



# Operational aspects of support programmes for the digital transformation of exporting small and medium-sized enterprises in the Republic of Korea

Dong-Hee Joe



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# Operational aspects of support programmes for the digital transformation of exporting small and medium-sized enterprises in the Republic of Korea

Dong-Hee Joe



This document was prepared by Dong-Hee Joe, consultant of the International Trade Unit within the International Trade and Integration Division of the Economic Commission for Latin America and the Caribbean (ECLAC), as part of the activities of the 2020–2023 CORPYME project between ECLAC and the Government of the Republic of Korea.

The author wishes to thank Nanno Mulder, Chief of the International Trade Unit, Javiera Arteaga, Economic Affairs Officer of the Unit, So Jeong Lee, Associate Economic Affairs Officer of the International Trade and Industrial Development Unit of the ECLAC subregional headquarters in Mexico, and Tengfei Wang and Hyangsuk Seong, Economic Affairs Officers of the Economic and Social Commission for Asia and the Pacific (ESCAP) for their comments on a draft version of the document. The author would also like to thank Guen Ho Kim of the Korea SMEs and Startups Agency (KOSME) for providing insights on selected support programmes in the Republic of Korea.

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United Nations publication  
LC/TS.2024/3  
Distribution: L  
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Printed at United Nations, Santiago  
S.23-01150

This publication should be cited as: D.-H. Joe, "Operational aspects of support programmes for the digital transformation of exporting small and medium-sized enterprises in the Republic of Korea", *Project Documents* (LC/TS.2024/3), Santiago, Economic Commission for Latin America and the Caribbean (ECLAC), 2024.

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## Acronyms

FSC	Financial Services Commission
IBK	Industrial Bank of Korea
ICT	Information and Communications Technology
KEXIM	Export-Import Bank of Korea
KIBO	Korea Technology Finance Corporation
KODIT	Korea Credit Guarantee Fund
KOPES KOTRA	Performance Evaluation System
KOSI	Korea Small Business Institute
KOSME	Korea SMEs and Startups Agency
KOTRA	Korea Trade-Investment Promotion Agency
KPI	Key Performance Indicator
KRW	Korean Won
K-SURE	Korea Trade Insurance Corporation
KTNET	Korea Trade Network
MOEF	Ministry of Economy and Finance
MOTIE	Ministry of Trade, Industry and Energy
MSS	Ministry of SMEs and Startups, Republic of Korea
RFID	Radio-Frequency Identification
SMEs	Small and Medium-sized Enterprises
USD	US Dollar



## Contents

<b>Abstract</b> .....	7
<b>Introduction</b> .....	9
<b>I. Literature review</b> .....	11
A. Obstacles for SMEs to participate in cross-border e-commerce.....	11
B. Effectiveness of support programs .....	13
<b>II. The Role of SMEs in the economy and exports</b> .....	15
A. Definition of SMEs.....	15
B. Participation of SMEs in the economy and exports.....	16
<b>III. Overview of support programs</b> .....	25
A. KOSME.....	28
B. KOTRA.....	29
<b>IV. Operational aspects of support programs</b> .....	33
A. Defining the budget .....	34
B. Application procedures.....	35
C. Selection process.....	36
D. Coordination among different players .....	37
E. Evaluation .....	39
<b>V. Conclusions</b> .....	41
A. Budget .....	41
B. Application and selection .....	42
C. Coordination among different players.....	42
D. Evaluation .....	42
E. Possible implications for LAC .....	42
<b>Bibliography</b> .....	45

## Tables

Table 1	Studies on Korean SMEs engaged in cross-border e-commerce: obstacles and support programs .....	12
Table 2	Korea: upper bounds of annual sales in the legal definition of SMEs .....	15
Table 3	Korea: numbers and shares of SMEs and large enterprises, 2015–2019.....	17
Table 4	Korea: numbers and shares of SMEs and large firms in exports, 2015–2021.....	18
Table 5	Korea: average export value of SMEs and large firms, 2015–2021.....	19
Table 6	Korea: export intensity by sector and firm size, 2019 .....	20
Table 7	Korea: industry distribution of exporters by size, 2019.....	20
Table 8	Ministry of SMEs and Startups: budget for SMEs' export support programs, 2021–2022 .....	27
Table 9	General information about KOTRA and KOSME, 2023 .....	28
Table 10	Gobiz Korea: nine support programs .....	29
Table 11	KOTRA: budget by categories of primary activities, 2023 .....	29
Table 12	SMEs' export support programs: operational aspects and examples.....	33
Table 13	Examples of discounted logistics fees, 2022 .....	35
Table 14	Application requirements for the GoBizKorea support program .....	36
Table 15	Scoring system for the selection of KOSME's online export platform .....	36

## Figures

Figure 1	Korea: industry distribution of SMEs and large firms, 2019 .....	17
Figure 2	Korea: industry distribution of SMEs and large firms, 2020.....	18
Figure 3	Korea: total exports and SMEs' share, 2015–2021.....	19
Figure 4	Korea: direct versus indirect export values of SMEs in Korea, 2002–2017.....	21
Figure 5	Korea: value and number of SMEs' e-commerce export operations, 2010–2022 .....	22
Figure 6	Korea: shares of e-commerce in total value and number of SMEs' export operations, 2010–2022 .....	23

## Diagrams

Diagram 1	Central ministries and agencies providing support for SME exports.....	26
Diagram 2	GOBIZ: marketplace for Korean SMEs.....	28
Diagram 3	KOTRA: suggested items for Korean SMEs exports to Chile .....	31
Diagram 4	Characteristics of K-Studios, 2021 .....	38
Diagram 5	Examples of K-Studio .....	38

## Abstract

As international trade is essential for Korea's economic growth and development, the government actively promotes exports of large and especially small and medium-sized enterprises (SMEs). Several programs support the SMEs' participation in cross-border e-commerce, which may have contributed to their rapidly rising exports through this foreign sales channel. This report reviews several of these programs implemented by the Korea SMEs and Startups Agency (KOSME) and the Korea Trade-Investment Promotion Agency (KOTRA). To maximize these programs' impact, KOSME and KOTRA apply a circular process of assigning the required budget, selecting the most promising SMEs, coordinating with private actors, and evaluating results. Each of these aspects are reviewed in detail for some of these programs.



