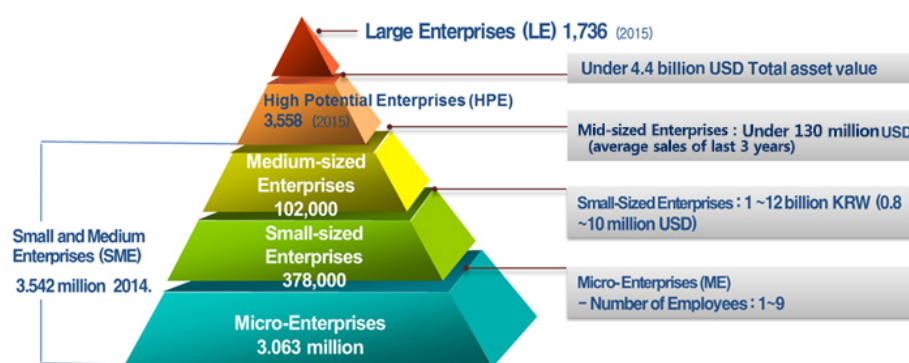
ANNEXES

Annex I. Target(s) of the South Korean SME Policies

MSS's policy target includes Micro Enterprises (MEs) and Small and Medium-sized Enterprises (SMEs). These types of enterprises account for 99.9 per cent of the entire private enterprises of the Republic of Korea.

- Micro Enterprise is defined as an enterprise employing nine or fewer people (in the service industry, four or fewer people). The number of MEs in the Republic of Korea amounts to approximately three million.
- Small-sized Enterprise has annual sales revenue less than one to 12 billion KRW (threshold varies with industry). There are 378,000 Small-sized enterprises excluding Micro Enterprises.
- Medium-sized Enterprise is bigger than small-sized Enterprise and has annual sales revenue less than KRW 40 to 150 billion (threshold varies with industry). There are 102,000 medium-sized enterprises in Korea.

Figure 1: Reorganization of National Business Survey



Source : Recognition & Processing of national business survey (National Statistics Office, 2014)

Article 3 of the “Enforcement Decree of the Framework Act on Small and Medium Enterprises” defines the Scope of SMEs as follows:

1. Size classification by business type: The three-year average sales of a company’s main business should meet the following criteria;
2. Upper limit: Total assets of an SME shall not exceed KRW 500 billion regardless of business type

The following table demonstrates that favorable conditions to benefit SMEs are applied to the manufacturing and agricultural sectors.

Table 1: Scope of Small and Medium-sized Enterprises⁴

Industry Sector		Medium Enterprises	Small Enterprise
Manufacturing	Manufacturing of clothing, clothing accessories, and fur products	KRW 150 billion or less	KRW 12 billion or less
	Manufacturing of leather, bags, and shoes		
	Manufacturing of pulp, paper, and paper products		KRW 8 billion or less
	Primary metal manufacturing		
	Electrical equipment manufacturing		KRW 12 billion or less
	Furniture manufacturing		
Agriculture, forestry, and fisheries			KRW 8 billion or less
Mining			
Manufacturing	Food manufacturing	KRW 100 billion or less	KRW 12 billion or less
	Tobacco manufacturing		
	Textile product manufacturing (excluding clothing manufacturing)		KRW 8 billion or less
	Timber and wood product manufacturing (excluding furniture manufacturing)		
	Manufacturing of coke, briquettes, and refined petroleum products		KRW 12 billion or less
	Chemicals and chemical product manufacturing (excluding medicine manufacturing)		
	Rubber and plastic product manufacturing		KRW 8 billion or less
	Metalwork product manufacturing (excluding machine and furniture manufacturing)		
	Manufacturing of electronic parts, computers, video, audio, and communications equipment		KRW 12 billion or less
	Manufacturing of other machines and equipment		
	Automobile and trailer manufacturing		
	Manufacturing of other transportation equipment		KRW 8 billion or less
	Supply of electricity, gas, steam, and air conditioning		
Waterworks			
Construction			KRW 8 billion or less
Wholesale and retail businesses			KRW 5 billion or less

⁴ The local currency is KRW (Korean Won). According to the European Central Bank Eurosystem policy and exchange rates: KRW 1 is equivalent to EUR 0.00076.

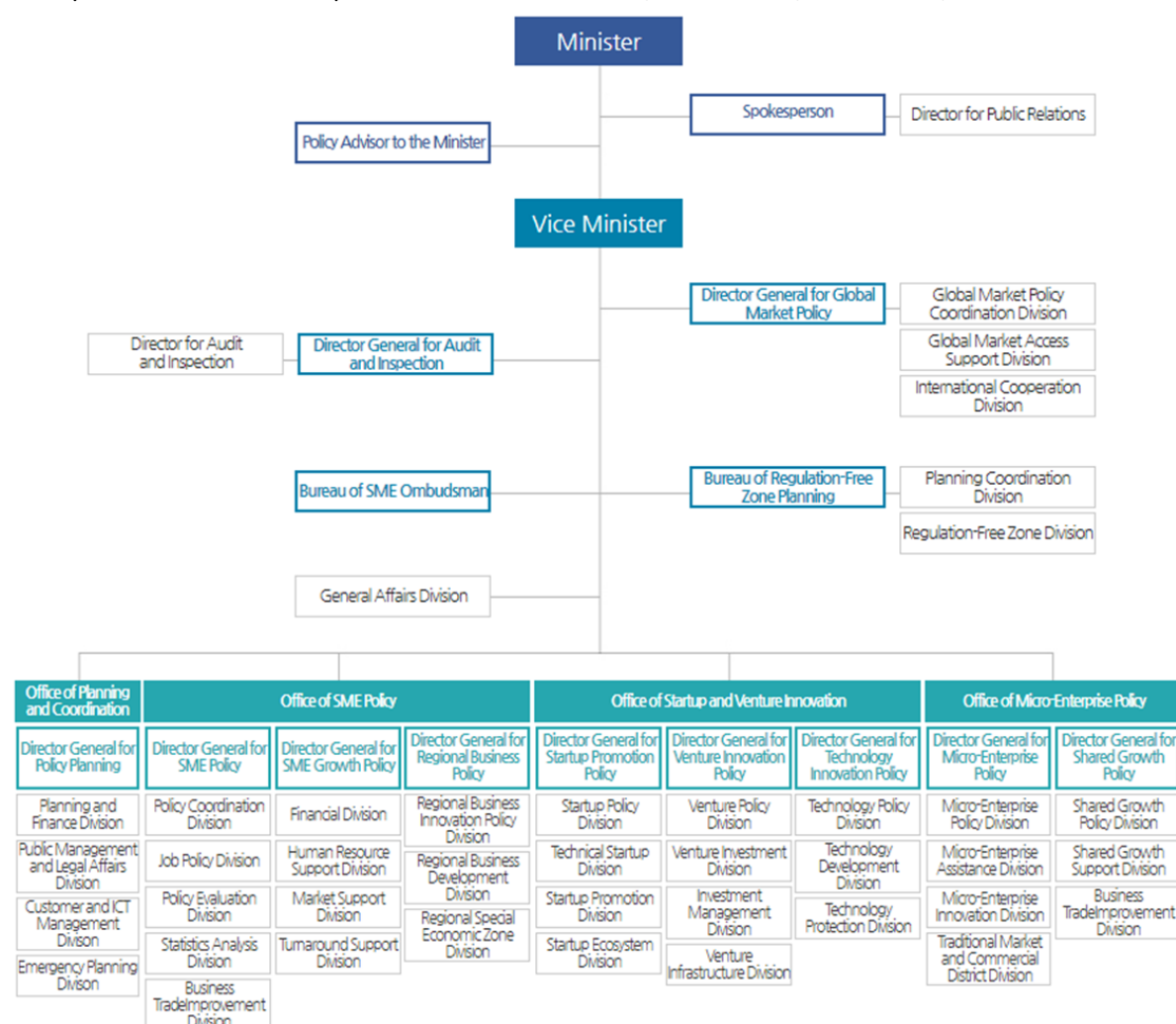
Source: www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/eurofxref-graph-krw.en.html

