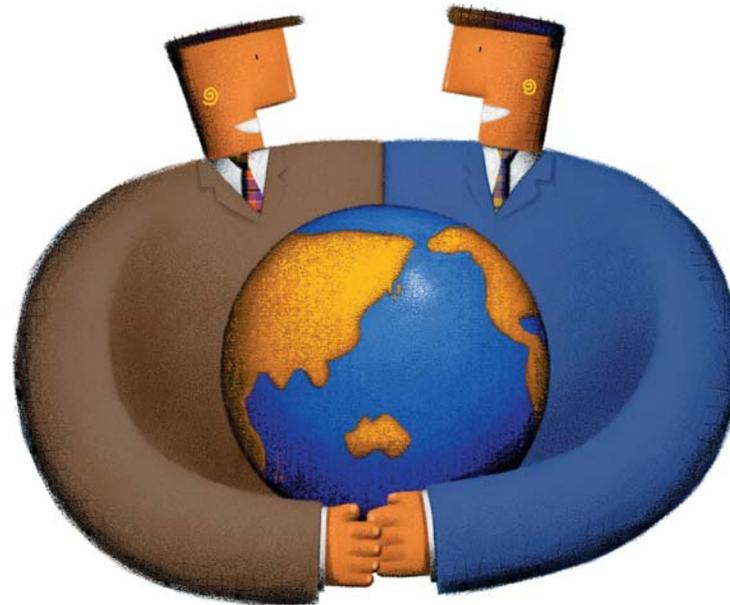


Inclusive Growth, Fair Society are New Keywords

Large Enterprises, SMEs in the Same Boat





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On the heels of financial and economic crisis, global economic leaders have begun to rethink the existing “sustainable growth” model. The new perspective has emerged under the reality that “Despite the overall recovery of the economy, small enterprises are falling behind while large enterprises are picking up steam.”



Recent remarks by Chinese President Hu Jintao on inclusive growth have triggered speculation that Chinese policy makers were refining their perspective on development to include this concept.

According to Hu, inclusive growth means to spread the benefits of economic globalization and development among all countries, regions and peoples and to realize balanced economic and social progress through sustainable development.

Korean President Lee Myung-bak, in his speech on the 65th Anniversary of National Liberalization on Aug. 15, emphasized the value of a fair society as a new order and standard of ethics for the sake of sustainable growth and common prosperity.

President Lee's remarks have fueled the drive for win-win growth of large enterprises and SMEs as an axis of

national management philosophy.

On Sept. 29, the Korean government announced a set of strategies to foster fairer trade between small and medium-sized enterprises and large conglomerates, but insisted that the measures were designed to complement the free market, not to thwart it.

The Ministry of Knowledge Economy, the Fair Trade Commission, the Ministry of Strategy and Finance, and the Small and Medium Business Administration described strategies to give more power to SMEs in adjusting prices on supplies to conglomerates, protecting their business areas from encroachment by big companies, and preventing big companies from stealing their technology.

Officials stressed that the policies are not temporary measures but long-term strategies to create a Korean business culture that provides for fairer business relationships and profit sharing between smaller and large companies.

President Lee Myung-bak recently reiterated that the policies meant are to pursue mutual growth, not to interfere with the free market.

“We should not overlook the virtues of the market economy,” Lee told business leaders and heads of business associations. “These measures are to complement the market economy. It is not appropriate for the government to reverse market principles.”

Lee also emphasized that it is not the government leading a change in business practices but rather the businesses



are doing it themselves.

“The government cannot force large and small companies to cooperate; it would be ineffective,” Lee said. “Small and large companies need to change the business culture so the Korean economy can further develop.”

The measures were prompted by the fact that Korea’s conglomerates did extremely well in the quick economic recovery from the global financial meltdown, while their subcontractors, which are largely SMEs, enjoyed few benefits because their profits were squeezed by low prices offered by the conglomerates for supplies.

Promotion Strategy	Policy Tasks
Establish Fair Trade Order	1) Establishment of an efficient supply unit price adjustment system: Provide SME cooperatives with the right to apply for adjustment of unit prices 2) Prevention of intentional payment cut for supplied products and verbal order placement: Fix responsibility for verification of unfair payment cuts 3) Expand application of the Subcontracting Act to second and third cooperating subcontractors 4) Strengthen protection of SME technologies 5) Reinforce monitoring of unfair trade with large distribution firms
Protect Business Scope and Spread Accompanied Growth Strategies	6) Private-led selection of business types suitable for SMEs 7) Spread accompanied growth to the second and third from first cooperating firms, reduce taxes for accompanied growth investment (7%) and build dissemination infrastructure 8) Cooperation between large raw materials enterprises and demanding SMEs: Implement a price pre-notification system for petrochemical products and support for stable securing of steel materials 9) Strengthen the lead role of public organizations
Support for Reinforcement of SMEs' Self-growth Capability	10) Support management advancement and structural improvement: Strengthen management and accounting transparency and introduce a 24-hour structural improvement support system 11) Reinforce the growth capabilities of SMEs and medium enterprises: Support expansion of core capabilities related to productivity, R&D, industrial manpower, etc. 12) Resolve site difficulties of SMEs, including manpower and funds 13) Improve the environment of industrial complexes
Build Promotion & Monitoring Systems	14) Organize private-government 'Accompanied Growth Committee' and announce accompanied growth index 15) Establish 'Comprehensive Accompanied Growth Cyber Support Center' and organize 'Accompanied Growth Promotion Monitoring Team.'



One of the key measures in the announcement is that SMEs will be able to request an increase in contract prices through a third party - the Korea Federation of Small and Medium Business - when there is a sudden surge in raw material prices. The federation will be able to mediate prices on their behalf. SMEs were reluctant to make such requests directly in the past because they were afraid of ruining their relationship with large companies.

The government also came up with a way to prevent large companies from stealing technology from subcontractors. SMEs will be allowed to register their technologies with the Large and Small Business Cooperation Foundation so that they can claim rights to them when there is a dispute with large companies. A civilian panel called the “mutual growth committee,” made up of representatives of business organizations and business experts, will be set up in about December to select the types of businesses suitable to SMEs and make sure large companies aren’t encroaching on them. Knowledge Economy Minister Choi Kyung-hwan said mutual growth will lead to job creation.

“There is a limit to the number of jobs conglomerates can create,” Choi said. “SMEs produced 3.8 million positions from 1998 to 2008, but conglomerates reduced jobs by 600,000 in that period.”

Conglomerates including Hyundai, SK, Samsung and LG said they will fully cooperate with the measures. Samsung Electronics, Hyundai Motor, LG Electronics, SK Telecom and Posco plan to create a 1 trillion won (US\$875.7 million) fund by 2012 to help SMEs.

There were mixed responses to the measures. SMEs said they were disappointed they didn’t include some of the demands they had made. For example, the SME’s wanted supply price to be automatically raised when there is a surge in the price of raw materials. They also asked the government to allow a group of SMEs to negotiate with large companies on their behalf.

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