## Introduction

The Republic of Korea (from now on, "Korea") is widely recognized as an export-led economy. Most exporting firms are Small and Medium-sized Enterprises (SMEs), representing 97% of all exporters and contributing around 39% (18% directly and 21% indirectly) to the country's total exports in 2022 (Joint Ministries, 2023). Cross-border e-commerce has become the predominant export channel for SMEs, rising from below 1% in 2010 to 60% of total SMEs' exports in 2022. These fast-rising e-commerce SME exports may be related to several support programs of agencies of the Ministries of SMEs and Startups (MSS) and Trade, Industry and Energy (MOTIE).

This document reviews the operational aspects of selected support programs for SMEs' exports through cross-border e-commerce. It is structured as follows. The document first reviews recent studies on SMEs' obstacles to participating in cross-border e-commerce and the effectiveness of support programs. Second, it compares the role of SMEs in the economy and exports with that of large enterprises. Third, it presents the support programs for SMEs' e-commerce exports implemented by the Korea SMEs and Startups Agency (KOSME) and the Korea Trade-Investment Promotion Agency (KOTRA). The fourth and central part of the report focuses on five operational characteristics of these programs: budget, application, coordination among different players, and evaluation. Finally, the report provides some main conclusions and recommendations for Latin America and the Caribbean.

This report is part of the CORPYME project, as part of the activities of the 2020-2023 CORPYME project between ECLAC and the Government of the Republic of Korea.



## I. Literature review

### A. Obstacles for SMEs to participate in cross-border e-commerce

Governments support the participation of SMEs in the fast-growing global cross-border e-commerce business because of several market failures and obstacles. SMEs cannot overcome these alone, holding back their participation. Examples of these obstacles are the SMEs' difficulties accessing loans, high-cost digital transformation, and lack of understanding of opportunities and obstacles of selling in marketplaces abroad. In this context, the expected benefit from government support in terms of new business deals exceeds its costs.

Several studies have analyzed the obstacles of Korean SMEs in cross-border e-commerce (see Table 1). For instance, Lee and others (2021) surveyed 1,029 Korean e-commerce exporters in 2021. The primary reported obstacles are administrative requirements, such as digital certificates and customs requirements, unfair trade practices by e-commerce platforms, and discrimination in the destination country. Smaller exporters, with less than 25 employees or less than 5 billion KRW in revenue (slightly less than 4 million USD),<sup>1</sup> have felt these obstacles most strongly. They named administrative requirements and the lack of an electronic payment system the most significant obstacles.

Choi and Cho (2020) surveyed 196 SMEs exporting through e-commerce. Like Lee and others (2021), they found that the most significant obstacles were administrative requirements, certificates and regulations in the destination country, and lack of information on foreign buyers.

Koo and others (2021) surveyed 2,681 e-commerce sellers in Korea, with 57% selling samples and 12% exporting products via e-commerce. The latter group of firms are mostly smaller and newer, with average e-commerce exports amounting to 710 million KRW (approximately 550 thousand USD), representing 12.5% of total sales. As most firms engaged in cross-border e-commerce exports are small

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<sup>1</sup> Throughout the paper, amounts in Korean Won have been converted to US dollar rate using the exchange rate of using the exchange rate of 1 USD=1,299.05KRW on April 14, 2023, from Bloomberg (accessed on April 15, 2023).

and young, this type of trade may have lower entry barriers than those in traditional exports.<sup>2</sup> Many SMEs are, directly or indirectly, engaged in the manufacturing of their products in addition to selling them. Their reported obstacles to e-commerce exports are insufficient information on export markets, a lack of skills, and the cost of using digital platforms.

Finally, Eom (2021) surveyed 610 exporting Korean manufacturing SMEs. The most frequently cited obstacles are the lack of online marketing skills (44%), difficulties in finding foreign buyers (28%), and responding to (28%) foreign buyers.

The above studies suggest that the SMEs' main export obstacles are administrative requirements, uncertainties, lack of information and communication difficulties related to foreign buyers and markets, costs, and lack of knowledge and skills related to online business operations.<sup>3 4</sup> Having fewer resources, smaller exporters tend to feel these obstacles more strongly.