Manufacturing	Beverage manufacturing	KRW 80 billion or less	KRW 12 billion or less
	Printing and recording media duplication		KRW 8 billion or less
	Manufacturing of medical materials and pharmaceuticals		KRW 12 billion or less
	Manufacturing of nonmetallic mineral products		
	Manufacturing of medical, precision, optics and clocks		KRW 8 billion or less
	Manufacturing of other products		
Water, sewage, and waste disposal, raw material recycling (excluding waterworks)			KRW 3 billion or less
Transportation and warehousing			KRW 8 billion or less
Information and communications			KRW 5 billion or less
Repair of industrial machinery and equipment		KRW 60 billion or less	KRW 1 billion or less
Professional, scientific, and technical services			KRW 3 billion or less
Business facility management, business support, and rental services			KRW 3 billion or less
Health and social welfare services			KRW 1 billion or less
Arts, sports and leisure services			KRW 3 billion or less
Repair and other personal services			KRW 1 billion or less
Accommodations and restaurants		KRW 40 billion or less	KRW 1 billion or less
Finance and insurance			KRW 8 billion or less
Real estate businesses			KRW 3 billion or less
Leasing businesses			KRW 3 billion or less
Education services			KRW 1 billion or less

(Source: MSS Homepage at www.mss.go.kr/site/eng/02/10205000000002019050902.jsp)

Annex II. Organization of MSS and Affiliated Organizations

Headquarters of MSS is composed of one Vice Minister, four Offices, 13 Bureaus, 42 Divisions.



(Source: MSS Homepage <<https://www.mss.go.kr/site/eng/01/10104010000002016112403.jsp>>)

MSS has also 12 regional offices in Seoul, Busan, and other cities and it operates through nine affiliated institutions to perform specific functions as follows:

Institution	Description
Korea SMEs and Startups Agency (KOSME)	Korea SMEs & Startups Agency (KOSME) is a non-profit, government-funded organization established to implement government policies and programs for the sound growth and development of South Korean SMEs. KOSME operates financial and non-financial programs for SMEs. KOSME provides financing for SMEs to expand operations, develop new products and reorganize business structures. With advisory programs, including consulting, training, export marketing and global cooperation programs, KOSME supports SMEs to enhance global competitiveness.
Korea Small Business Institute	Korea Small Business Institute (KOSBI) is a research institute committed to promoting the sustainable development of SMEs. KOSBI has been established to contribute to

(KOSBI)	setting out national SME policies, promoting the growth of SMEs and enhancing the global competitiveness of SMEs through conducting comprehensive research on SME-related issues.
Korea Institute of Start-up & Entrepreneurship Development (KISED)	Korea Institute of Start-up & Entrepreneurship Development (KISED) was established to contribute to the national economy and support startup development and promote one-man startup Enterprises. KISED is a specialized organization for registration and management of accelerators. Its mission is to provide startup training; nurture future entrepreneurs; assist with commercialization, statistics, research, policy development, funds, human resources, globalization, and re-startups.
Small Enterprise and Marketing Service (SEMAS)	Small Enterprise and Marketing Service (SEMAS) is a government-affiliated agency established to support micro-enterprises, traditional markets, stores, and to revitalize the market economy. SEMAS operates the Market Promotion Fund for Micro-Enterprises of two trillion KRW to support micro-enterprises and traditional markets. SEMAS currently operates six regional headquarters and 60 centers across the country. To ensure a stable business environment for micro-enterprises, SEMAS contributes to policy funds for micro-enterprises, provides training and consulting for micro-enterprises.
Korea Technology and Information Promotion Agency for SMEs (TIPA)	Korea Technology and Information Promotion Agency for SMEs (TIPA) is a specialized organization that works to increase the competitiveness of SMEs by helping them achieve technological innovation, efficient management, and informatization. TIPA is committed to laying a foundation for technological innovation of SMEs; conducting research on technological innovation policies and developing related long-term plans; assessing demand for technological innovation projects and carrying out related research and analysis; disseminating and evaluating information technology to promote informatization.
Korea Venture Investment Corporation (KVIC)	Korea Venture Investment Corporation (KVIC) is a venture capital specialist managing funds of funds. KVIC supports the growth of SMEs and venture firms by providing a stable capital source to the venture capital market. Also, KVIC is committed to promoting globalization of venture ecosystem and help startups go global. KVIC works to create virtuous cycle of startup growth-exit-reinvestment for venture ecosystem by organizing funds based on market demand; promoting participation of institutional investors and pension funds in venture investment funds; expanding investment startups; and boosting M&A market.
Korea Federation of Credit Guarantee Foundations (REG)	Korea Federation of Credit Guarantee Foundations (KODIT) is a public financial institution established in 1976 under the provisions for the Korea Credit Guarantee Fund Act. KODIT is missioned with leading the balanced development of the national economy by extending credit guarantees for the liabilities of promising SMEs which lack tangible collateral. KODIT promotes sound credit transactions through efficient management and use of credit information.
Korea Technology Finance Corporation (KIBO)	Korea Technology Finance Corporation (KIBO) aims to facilitate technology financing to innovative SMEs and contribute to the growth of the national economy. KIBO provides credit guarantee service to collateral-constrained SMEs with competitive technology, assess values of technology, provide direct equity investment for promising tech firms at an early stage, and match IP assets of universities and research institutes to SMEs, and exercises the right to indemnity against defaulted borrowers by pursuing legal procedures.
Small Business Distribution Center (SBDC)	Since its foundation in 1995, SBDC has been supporting SMEs to help them find markets and distribution channels through department store projects, home-shopping projects, marketing support, and online business support.

