



Regulatory reform, willingness to fail needed for Republic of Korea small businesses

Small and medium-sized businesses in the Republic of Korea lag well behind their bigger counterparts in productivity, and the gap is getting wider.

A recent report by the Organisation for Economic Co-operation and Development suggested that the problems for SMEs are deeply entrenched.

Randall Jones, head of the OECD's Japan and Korea desk, explained the issues facing Korean SMEs at an event hosted by the Asian Development Bank Institute:

In 1980, the SMEs were 53% as productive per worker as for large firms, and by 2014, they are only 32% as productive. So over time, this gap is widening. The problem is that when you have a widening gap, that means wage gaps are wide, and people who are working in the big companies get high wages because of productivity, and the people in SMEs get low wages, so it creates inequality.

The Republic of Korea has many laws and regulations designed to help SMEs. The framework of regulations supports smaller companies, and successful SMEs can find themselves growing too large to qualify for that support.

The SMEs pay lower electricity charges, lower water charges, lower tax rates. They're exempt from monopoly regulations. They get special treatment on procurement. SMEs are a sheltered sector to some extent. There is even a program to keep some of the big companies out of SME sectors, and all this support is not working. The gap between big companies and small companies, as I showed, gets wider. All the support, in a sense, is encouraging SMEs to stay

small, the so-called Peter Pan complex. When you're an SME and you graduate, all of a sudden you pay high taxes, high water charges, all the benefits you lose. As an SME grows, the best way to avoid that is to split and make two SMEs so that you don't have to lose all the advantages of an SME. This policy of SME support needs to be changed from keeping SMEs alive to supporting productive SMEs.

As well as fixing the regulatory regime, he suggested that the culture needs to change to encourage entrepreneurship. It should be easier for companies to fail and for people to start businesses. Higher rates of entry and exit for SMEs would boost greater competition and productivity.

We need a sandbox idea where new industries can start producing, and the regulation will develop after, it will be developed after we see what happens. We need to improve the solvency framework so that people who are failing will leave. Raise the exit rate and encourage the entry rate.

That was Randall Jones, head of the Japan and Korea desk for the Organisation for Economic Co-operation and Development, speaking at the Asian Development Bank Institute in Tokyo.

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