**Table 1**  
**Studies on Korean SMEs engaged in cross-border e-commerce: obstacles and support programs**

Choi and Cho (2020)	<ol style="list-style-type: none"> <li>1. Identify obstacles of SMEs engaged in cross-border e-commerce</li> <li>2. Measure SMEs' awareness and opinions on government support programs for SMEs' e-commerce exports</li> </ol>	Survey of 196 e-commerce exporting SMEs	<ol style="list-style-type: none"> <li>1. Main obstacles: administrative requirements; certificates and regulations in destination markets; uncertainty and lack of information on foreign buyers</li> <li>2. SMEs are mainly unaware of the adverse effects of government support programs</li> </ol>
Eom (2021)	Identify obstacles of SMEs engaged in cross-border e-commerce	Survey of 610 manufacturing exporter SMEs	<ol style="list-style-type: none"> <li>1. Main obstacles: lack of online marketing skills; difficulties in finding and responding to foreign buyers</li> <li>2. Most requested government support: online export platform, training, sales agent</li> </ol>
Kim (2019)	Evaluate the impact of government support programs for SMEs participating in cross-border e-commerce	Econometric estimation	Short duration (i.e., disappearance after a short period) of the effects of support programs on beneficiaries' exports
Koo and others (2021)	<ol style="list-style-type: none"> <li>1. Characterize SMEs participating in cross-border e-commerce</li> <li>2. Identify obstacles to SMEs' e-commerce exports</li> <li>3. Evaluate the impact of government support programs on SMEs e-commerce export</li> </ol>	<ol style="list-style-type: none"> <li>1. Survey of 2,681 e-commerce sellers</li> <li>2. Econometric analysis</li> </ol>	<ol style="list-style-type: none"> <li>1. Characteristics of e-commerce exporter SMEs: smaller and newer; more involved in the manufacturing of their products (rather than reselling)</li> <li>2. Main obstacles: lack of information on export markets, costs, and lack of knowledge and skills related to digital platforms</li> <li>3. Substantial impact of support programs on beneficiaries' e-commerce export; effects are more significant for newer and smaller SMEs and manufacturing SMEs (compared to resellers)</li> </ol>

<sup>2</sup> Entry barriers are often related to high fixed costs, which need to be paid by a business independent of its sales volume (Tirole, 1988). A firm will be deterred from exporting if fixed costs are excessive. In this sense, high barriers reduce entry into export markets. Only firms that paid this cost or are large enough to finance them will export. For (cross-border) e-commerce, business support services are better developed than for traditional trade. As newer and/or smaller firms are more intensive users of these external service providers, they tend to participate more actively in cross-border e-commerce than older larger and larger firms.

<sup>3</sup> The finding that administrative requirements are among the major obstacles is surprising, considering Korea is among the world's most advanced countries in paperless trade and single-window export processes. According to Lee (2021), most trade operations and processes are digitalized and paperless. According to the World Bank's 2023 Logistics Performance Index, Korea is among the world's top ten countries in customs efficiency. The Korea Trade Network (KTNET hereinafter), the agency in charge of the single-window system, processed 370 million paperless trade documents in 2020 (Lee 2021). Despite this excellence, many SMEs seem to face difficulties using KTNET.

<sup>4</sup> The SMEs' high costs and lack of knowledge and skills related to online business operations have been reported before. For instance, Jones and Lee (2018) mention Korean SMEs' lack of IT specialists as a significant obstacle to their digitalization, partly because they cannot offer the wages as those paid by larger enterprises.

Study	Purpose	Methodology	Main findings
Lee and others (2021)	Identify obstacles to SMEs' e-commerce export	Survey of 1,029 e-commerce exporters in Korea	<ol style="list-style-type: none"> <li>4. Main obstacles: administrative requirements and discrimination by country of origin in destination countries; unfair trade by e-commerce platforms in the destination country; lack of electronic payment system</li> <li>5. Smaller exporters suffer higher barriers to e-commerce exports</li> </ol>

Source: Elaboration by the author.

## B. Effectiveness of support programs

Support programs addressing specific obstacles SMEs identify probably impact their e-commerce exports more than generic types of support. Evaluating support programs in Koo and others (2021) sheds some light on this. To evaluate these programs' impact, they combine survey data on 2,681 e-commerce sellers with data on SMEs' characteristics.<sup>5</sup> They find that participation in a support program increased the probability of e-commerce export (i.e., extensive margin) by 21.3% and the share of e-commerce exports in total sales (i.e., intensive margin) by 5.6%.<sup>6</sup> This impact is more considerable for newer and smaller SMEs. Among the five support programs analyzed, those targeting less experienced (in e-commerce) SMEs have been estimated to have a more significant impact, both on the probability of e-commerce export and the share of e-commerce exports in total sales. These programs assist young SMEs in selling on global e-commerce platforms. The survey respondents mentioned high costs and the lack of knowledge and skills to sell on digital platforms as the main obstacles for cross-border e-commerce. As these programs focus on these obstacles, their more considerable (estimated) impact is consistent with the survey results. The sales agent program also has a significant impact-the effect is more prominent for manufacturing SMEs than for SMEs that only resell.

Using official data on program participation between 2016 and 2019, Oh, Chung, and Lee (2020) also found positive impacts of two support programs for online export platforms and e-commerce exports. In particular, they found that participation in the support programs increased the SME's profits and export values, with a larger magnitude for the latter.

According to Kim (2019), who used official data on program participation, these positive effects last for a short term. Choi and Cho (2020) asked 196 SMEs with e-commerce export experience about their opinion regarding government support programs. More than two-thirds (68.4%) were unaware of government support programs, and over 80% were pessimistic about their effectiveness.

Econometric analyses suggest positive but short-term effects of government support programs on SMEs' e-commerce exports. Their magnitude is larger for newer and smaller SMEs. In contrast, survey results also reveal some negative opinions of SMEs on their effectiveness.<sup>7</sup>

<sup>5</sup> The five programs are sales agent, entry facilitation, joint logistics, direct sales, and online exhibition. These are described in the following sections.

<sup>6</sup> Their estimators may have a selection bias, as firms interested in e-commerce exports are more likely to participate in support programs. Using survey data on SMEs, Kim (2017) shows that firm characteristics are likely to affect its performance, such as its manager's willingness to export, its capacity for digital export marketing. These variables also determine the probability of the SME participation in support programs. As such, Koo and others (2021)'s estimators may have an upward bias regarding the impact of support programs.

<sup>7</sup> A representative of an SMEs' association - interviewed for this paper - suggests two possible explanations for this negative assessment. First, government programs help relatively few SMEs solving specific issues. Most other SMEs, facing similar challenges, do not receive similar support and feel left out. Even those SMEs that do receive support may have a negative view, as this assistance only helps them to solve some issues while they continue to struggle with others. Therefore, SMEs need to participate in multiple assistance programs handling multiple challenges, but they lack capacity to do this. Managers face difficulties anticipating potential problems at each stage of their business process and preparing requests for government support. Second, the government mostly supports and selects SMEs likely to perform well after receiving support. This selection bias may result in helping those who less need it.