Annex III. Key Laws Promoting or Protecting the Business Activities of SMEs

The following are laws and regulations of relevance to the promotion and protection of SMEs in addition to the Framework Act.⁵

Law	Description
Small and Medium Enterprises Promotion Act (Act No. 9683, May 21, 2009 and subsequent amendments)	The Act aims at strengthening the competitiveness of small and medium enterprises through their structural advancement, and expand the business sphere for SMEs, thereby contributing to the balanced development of the national economy.
Support for Small and Medium Enterprise Establishment Act (Wholly Amended by Act No. 8362, Apr. 11, 2007 and subsequent amendments)	The Act aims at contributing to the establishment of a solid industrial structure through the sound development of small and medium enterprises by facilitating the setting-up of small and medium businesses and developing a firm basis for their growth.
Act on Special Measures for the Promotion of Venture Businesses (Act No. 5381, Aug. 28, 1997 and subsequent amendments)	The Act aims at contributing to the facilitation of the structural adjustment of the industry as well as to the enhancement of the competitiveness thereof, by promoting the conversion of existing enterprises into venture businesses and the establishment of venture businesses.
Act on the Promotion of Technology Innovation of Small and Medium Enterprises (Act No. 6482, May 24, 2001 and subsequent amendments)	The Act aims to contribute to the development of the national economy through the strengthening of the technological competitiveness of small and medium enterprises by expanding infrastructure to promote technological innovation of small and medium enterprises and establishing and implementing policies related thereto.

⁵ <<http://www.law.go.kr/LSW/eng/engMain.do>>.

Act on Facilitation of the Purchase of Small and Medium Enterprise-manufactured Products and Support for Development of their Markets (Act No. 9685, May 21, 2009 and subsequent amendments)	The Act aims at enhancing the competitiveness of small and medium enterprises and the management stability thereof, by facilitating the purchase of small and medium enterprise-manufactured products and supporting the development of markets, therefore.
Act on Special Cases Concerning the Regulation of the Special Economic Zones for Specialized Regional Development (Act No. 7192, Mar. 22, 2004 and subsequent amendments)	The Act aims at systematically supporting specialized regional development and helping stimulate regional economies and the growth of the national economy by selectively applying special cases for regulations in accordance with the characteristics of each region through the designation and operation of special economic zones for specialized regional development.
Act on the Protection of and Support for Micro-enterprises (Act No.13086, 28. Jan, 2015 and subsequent amendments)	The purpose of this Act is to contribute to improving the social and economic status of micro-enterprises, as well as the balanced development of the national economy by promoting independent business activities of micro-enterprises and furthering the management stability and growth thereof.
Act on Support for Female-owned Businesses (Act No. 5818, Feb. 5, 1999 and subsequent amendments)	This Act aims at seeking actual gender equality in the economic realm, by actively supporting the activities of female-owned businesses and women's establishment of business, and to contribute to the development of the national economy by facilitating women's economic activities and elevating the status of businesswomen.
Act on the Fostering of Self-employed Creative Enterprises (Act No. 10531, Apr. 4, 2011 and subsequent amendments)	This Act aims at contributing to the growth of the national economy by fostering self-employed creative enterprises through the promotion of the establishment of self-employed creative enterprises, by the people who have the creativity and specialty and through the creation of the foundation for the growth thereof.
Act on the Promotion of Collaborative Cooperation between Large Enterprises and Small-Medium Enterprises (Act No. 7864, Mar. 3, 2006 and subsequent amendments)	The Act aims at strengthening the competitiveness of large enterprises and small-medium enterprises by consolidating win-win cooperation between them and to attain their shared growth by resolving the polarization between large enterprises and small-medium enterprises with the aim of laying the foundation for sustainable growth of the national economy.
Promotion of Disabled Persons' Enterprise Activities Act (Act No. 7632, Jul. 29, 2005 and subsequent amendments)	The Act aims at contributing to the growth of the national economy by proactively facilitating business start-ups and entrepreneurial activities of disabled persons, improving the economic and social status of disabled persons, and endeavoring to enhance their economic strength.

Special Act on Support for Small Urban Manufacturers (Act No. 12695, May 28, 2014 and subsequent amendments)	The purpose of this Act is to contribute to the development of the national economy by establishing a support system for the growth and development of small urban manufacturers and encouraging their economic activity.
Small and Medium Enterprise Cooperatives Act (Wholly Amended by Act No. 8363, Apr. 11, 2007 and subsequent amendments)	The Act provides a legal framework regarding the establishment, management, and development of cooperative organizations, through which small and medium enterprises consolidate and promote collaborative projects. The Act aims at providing equal economic opportunities to small and medium enterprises and encouraging their independent economic activities to improve their economic status and accomplish the balanced development of the national economy.
Special Act on Support for Human Resources of Small and Medium Enterprises (Act No. 6975, Sep. 29, 2003 and subsequent amendments)	This Act seeks at obtaining a balanced development of the national economy and society by enhancing the competitiveness of small and medium enterprises and promoting the employment thereof with support for programs facilitating the supply and demand of human resources, upgrading human resource structure and improving awareness of small and medium enterprises.
Special Act on the Development of Traditional Markets and Shopping Districts (Wholly Amended by Act No. 7945, Apr. 28, 2006 and subsequent amendments)	In order to contribute to the growth of the national economy, the purpose of this Act is to seek both the revitalization of local business districts and the balanced development of the distribution industry through facilitating the modernization of facilities and business management of traditional markets and shopping districts.
Special Act on the Promotion of Business Conversion in Small and Medium Enterprises (Act No. 7866, Mar. 3, 2006 and subsequent amendments)	The Act aims at promoting the business conversion of small and medium enterprises suffering difficulties due to changes in the economic environment. The Act will, therefore, enhance the competitiveness of small and medium enterprises and upgrade the industrial structure, thereby contributing to the healthy development of the national economy.
Regional Credit Guarantee Foundation Act (Act No. 6022, Sep. 7, 1999 and subsequent amendments)	This Act aims at facilitating financial accommodation, revitalizing the regional economy and contributing to the promotion of the welfare, by establishing credit guarantee foundations and the Korean Federation of Credit Guarantee Foundations to enable them to guarantee obligations of small enterprises, micro-enterprise, and individuals short of security solvency in the district.