## II. The Role of SMEs in the economy and exports

### A. Definition of SMEs

In Korea's Framework Act on Small and Medium Enterprises, an SME is defined according to two criteria.<sup>8 9</sup> The first is size-based with two sub-criteria: assets and annual sales. The asset's upper bound is 500 billion KRW (approximately 391 million USD). The sales upper bound depends on the enterprise's main economic activity within the International Standard Industrial Classification (ISIC) (see Table 2).<sup>10</sup>

**Table 2**  
Korea: upper bounds of annual sales in the legal definition of SMEs

Main activity	Upper bound	
	In billion KRW	In million USD
Manufacturing (C14, C15, C17, C24, C28, C32, C30393, C31202, C31322)	150	115
Agriculture, forestry, and fishing (A)	100	77
Mining and quarrying (B)		
Manufacturing (C10, C12, C13, C16, C19, C20, C22, C25, C26, C29, C30, C31)		
Electricity, gas, steam, and air conditioning supply (D)		
Water supply; sewerage, waste management, and remediation activities (E36)		
Construction (F)		

<sup>8</sup> The English text of this Framework is available at [online] [https://elaw.klri.re.kr/kor\\_service/lawView.do?hseq=55599&lang=ENG](https://elaw.klri.re.kr/kor_service/lawView.do?hseq=55599&lang=ENG) (accessed on December 23, 2022).

<sup>9</sup> Other legal formats include social enterprises and cooperatives (and related forms). These use different SME definitions.

<sup>10</sup> Before 2015, a firm with annual sales exceeding a threshold, but with fewer employees than a certain upper bound or with less capital than an upper bound was also considered an SME. As both variables could be easily manipulated, MSS adopted a single criterion of annual sales in 2015 (MSS, 2022).

Main activity	Upper bound	
	In billion KRW	In million USD
Wholesale and retail trade; repair of motor vehicles and motorcycles (G)		
Manufacturing (C11, C18, C21, C23, C27, C33)	80	62
Water supply; sewerage, waste management, and remediation activities (E)		
Transportation and storage (H)		
Information and communication (J)		
Manufacturing (C34)	60	46
Professional, scientific, and technical activities (M)		
Administrative and support service activities (N)		
Human health and social work activities (Q)		
Arts, entertainment, and recreation (R)		
Other service activities (S)		
Accommodation and food service activities (I)	40	31
Financial and insurance activities (K)		
Real estate activities (L)		
Administrative and support service activities (N76)		
Education (P)		

Source: Elaboration by the author based on the Enforcement Decree of The Framework Act on Small and Medium Enterprises.

Note: When a sector has more than one upper bound, the most detailed applies. Main sectors follow the ISIC Rev.4.

The second criterion is ownership. This criterion rules out cases of small enterprises belonging to bigger corporate groups that are not SMEs. The ownership criterion has a negative list of three cases: i) belonging to a large conglomerate; ii) whose largest shareholder (of at least 30% of outstanding stocks) has total assets exceeding 500 billion KRW (approximately 385 million USD); iii) belonging to an enterprise that does not meet the sales criterion above. An enterprise is not considered an SME if it corresponds to any of the three cases.

## B. Participation of SMEs in the economy and exports

Most enterprises in Korea are SMEs (see table 3). In 2019, there were 6.9 million SMEs and 5,271 "large" enterprises. In recent years, SMEs accounted for about 99.9% of all firms. As such, Korea has the highest share of SMEs among the OECD countries (Jones and Lee, 2018).

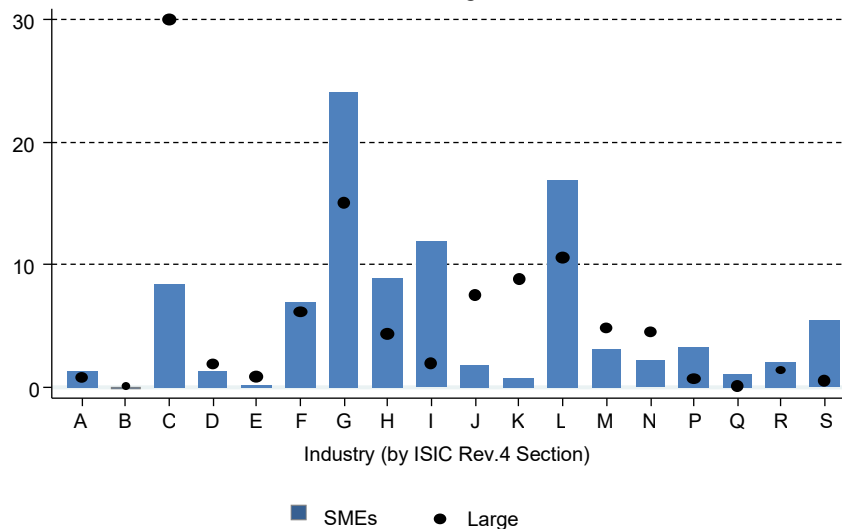
**Table 3**  
**Korea: numbers and shares of SMEs and large enterprises, 2015–2019**  
*(Percentages and numbers)*

Year	Small and medium enterprises			Large enterprises		
	Number	Share in total	Annual growth	Number	Share in total	Annual growth
2019	6 888 435	99.92	3.76	5 271	0.08	4.13
2018	6 638 694	99.92	5.44	5 062	0.08	5.39
2017	6 296 210	99.92	3.54	4 803	0.08	6.26
2016	6 080 914	99.93	3.25	4 520	0.07	7.85
2015	5 889 611	99.93	N/A	4 191	0.07	N/A

Source: Elaboration by the author based on Statistics Korea, "Statistical Business Registers," [http://211.253.148.159:8083/statHtml/statHtml.do?orgId=142&tblId=DT\\_BR201&conn\\_path=13](http://211.253.148.159:8083/statHtml/statHtml.do?orgId=142&tblId=DT_BR201&conn_path=13) (accessed on January 7, 2023).