Act on Support for Protection of Technologies of Small and Medium Enterprises (Act No.14368, 02. Dec, 2016 and subsequent amendments)	The Act aims at strengthening the capability of small and medium enterprises to protect technologies and technical competitiveness, by expanding infrastructures to protect technologies, and by formulating and implementing related policies.
Act on Special Cases Concerning Support for Technoparks (Act No.13311, 18. May, 2015 and subsequent amendments)	The Act was meant to collect human and physical resources of enterprises, universities, research institutes in certain places to bring about regional innovation based on close collaboration among such entities, thereby contributing to creating jobs, invigorating regional economies, and promoting national competitiveness.
Korea Technology Finance Corporation Act (Act No.14127, 29. Mar, 2016 and subsequent amendments)	This Act aims at facilitating the financing of new technology business by stabilizing and developing technology guarantee systems through the establishment of the Korea Technology Finance Corporation, and further contributing to the development of the national economy.

Annex IV. South Korean Government Agencies Supporting SMEs and Startups⁶

A number of affiliated organizations of various South Korean government ministries other than MSS support startups that are looking for funds, office space, VC partners, mentoring, acceleration or global expansion. The kind of support varies according to each organization's setup and goals.

Entity	Description
Pangyo Techno Valley	Pangyo Techno Valley is the South Korean version of Silicon Valley. Located in Seongnam, Gyeonggi Province of the Republic of Korea, the vast industrial and startup campus is home to some of the Republic of Korea's top tech companies such as NCSOFT Corp., Kakao, SK Planet, Nexon and other global companies. Currently, it also hosts global startups that are accepted into the annual K-Startup Grand Challenge program. First opened in 2011, the campus has accommodated over 1,200 companies. Aside from the startup campus, the center for the creative economy and innovation is located.
Center for Creative Economy and Innovation (CCEI)	The CCEI is one of the leading government agencies that help local startups and businesses to expand globally. Opened in 2014, it operates 18 local offices in 17 regions across the Republic of Korea. The CCEI provides special assistance to small and medium enterprises from the regions.
Korea Creative Content Agency (KOCCA)	The Korea Creative Content Agency ensures the promotion of the content industry, providing education for content creators and serving as an incubator for content start-ups. Some of the fields they support include games, Comics, AR/VR, Animation, Character Licensing, Broadcasting, and music.
K-Startup	K-Startup is a government-run online hub that announces various startup programs aimed for the youth.
National IT Industry Promotion Agency (NIPA)	NIPA is the South Korean government's IT promotion organization. NIPA is affiliated with the Ministry of Science, ICT and Future Planning. They promote the Republic of Korea's ICT industry and attract global business partnerships. Therefore, they also implement relevant policies through a robust R&D strategy.
K-Growth	The Korea Growth Investment Corporation is an independent funds-of-fund management agency that provides risk capital to South Korean startups and SMEs at various stages of their business cycle.

⁶ Relevant links:

<http://www.pangyotechnovalley.org/eng/>>
<https://ccei.creativekorea.or.kr/eng/main.do>>
<http://www.kocca.kr/en/main.do>>
<https://www.k-startup.go.kr/main.do>>
<http://www.nipa.kr/eng/main.it>>
<https://eng.kgrowth.or.kr/main/main.asp>>
<http://gomentoring.or.kr/>>
<https://www.kotra.or.kr/foreign/main/KHEMUI010M.html>>
<http://www.kipa.org/english/>>

K-ICT Startup Mentoring Center	This mentoring center under the Korea Youth Entrepreneurship Foundation is a place where startups mentees are paired with experienced startup and business owners to help early-stage businesses.
Korea Trade and Investment Promotion Agency (KOTRA)	KOTRA provides consultation about establishing a global business or trade-investment venture in the Republic of Korea. They offer comprehensive direction for companies that intend to invest in the Republic of Korea. In addition to those that are looking to expand their markets internationally. They also operate BuyKorea (a B2B E-marketplace for South Korean products).
Korea Invention Promotion Association (KIPA)	Do you have any inventive ideas? Are you seeking patent attorneys to file a patent for your idea? Then, KIPA is your one-stop service center for such tasks. KIPA helps startups through idea acquisition, intellectual property registration, patent application and all other stages required for your invention to commercialization. Moreover, they host the Seoul International Invention Fair annually.

(Sources: Kyei, W. (2019.5.3.). Korean Government Agencies That Support Startups. Seoul.

<seoulz.com/korean-government-agencies-that-support-startups/>)

Annex V. Tax Incentives for Small and Medium-sized Enterprises

There are a number of tax incentives available to SMEs, mainly regulated under the “Special Tax Treatment Control Law”.

SMEs engaged in certain industries such as manufacturing, wholesale and retail, construction, distribution, etc. shall be eligible for the tax reduction.

The tax reduction shall be calculated in accordance with the below formula until the tax year ending on December 31, 2020. Tax reduction rates for each type of eligible business are as shown in the below table.

Tax reduction = Tax liability * (taxable income (or base) arising from eligible business / taxable income (or base) arising from whole business) * reduction rate

	Category	Reduction rate
Small Enterprises	Engaged in wholesale and retail, and medical services (hereinafter “Wholesale business, etc.”)	10%
	Engaged in an eligible business other than Wholesale business, etc. in a metropolitan area	20%
	Engaged in an eligible business other than Wholesale business, etc. outside the metropolitan area	30%
Medium Enterprises	Engaged in Wholesale business, etc. outside the metropolitan area	5%
	Engaged in the knowledge-based industry in a metropolitan area	10%
	Engaged in an eligible business other than Wholesale business, etc. outside the metropolitan area	15%

* Metropolitan area refers to Seoul, Incheon, and Gyeonggi-do.

Reduction limit: If the number of regular employees in the current tax year decreased from the immediately preceding tax year: KRW 100 million subtracted by KRW 5 million per each decrease in regular employees (KRW 0 if negative). In all other cases: KRW 100 million.

Other major tax incentives granted to SMEs are as follows:

- While a non-SME can deduct loss carried forwards against only 60% (70% in 2018) of the taxable income, an SME can deduct loss carried forwards against the entire taxable income.
- If a loss is incurred in any given tax year, an SME is entitled to a refund up to the corporate income tax liability determined in the immediately preceding tax year.
- In calculating the deduction limit for entertainment expenses, a non-SME is entitled to deduct at least KRW 12 million per year, whereas an SME is allowed to deduct at least KRW 18 million per year.
- For a non-SME, the deadline for corporate income tax installment payment is within 1 month from the due date for payment of corporate income tax, but for an SME, the deadline is extended to 2 months from the due date.

(Source: PKF Sejong(2018.5.31.). Tax incentives for Small and Medium-sized Enterprises. www.pkf.com.)

Annex VI. SME-related Provisions in FTAs Concluded by the Republic of Korea

FTA	Provision	Text of the Provision
Korea-Central America FTA	Chapter 14 (Electronic commerce) Article 14.7 (Cooperation)	Article 14.7 (Cooperation) 2. the Parties shall endeavor to share information and experiences on laws and regulations relating to electronic commerce and shall endeavor to cooperate to help micro, small and medium-sized enterprises to overcome the obstacles they face in the use of electronic commerce.
Korea-Vietnam FTA	Chapter 10 (Electronic commerce) Article 10.8 (Cooperation on Electronic Commerce)	Article 10.8 (Cooperation on Electronic Commerce) 2. the Parties shall endeavor to share information and experiences on laws and regulations relating to electronic commerce and to assist small and medium enterprises to overcome the obstacles encountered in the use of electronic commerce.
Korea-China FTA	Chapter 17 (Economic cooperation) Article 17.9 (Small and Medium-Sized Enterprises Cooperation)	Article 17.9 (Small and Medium-Sized Enterprises Cooperation) 1. The Parties shall endeavor to promote a favorable environment for the development of small and medium-sized enterprises (hereinafter referred to as the “SMEs”). 2. The Parties will cooperate in the field of SMEs by encouraging relevant private and governmental bodies to build capacities of SMEs, including utilizing existing bilateral Small and Medium Business Policy Exchange Committee Mechanism, established by the relevant or competent authorities of the Parties. 3. Areas of SMEs cooperation may include, but are not limited to, the following: (a) facilitating the investment flows between SMEs of the Parties; (b) fostering more exchange of information on trade procedures, trade promotion networks, joint business fora, business cooperation instruments, and any other relevant statistics and information for traders who are SMEs; (c) promoting training and exchange programs for small and medium-sized enterprises traders of the Parties, and exploring promising fields suitable for inter-governmental cooperation on SMEs; (d) enhancing the exchange of experiences between the public agencies of the Parties on initiatives

		and policy instruments for the development of enterprises, with a special focus on SMEs; and (e) enhancing the competitiveness of micro-enterprise through cooperation of private and governmental bodies and exchange of information related to micro-enterprise.
Korea-Canada FTA	Chapter 13 (Electronic commerce) Article 13.2 (General Provisions) Article 13.7 (Cooperation)	Article 13.2 (General Provisions) 1. The Parties recognise the economic growth and opportunities provided by electronic commerce and the applicability of WTO rules to electronic commerce. 2. Considering the potential of electronic commerce as a social and economic development tool, the Parties recognise the importance of: (a) clarity, transparency, and predictability in their domestic regulatory frameworks in facilitating, to the maximum extent possible, the development of electronic commerce; (b) encouraging self-regulation by the private sector to promote trust and confidence in electronic commerce, having regard to the interests of users, through initiatives such as industry guidelines, model contracts, and codes of conduct; (c) facilitating electronic commerce through interoperability, innovation, and competition; (d) ensuring that global and domestic electronic commerce policy takes into account the interest of all stakeholders, including business, consumers, non-government organisations, and relevant public institutions; and (e) facilitating the use of electronic commerce of small- and medium-sized enterprises and developing countries. 3. Each Party shall endeavour to adopt measures to facilitate trade conducted by electronic means by addressing issues relevant to the electronic environment. 4. The Parties recognise the importance of avoiding unnecessary barriers to trade conducted by electronic means. Having regard to national policy objectives, each Party shall endeavour to prevent measures that: (a) unduly hinder trade conducted by electronic means; or (b) have the effect of treating trade conducted by electronic means more restrictively than trade conducted by other means. Article 13.7 (Cooperation) Recognising the global nature of electronic commerce, the Parties affirm the importance of: (a) working together to facilitate the use of electronic commerce by small- and medium-sized

		<p>enterprises;</p> <p>(b) sharing information and experiences on laws, regulations, and programs pertaining to electronic commerce, including those related data privacy, consumer confidence, security in electronic communications, electronic authentication, intellectual property rights, and electronic government;</p> <p>(c) working to maintain cross-border flows of information as an essential element in fostering a vibrant environment for electronic commerce;</p> <p>(d) fostering electronic commerce by encouraging the private sector to adopt codes of conduct, model contracts, guidelines, and enforcement mechanisms; and</p> <p>(e) actively participating in regional and multilateral fora to promote the development of electronic commerce.</p>
Korea-Peru FTA	<p>Chapter 14 (Electronic Commerce)</p> <p>Article 14.9 (Cooperation)</p>	<p>Article 14.9 (Cooperation)*</p> <p>Recognizing the global nature of electronic commerce, the Parties commit to:</p> <p>(a) working together to facilitate the use of electronic commerce of small and medium-sized enterprises;</p> <p>(b) sharing information and experiences on laws, regulations, and programs in the area of electronic commerce, including those related to data privacy, consumer confidence, security in electronic communications, authentication, intellectual property rights, and electronic government;</p> <p>(c) working to maintain cross-border flows of information as an essential element in fostering a vibrant environment for electronic commerce;</p> <p>(d) fostering electronic commerce by encouraging the private sector to adopt codes of conduct, model contracts, guidelines, and enforcement mechanisms; and</p> <p>(e) actively participating in regional and multilateral fora to promote the development of electronic commerce.</p> <p>* For purposes of this Article, for Peru, “small and medium-sized enterprises” includes micro enterprises as defined in Peru’s domestic legislation.</p>
	<p>Chapter 16 (Government Procurement)</p> <p>Article 16.17 (Small and Medium-sized Enterprises)</p>	<p>Article 16.17 (Small and Medium-sized Enterprises Participation)*</p> <p>1. The Parties recognize the importance of the participation of small and medium-sized enterprises in government procurement.</p> <p>2. The Parties also recognize the importance of business alliances between suppliers of each Party, and in particular between small and medium-sized enterprises, including the joint participation in tendering</p>