Most SMEs are concentrated in wholesale and retail trade, as figure 1 shows. In 2019, more than 24% of these firms were in "Wholesale and retail trade; repair of motor vehicles and motorcycles" (Section G of ISIC Rev.4), while that share among large enterprises was 15%. Similarly, 12% of SMEs were in "Accommodation and food service activities" (Section I), compared to only 2% of large enterprises. Large enterprises are more heavily concentrated in manufacturing (Section C): 30% compared to only 8% of SMEs. Also, 7% and 9% of large enterprises were in "Information and communication" (Section J) and "Financial and insurance activities" (Section K), respectively, while the corresponding shares among SMEs were negligible.

**Figure 1**  
**Korea: industry distribution of SMEs and large firms, 2019**  
*(Percentages)*



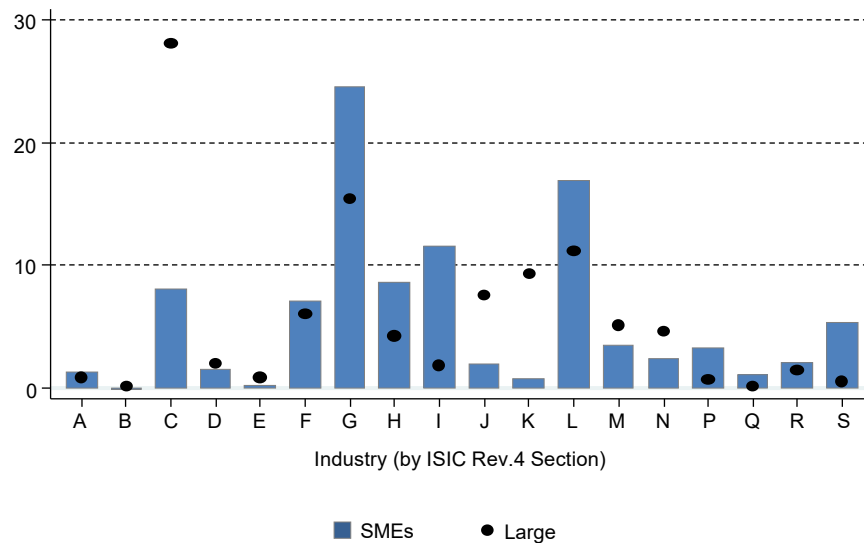
Source: Elaboration by the author based on Statistics Korea, "Statistical Business Registers," [https://kosis.kr/statHtml/statHtml.do?orgId=142&tblId=DT\\_BR301&conn\\_path=13](https://kosis.kr/statHtml/statHtml.do?orgId=142&tblId=DT_BR301&conn_path=13) (accessed on January 8, 2023).

Notes: A: Agriculture, forestry, and fishing; B: Mining and quarrying; C: Manufacturing; D: Electricity, gas, steam and air conditioning supply; E: Water supply, sewerage, waste management and remediation activities; F: Construction; G: Wholesale and retail trade; repair of motor vehicles and motorcycles; H: Transportation and storage; I: Accommodation and food service activities; J: Information and communication; K: Financial and insurance activities; L: Real estate activities; M: Professional, scientific and technical activities; N: Administrative and support service activities; P: Education; Q: Human health and social work activities; R: Arts, entertainment and recreation; and S: Other service activities.

This pattern remained in 2020, when the COVID-19 pandemic hit the economy (see figure 2). This suggests that compared to large enterprises, SMEs in Korea are concentrated in labor-intensive industries.

The SMEs' share in the total number of exporting firms is slightly below their share in all firms but still represents approximately 97% of the total (table 4). Their number and share increased until the start of the COVID-19 pandemic in 2020 but dropped afterward. In contrast, larger enterprises' number and share did not decline.

**Figure 2**  
Korea: industry distribution of SMEs and large firms, 2020  
(Percentages)



Source: Elaboration by the author based on Statistics Korea, "Statistical Business Registers," [https://kosis.kr/statHtml/statHtml.do?orgId=142&tblId=DT\\_BR301&conn\\_path=I3](https://kosis.kr/statHtml/statHtml.do?orgId=142&tblId=DT_BR301&conn_path=I3) (accessed on January 8, 2023).

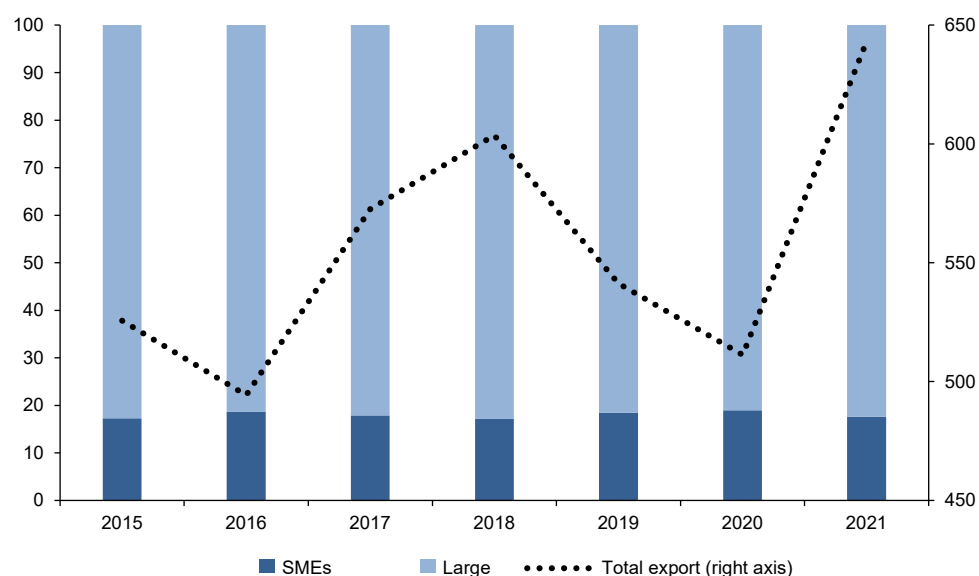
**Table 4**  
Korea: numbers and shares of SMEs and large firms in exports, 2015–2021  
(Percentages and numbers)