	<p>Participation)</p> <p>Article 16.18 (Cooperation)</p> <p>Article 12.2 (Objective and Scope)</p>	<p>procedures.</p> <p>3. The Parties shall endeavor to work jointly towards exchanging information and facilitating access of small and medium-sized enterprises to government procurement procedures, methods, and contracting requirements, focusing on their special needs.</p> <p>Article 16.18 (Cooperation)*</p> <p>1. The Parties recognize the importance of cooperation with a view to achieving a better understanding on their respective government procurement systems, as well as a better access to their respective markets, in particular for small and medium-sized enterprises.</p> <p>2. The Parties shall endeavor to cooperate on matters such as:</p> <ul style="list-style-type: none"> (a) exchange of experiences and information, such as regulatory frameworks, best practices, and statistics; (b) development and use of electronic communications in government procurement systems; (c) capacity building and technical assistance to suppliers with respect to access to the government procurement market; and (d) institutional strengthening for the fulfillment of this Chapter, including training government officials. <p>* For purposes of this Article, for Peru, “small and medium-sized enterprises” includes micro enterprises as defined in Peru’s domestic legislation.</p>
	<p>Chapter 20 (Cooperation)</p> <p>Article 20.4 (Small and Medium-sized Enterprises Cooperation)</p>	<p>Article 20.4 (Small and Medium-sized Enterprises Cooperation)*</p> <p>The Parties will promote a favorable environment for the development of small and medium-sized enterprises by encouraging relevant private and governmental bodies to build the capacities of small and medium-sized enterprises. The cooperation will include, among others:</p> <ul style="list-style-type: none"> (a) designing and developing mechanisms in order to foster partnerships and the development of productive chains; (b) promoting cooperation between the economic agents of the Parties in order to identify areas of mutual interest and to obtain the maximum benefits possible of trade, investment, and small and medium-sized enterprises; (c) fostering more dialogue and exchange of information on mandatory procedures, enhanced access to trade promotion networks, business fora, business cooperation instruments, and any other relevant

		<p>information for small and medium-sized enterprises exporters;</p> <p>(d) promoting training and exchange programs for small and medium-sized enterprises exporters of the Parties;</p> <p>(e) promoting exchange of experiences between the public agencies of the Parties on initiatives and policy instruments for the development of enterprises in general with special focus on small and medium-sized enterprises; and</p> <p>(f) encouraging public and private institutions related to small and medium-sized enterprises to cooperate in aspects such as environmental management, information and communications technology, nanotechnology, biotechnology, renewable energy, and other subjects of mutual interest.</p> <p>* For purposes of this Article, for Peru, “small and medium-sized enterprises” includes micro enterprises as defined in Peru’s domestic legislation.</p>
Korea-EU Framework Agreement	<p>Title IV (Cooperation in the Area of Economic Development)</p> <p>Article 11 (Business Cooperation)</p> <p>Title IX (Institutional Framework)</p> <p>Article 43 (Other agreements)</p>	<p>Article 11 (Business Cooperation)</p> <p>1. The Parties, taking into account their respective economic policies and objectives, agree to promote industrial policy cooperation in all fields deemed suitable particularly with a view to improving the competitiveness of small and medium-sized enterprises (SMEs), inter alia, through:</p> <ul style="list-style-type: none"> a) exchanging information and experiences on creating framework conditions for SMEs to improve their competitiveness and on procedures related to the creation of SMEs; b) promoting contacts between economic operators, encouraging joint investments and establishing joint ventures and information networks notably through existing programmes; c) facilitating access to finance and marketing, providing information and stimulating innovation; d) facilitating the activities established by SMEs of both sides; e) promoting corporate social responsibility and accountability and encouraging responsible business practices, including sustainable consumption and production. <p>2. The Parties shall facilitate the relevant cooperation activities established by the private sectors of both sides.</p> <p>Article 43 (Other agreements)</p> <p>1. The Framework Agreement for Trade and Cooperation between the European Community and its Member States, on the one hand, and the Republic of Korea, on the other hand, signed in Luxembourg on 28 October 1996 and which entered into force on 1 April 2001 is hereby repealed.</p>

		<p>2. This Agreement updates and replaces the aforementioned agreement. References to the aforementioned agreement in all other agreements between the Parties shall be construed as referring to this Agreement.</p> <p>3. The Parties may complement this Agreement by concluding specific agreements in any area of cooperation falling within its scope. Such specific agreements shall be an integral part of the overall bilateral relations as governed by this Agreement and shall form part of a common institutional framework.</p>
Korea-EU FTA	Chapter 12 (Transparency)	<p>Article 12.2 (Objective and Scope)</p> <p>Recognizing the impact which their respective regulatory environment may have on trade between them, the Parties shall pursue an efficient and predictable regulatory environment for economic operators, especially small ones doing business in their territories. The Parties, reaffirming their respective commitments under the WTO Agreement, hereby lay down clarifications and improved arrangements for transparency, consultation and better administration of measures of general application, in so far as these may have an impact on any matter covered by this Agreement.</p>
Korea-India FTA	<p>Chapter 13 (Bilateral Cooperation)</p> <p>Article 13.5 (Small and Medium Enterprises)</p>	<p>Article 13.5 (Small and Medium Enterprises)</p> <p>1. The Parties, recognising the fundamental role of small and medium enterprises(hereinafter referred to as “SMEs”) in maintaining the dynamism of their respective national economies, shall cooperate in promoting close cooperation among SMEs as well as the relevant agencies of the Parties.</p> <p>2. The cooperation pursuant to paragraph 1 may include, but is not limited to the following forms:</p> <ul style="list-style-type: none"> (a) establishing networking opportunities for SMEs of the Parties to facilitate collaboration or sharing of best practices, such as in the field of management skill development including training programmes for SME managers, technology transfers, product quality improvements, supplychain linkages, information technology, access to financing and technical assistance; (b) facilitating the investment flows by the Parties; (c) supporting the organisation of fairs and exhibitions; and (d) encouraging their relevant agencies to discuss, cooperate and share information and experiences in the development of SMEs policy and programmes.
Korea-ASEAN FTA	<p>Chapter 3 (Economic Cooperation)</p> <p>Article 3.1 (Scope and</p>	<p>Article 3.1 (Scope and implementation of cooperation)</p> <p>1. The Parties, on the basis of mutual benefits, shall explore and undertake cooperation projects in the following areas:</p> <ul style="list-style-type: none"> (a) customs procedures; (b) trade and investment promotion;

	implementation of cooperation)	<ul style="list-style-type: none"> (c) small and medium enterprises; (d) human resource management and development; (e) tourism; (f) science and technology; (g) financial services; (h) information and communication technology; (i) agriculture, fisheries, livestock, plantation commodities and forestry; (j) intellectual property; (k) environmental industry; (l) broadcasting; (m) construction technology; (n) standards and conformity assessment and sanitary and phytosanitary measures; (o) mining; (p) energy; (q) natural resources; (r) shipbuilding and maritime transport; and (s) film. <p>2. The Parties shall undertake economic cooperation projects at mutually agreed time periods, when feasible. These projects shall be monitored by the Implementing Committee for their effective implementation.</p> <p>3. Details of such cooperation are specified in the Annex on Economic Cooperation.</p>
	<p>Annex (Economic Cooperation)</p> <p>Article 3 (Small and Medium Enterprises)</p>	<p>Article 3 (Small and Medium Enterprises)</p> <p>1. The Parties, recognizing the fundamental role of small and medium enterprises (hereinafter referred to as “SMEs”) in maintaining the dynamism of their respective national economies, shall cooperate in promoting close cooperation among SMEs as well as the relevant agencies of the Parties.</p> <p>2. Such cooperation shall include:</p> <ul style="list-style-type: none"> (a) establishing networking opportunities for SMEs of the Parties to facilitate collaboration and/or sharing of best practices, such as in the field of management skill development, technology transfers, product quality improvements, supply-chain linkages, information technology, access to financing as well as technical assistance; (b) facilitating the investment flows by Korean SMEs in the ASEAN Member Countries, and vice versa; and

		(c) encouraging their relevant agencies to discuss, cooperate and share information and experiences in the development of SMEs policy and programmes.
EU-Japan FTA	<p>Chapter 20 (Small and Medium-sized Enterprises)</p> <p>Article 20.1 (Objective)</p> <p>Article 20.2 (Information sharing)</p> <p>Article 20.3 (SME Contact Points)</p> <p>Article 20.4 (Dispute settlement)</p>	<p>Article 20.1 (Objective)</p> <p>The Parties recognize the importance of the provisions of this Chapter as well as other provisions in this Agreement that seek to enhance cooperation between the Parties on matters of relevance to small and medium-sized enterprises (hereinafter referred to in this Chapter as "SMEs") or that may otherwise be of particular benefit to SMEs.</p> <p>Article 20.2 (Information sharing)</p> <p>1. Each Party shall establish or maintain its own publicly accessible website containing information regarding this Agreement, including:</p> <ul style="list-style-type: none"> (a) the text of this Agreement, including all Annexes, in particular, the tariff schedules and product-specific rules of origin; (b) a summary of this Agreement; and (c) information designed for SMEs that contains: <ul style="list-style-type: none"> (i) a description of the provisions in this Agreement that the Party considers to be relevant to SMEs; and (ii) any additional information that the Party considers to be useful for SMEs interested in benefitting from the opportunities provided by this Agreement. <p>2. Each Party shall include in the website referred to in paragraph 1 links to:</p> <ul style="list-style-type: none"> (a) the equivalent website of the other Party; (b) the websites of its government authorities and other appropriate entities that provide information the Party considers useful to persons interested in trading, investing, or doing business in that Party; and (c) the website of the EU-Japan Centre for Industrial Cooperation or of its successor organization. <p>3. Each Party shall ensure that the linked websites referred to in subparagraph 2(b) provide information related to:</p> <ul style="list-style-type: none"> (a) customs legislation and procedures, as well as a description of the procedures, the practical steps, the forms, documents and other information required for importation into, exportation from, or transit through the customs territory of that Party; (b) laws and regulations, including procedures, concerning intellectual property rights; (c) technical regulations and conformity assessment procedures;

- (d) sanitary and phytosanitary measures relevant for importation and exportation;
- (e) publication of notices for government procurement in accordance with Article 10.4 as well as other relevant information;
- (f) business registration procedures;
- (g) taxes collected during the importation procedures, if applicable; and
- (h) other information which the Party considers to be useful for SMEs.

4. Each Party shall include in the website referred to in paragraph 1 a link to a database that is electronically searchable by tariff nomenclature code and that includes, if the Party considers applicable, the following information with respect to access to its market:

- (a) rates of customs duty to be applied by the Party to the originating goods of the other Party, the most-favoured-nation applied rates of customs duty and tariff rate quotas established by the Party;
- (b) customs or other fees, including product-specific fees, imposed on or in connection with importation and exportation;
- (c) other tariff measures;
- (d) rules of origin;
- (e) duty drawback, deferral or other types of relief that reduce, refund or exempt customs duties;
- (f) criteria used to determine the customs value of goods;
- (g) country of origin marking requirements, including placement and method of marking; and
- (h) other relevant measures.

5. Each Party shall regularly, or when requested by the other Party, review the information and links referred to in paragraphs 1 to 4 to ensure that they are up-to-date and accurate.

6. Each Party shall work towards ensuring that information provided pursuant to this Article is presented in a manner that is easy to use for SMEs. Each Party shall endeavor to make the information available in English.

7. No fee shall be imposed on any person of either Party for access to the information provided pursuant to paragraphs 1 to 4.

Article 20.3 (SME Contact Points)

1. Each Party shall, upon the entry into force of this Agreement, designate a contact point for the implementation of this Chapter (hereinafter referred to in this Chapter as "SME Contact Points") and notify the other Party of the contact details including information regarding the relevant officials. The Parties shall promptly notify each

other of any change of those contact details.

2. The SME Contact Points shall, in accordance with each Party's rules and procedures, have the following functions:

- (a) ensuring that the needs of SMEs are taken into account in the implementation of this Agreement;
- (b) considering ways for strengthening the cooperation on matters of relevance to SMEs between the Parties in view of increasing trade and investment opportunities for SMEs;
- (c) identifying ways and exchanging information for enabling SMEs of each Party to take advantage of new opportunities under this Agreement;
- (d) monitoring the implementation of Article 20.2 and ensuring that the information provided by each Party is up-to-date and relevant for SMEs;
- (e) regularly submitting a report on their activities and making appropriate recommendations to the Joint Committee; and
- (f) considering any other matter of relevance to SMEs that is covered by this Agreement.

3. The SME Contact Points may, in accordance with each Party's rules and procedures, recommend to the Joint Committee the inclusion of additional information by the Parties in their respective websites referred to in Article 20.2.

4. The SME Contact Points shall endeavour to address any other matter of interest to SMEs in connection with the implementation of this Agreement, including by:

- (a) exchanging information to assist the Parties in monitoring the implementation of this Agreement on matters of relevance to SMEs;
- (b) participating in the work of specialised committees and working groups established under this Agreement, including matters of regulatory cooperation and non-tariff issues, and presenting to those specialised committees and working groups, in their respective areas of competence, specific matters of particular interest to SMEs, while avoiding duplication of work; and
- (c) considering mutually acceptable solutions for improving the ability of SMEs to engage in trade and investment between the Parties.

5. The SME Contact Points shall meet when necessary and shall carry out their activities through the appropriate communication channels, which may include electronic mail, videoconference or other means.