Year	Small and medium enterprises			Large enterprises		
	Number	Share in total	Annual growth	Number	Share in total	Annual growth
2021	91 513	96.72	-2.57	3 102	3.28	-0.39
2020	93 926	96.79	-0.64	3 114	3.21	7.79
2019	94 529	97.03	1.11	2 889	2.97	5.17
2018	93 490	97.15	2.19	2 747	2.85	12.63
2017	91 483	97.40	1.02	2 439	2.60	-1.89
2016	90 556	97.33	2.64	2 486	2.67	-1.97
2015	88 225	97.21	N/A	2 536	2.79	N/A

Source: Elaboration by the author based on Statistics Korea, "Trade Statistics by Firm Characteristics," [https://kosis.kr/statHtml/statHtml.do?orgId=101&tblId=DT\\_1TEC229&conn\\_path=I3](https://kosis.kr/statHtml/statHtml.do?orgId=101&tblId=DT_1TEC229&conn_path=I3) (accessed on January 22, 2023).

In recent years, SMEs represented about 20% of total exports (Figure 3). While Korea's exports showed strong fluctuations around an increasing trend, the share of SMEs remained stable between 17% and 19% during 2015-2021. Its lowest value was 17.1% in 2018, and its highest was 19.0% in 2020, suggesting that the SMEs' share rose when total exports fell and vice versa. A significant difference in SMEs' shares among exporters and export values is not unique to Korea. In the United States, for instance, SMEs accounted for about 96% of exporters but only 26% of export value. Only about 3% of SMEs participate in exports (Congressional Research Service, 2022).

**Figure 3**  
Korea: total exports and SMEs' share, 2015–2021  
(Percentages and trillion USD)



Source: Elaboration by the author based on Statistics Korea, "International Trade Statistics by Firm Characteristics," [https://kosis.kr/statHtml/statHtml.do?orgId=101&tblId=DT\\_1TEC116&conn\\_path=13](https://kosis.kr/statHtml/statHtml.do?orgId=101&tblId=DT_1TEC116&conn_path=13) (accessed on January 8, 2023).

The average SME export is much smaller than large enterprise exports (see table 5). Exporting SMEs sold abroad an average of 1.24 million USD in 2021, while large enterprises' average foreign sales were 171 million USD. The 20% increase in 2021 for the average SME export value may be related to the reduction in the number of exporting SMEs, as shown in Table 4 above, due to the COVID-19 pandemic. The average export value of SMEs has been more stable than large enterprises.

**Table 5**  
Korea: average export value of SMEs and large firms, 2015–2021  
(Percentages and million USD)

Year	Small and medium enterprises		Large enterprises	
	Average export value (Million USD)	Annual growth	Average export value (Million USD)	Annual growth
2021	1.24	20.10	170.74	28.35
2020	1.03	-2.26	133.03	-12.92
2019	1.06	-4.49	152.77	-16.10

Year	Small and medium enterprises		Large enterprises	
	Average export value (Million USD)	Annual growth	Average export value (Million USD)	Annual growth
2018	1.11	-1.04	182.09	-5.57
2017	1.12	10.09	192.83	19.15
2016	1.02	-1.51	161.84	-5.59
2015	1.03		171.41	

Source: Elaboration by the author based on Statistics Korea, "Trade Statistics by Firm Characteristics," [https://kosis.kr/statHtml/statHtml.do?orgId=101&tblId=DT\\_1TEC229&conn\\_path=13](https://kosis.kr/statHtml/statHtml.do?orgId=101&tblId=DT_1TEC229&conn_path=13) (accessed on January 22, 2023).

Note: Average export value is total exports divided by the number of exporters. Growth is from the previous year.

Their concentration in low-export-intensity sectors partly explains the SMEs' relatively low participation in exports. These include "Wholesale and retail trade; repair of motor vehicles and motorcycles" (Section G of ISIC Rev.4 Section) and "Accommodation and food service activities" (Section I). In contrast, most large firms are in high-export-intensity sectors such as manufacturing (Section C). Table 6 shows that exporters in wholesale and retail trade export much less than their counterparts in manufacturing, not only in total but also on average. This is true both for SMEs and large firms.

**Table 6**  
Korea: export intensity by sector and firm size, 2019  
(Million USD)

	Wholesale and retail trade			Manufacturing		
	All	Large	SMEs	All	Large	SMEs
Total export (A)	67 525	33 058	34 467	454 921	393 896	61 025
N of exporters (B)	46 167	586	45 581	42 092	1 772	40 320
Average export (A/B)	2	56	1	11	222	2

Source: Elaboration by the author based on Statistics Korea, "Trade Statistics by Firm Characteristics," [https://kosis.kr/statHtml/statHtml.do?orgId=101&tblId=DT\\_1TEC313&conn\\_path=13](https://kosis.kr/statHtml/statHtml.do?orgId=101&tblId=DT_1TEC313&conn_path=13) (accessed on January 22, 2023).