6. The SME Contact Points may seek to cooperate with experts in the field of SMEs and external organisations, as appropriate, in carrying out their activities.

		<p>Article 20.4 (Dispute settlement)</p> <p>The provisions of this Chapter shall not be subject to dispute settlement under Chapter 21.</p>
<p>2. U-Mercosur 3. FTA⁷</p>	<p>Chapter on Small and Medium-sized Enterprises</p> <p>Article 1 (General principles)</p> <p>Article 2 (Information sharing Disclaimer)</p> <p>Article 3 (SME Coordinators)</p> <p>Article 4 (Non-Application of Dispute Settlement)</p>	<p>Article 1 (General principles)</p> <p>1. The Parties recognize that Small and Medium-sized Enterprises, which include micro, small and medium-sized enterprises and entrepreneurs (hereinafter referred to as SMEs), contribute significantly to trade, economic growth, employment and innovation. The Parties seek to support the growth and development of SMEs by enhancing their ability to participate in and benefit from the opportunities created by this Agreement.</p> <p>2. The Parties acknowledge the importance of reducing non-tariff barriers which place a disproportionate burden on SMEs. They also acknowledge that, in addition to the provisions in this Chapter, there are other provisions in the Agreement that seek to enhance cooperation between the Parties on SMEs issues or that otherwise may be of particular benefit to SMEs.</p> <p>Article 2 (Information sharing Disclaimer)</p> <p>1. Each Party shall establish or maintain its own publicly accessible website containing information regarding this Agreement, including:</p> <ul style="list-style-type: none"> (a) the text of this Agreement, including all annexes, tariff schedules, and product specific rules of origin; (b) a summary of this Agreement; and

⁷ Disclaimer: In view of the Commission's transparency policy, the Commission is publishing the texts of the Trade Part of the Agreement following the agreement in principle announced on 28 June 2019. The texts are published for information purposes only and may undergo further modifications including as a result of the process of legal revision. However, in view of the growing public interest in the negotiations, the texts are published at this stage of the negotiations for information purposes. These texts are without prejudice to the final outcome of the agreement between the EU and Mercosur. The texts will be final upon signature. The agreement will become binding on the Parties under international law only after completion by each Party of its internal legal procedures necessary for the entry into force of the Agreement (or its provisional application).

		<p>(c) information designed for SMEs that contains:</p> <ul style="list-style-type: none"> (i) a description of the provisions in this Agreement that the Party in question considers to be relevant to SMEs; and (ii) any additional information that the Party considers would be useful for SMEs interested in benefitting from the opportunities provided by this Agreement. <p>2. Each Party shall include links from the website provided for in paragraph 1 to:</p> <ul style="list-style-type: none"> (a) the equivalent website of the other Party; (b) the websites of its own government authorities and other appropriate entities that the Party considers would provide useful information to persons interested in trading, investing, or doing business in that Party. Each Party shall include available information related to the following: <ul style="list-style-type: none"> (i) rates of most-favoured nation (MFN) and preferential customs duties and quotas, rules of origin, customs or other fees at the border; (ii) customs regulations and procedures for importation, exportation, and transit as well as required forms and documents; (iii) regulations and procedures concerning intellectual property rights; (iv) technical regulations including, where necessary, obligatory conformity assessment procedures; and links to lists of conformity assessment bodies, in cases where third party conformity assessment is obligatory; (v) sanitary and phytosanitary measures relating to importation and exportation; (vi) government procurement, transparency rules and publication of procurement notices as well as other relevant provisions contained in Chapter [XX] on government procurement; (vii) business registration procedures; (viii) other information which the Parties agree may be of assistance to SMEs. (c) a database that is electronically searchable by tariff nomenclature code and that shall include the information contained in paragraph 2.b (i) and the following information: <ul style="list-style-type: none"> (i) excise duties; (ii) taxes (value added tax / sales tax); (iii) other tariff measures; (iv) deferral, or other types of relief that reduce, refund, or waive customs duties; (v) criteria used to determine the customs value of the good; (vi) if applicable, country of origin marking requirements, including placement and method of marking; (vii) information needed for import procedures; (viii) information related to non-tariff measures or regulations.
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	<p>Each MERCOSUR signatory country shall implement the websites and the database with the maximum possible information described above with respect to access to its markets with the best effort to put it into place within 3 years from entry into force of this Agreement.</p> <p>3. Each Party shall regularly, or when requested by the other Party, update the information and links referred to in paragraphs 1 and 2.</p> <p>4. Each Party shall ensure that information set out in this article is presented in a manner that is easy to use for SMEs. When possible, each Party shall endeavour to make the information available in English.</p> <p>5. No fee shall apply for access to the information provided pursuant to paragraphs 1 and 2 for any person in either Party.</p> <p>Article 3 (SME Coordinators)</p> <p>1. Each Party shall communicate to the other Party its SME Coordinator to carry out the functions listed in this article. These two SME Coordinators shall:</p> <ul style="list-style-type: none"> a) develop a work plan to carry out the tasks described in this Article; b) carry out their work through the communication channels agreed by the SME Coordinators, which may include electronic mail, videoconferencing, or other means; c) meet as mutually agreed, at least once a year, through appropriate means; and d) report periodically on their activities and make appropriate recommendations to the [Association Committee in its trade configuration] for its consideration. <p>2. The SME Coordinators shall work to:</p> <ul style="list-style-type: none"> (a) ensure that SME needs are taken into account in the implementation of this Agreement; (b) monitor the implementation of the provisions on information sharing of Article 2 to ensure that the information provided by the Parties is up-to-date and relevant for SMEs; (c) recommend additional information that the Parties may include in their websites described in Article 2; (d) identify ways to cooperate and exchange information for EU and Mercosur SMEs to take advantage of new opportunities under this Agreement to increase trade and investment; (e) address any other matters of interest to SMEs in connection with the implementation of this Agreement; (f) participate, if appropriate, in the work of any Sub-Committee and Working Group established in
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		<p>this trade part of this Agreement and present jointly to these Sub-Committees and Working Groups specific issues and recommendations and possible solutions of particular interest to SMEs in their areas, while avoiding duplication of work programmes;</p> <p>(g) exchange information to assist the Parties in monitoring and implementing this Agreement as it relates to SMEs;</p> <p>(h) consider any other matter arising under this Agreement pertaining to SMEs as the Parties may agree.</p> <p>3. SME Coordinators may seek to cooperate with experts and external organizations, as appropriate, in carrying out their activities.</p> <p>Article 4 (Non-Application of Dispute Settlement)</p> <p>No Party shall have recourse to dispute settlement under Chapter [XX] for any matter arising under this Chapter.</p>
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