Note: The values for 2019 are shown, as the 2020 figures may be biased due to the COVID-19 pandemic. Only two industries are compared due to data limitations. No similar data is available for other industries.

Large export enterprises are far more concentrated in manufacturing than are exporting SMEs (see table 7): 61% of large exporters and 89% of their export values are in manufacturing, compared to 43% of SME exporters and 61% of export value. Exporting SMEs are more concentrated in wholesale and retail trade than manufacturing, accounting for 48% of all exporting SMEs.

**Table 7**  
Korea: industry distribution of exporters by size, 2019  
(Percentages and thousands USD)

	All industries	Manufacturing	Wholesale and retail trade	Other industries
Number of exporters	94 529	40 320	45 581	8 609
Share	100	43	48	9
Export value	99 881 475	61 025 113	34 467 244	4 354 396
Share	100	61	35	4

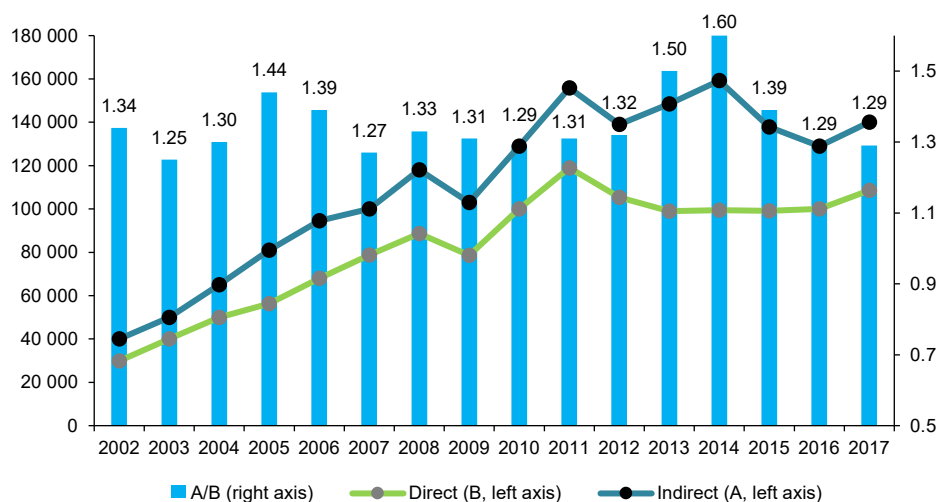
	All industries	Manufacturing	Wholesale and retail trade	Other industries
Large enterprises				
	All industries	Manufacturing	Wholesale and retail trade	Other industries
Number of exporters	2 889	1 772	586	527
Share	100	61	20	18
Export value	441 348 142	393 895 731	33 057 454	14 373 447
Share	100	89	7	3

Source: Elaboration by the author based on Statistics Korea, "Trade Statistics by Firm Characteristics," [https://kosis.kr/statHtml/statHtml.do?orgId=101&tblId=DT\\_1TEC313&conn\\_path=13](https://kosis.kr/statHtml/statHtml.do?orgId=101&tblId=DT_1TEC313&conn_path=13) (accessed on January 22, 2023).

Note: The values for 2019 are shown, as the 2020 data can be biased due to the COVID-19 pandemic. Only two sectors are shown due to data limitations. No similar data is available for other industries.

The relatively low participation of SMEs in total exports is also related to their critical role as providers of raw materials, intermediate goods, and services to large exporting firms. As a result, many SMEs are *indirect exporters* participating in large firm exporters' value chain rather than in direct exports (see figure 4).

**Figure 4**  
Korea: direct versus indirect export values of SMEs in Korea, 2002–2017  
(Million USD)



Source: Koo and others (2019), Figure 2-3.

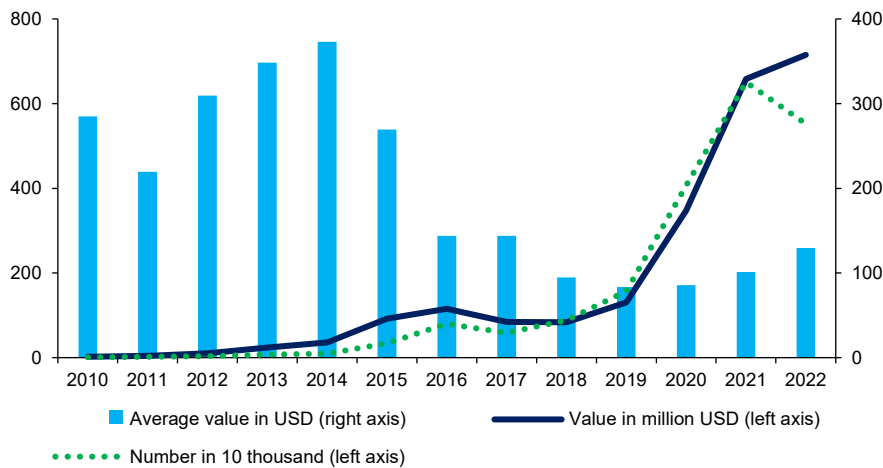
SME e-commerce exports have expanded fast in recent years (see figure 5) in terms of value and number of export operations<sup>11</sup>. The average annual growth rates from 2010 to 2022 were 75% and 90% for the value and number of export operations, respectively. As a result, the value of SMEs' e-commerce exports grew from 2 million USD in 2010 to a record high of 715 million USD in 2022. The number of e-commerce export operations shows a similar trend, although it dropped 15% in 2022. The average value of SME e-commerce export operations fell from 373 USD in 2014 to 84 USD in 2019 and fluctuated

<sup>11</sup> According to the Korea Customs Services, e-commerce refers to (parts of) the trade process, including ordering and payment, being carried out electronically.

around 100 USD afterward. This shows that lower-value products mostly drove SMEs' recent boom in e-commerce export operations.

Despite its recent boom, e-commerce's participation in total SME exports remains negligible, although more considerable than that of exporters of all sizes (figure 6). The e-commerce share remains far below 1%, although it showed a similar, rapidly increasing trend. This contrasts with e-commerce's share in the number of export operations, which grew from less than 1% in 2010 to 50% in 2020 and 60% in 2021. This illustrates that lower-valued products drove the recent expansion of SME e-commerce exports. It also suggests that most SME e-commerce exporters are within the wholesale and retail trade, with relatively low average values of export operations.<sup>12</sup> This finding seems to be supported by the fact that the share of e-commerce in total exports is more significant for SMEs than for exporters of all sizes.

**Figure 5**  
Korea: value and number of SMEs' e-commerce export operations, 2010–2022



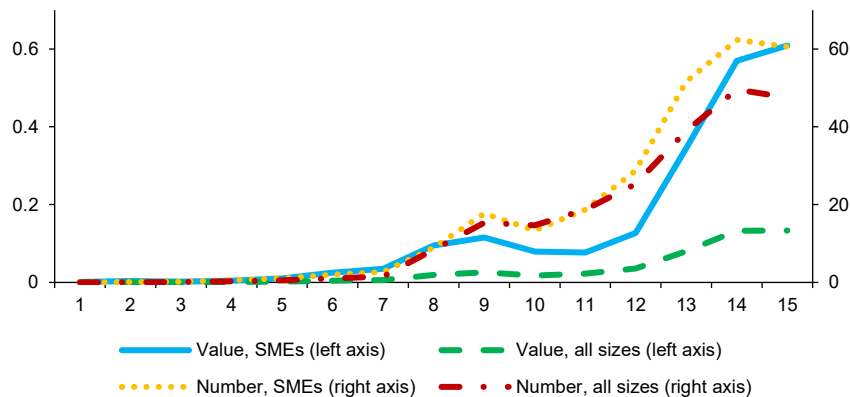
Source: Elaboration by the author based on Korea Trade Statistic Promotion Institute (KTSPI), "E-commerce exports and imports statistics," <https://www.bandtrass.or.kr/theme/ecommerce.do?command=THE005View&viewCode=THE00501> (accessed on February 25, 2023).

The low share of e-commerce in total SME exports may be linked to exporting SMEs' general slow digital transformation. For example, Eom's (2021) survey of these firms shows that a mere 14% of the respondent SMEs had some understanding of digital transformation, and only 26% thought it benefitted their businesses. Less than 18% were doing something related to digital transformation, and a mere 5% used digital technologies for export. Moreover, combining this survey data with other information, Eom (2021) failed to find a significant impact of digital transformation on export performance. Other studies around the same time echo this. For instance, in a survey by the Korea Federation of SMEs (KBIZ, 2021), less than 17% of the respondent SMEs were preparing for digital transformation. However, this share was slightly higher for exporting SMEs (21%) and especially for exporting SMEs in manufacturing (22%) than for non-exporting SMEs (11%). Similarly, the survey conducted by Kim (2022) demonstrates that exporting SMEs in Korea rely on conventional methods of international marketing, such as offline exhibitions and in-person visits to buyers and marketing agencies. Social networking services are only used by 5.8% of businesses and 4.2% of e-commerce platforms. Older SME exporters typically rely more on conventional methods than on social media or e-commerce platforms. In terms of automation, more than half of the SMEs who responded (54%) had

<sup>12</sup> It seems no data on e-commerce export by industry is publicly accessible.

not implemented any automation in their business operations, and the majority of those had only implemented barcodes and RFID (Radio-Frequency Identification) for their products. Compared to older SMEs, newer ones typically participate significantly less in automation.

**Figure 6**  
Korea: shares of e-commerce in total value and number of SMEs' export operations, 2010–2022  
(Percentages)



Source: Elaboration by the author based on Korea Trade Statistic Promotion Institute (KTSP), "E-commerce exports and imports statistics," <https://www.bandtrass.or.kr/theme/ecommerce.do?command=THE005View&viewCode=THE00501> (accessed on February 25, 2023).

Most SMEs that participated in the Eom (2021) survey do not expect any benefit from digital transformation on their export performances. Over 77% of respondents said it did not broaden their export destinations or products. Only 10% agreed that it facilitated their exports. Eom's econometric analysis confirms these negative self-assessments. Kim's survey of exporting SMEs also found similar negative self-assessments. More than half of the 550 SMEs that had not introduced automation said they did not feel the need to do so.

Such negative findings on Korean SMEs' digitalization are consistent with the evidence presented by Jones and Lee (2018). Despite Korea's image as a leader in ICT, the share of innovative firms among SMEs in Korea is merely at the OECD average, and the share of Korean SMEs with "emerging technologies" generated by ICT, such as sensors, robots and 3D printing, or smart factories is small. For instance, the share of Korean SMEs using cloud computing technology and big data was far below the OECD average. The degree of automation among exporting SMEs in Korea is also shallow because they do not see their usefulness.

The slow digitalization process of SMEs combined with their low share in total exports motivates the government's support to SMEs to increase their participation in exports in general and cross-border e-commerce in particular. Most SMEs do not consider digitalization, particularly cross-border e-commerce, a chance to begin or increase their exports. This is possibly due to the lack of information, skills, and resources or administrative barriers, as suggested by the reviewed studies in Section II.



### III. Overview of support programs

Government support for SMEs' exports started in the early 1990s, focusing on agricultural products and fisheries (Kim, 2019). Support for SMEs' manufacturing exports began after the financial crisis of the late 1990s. It supported overseas marketing, such as participating in exhibitions, and provided direct in-kind support, such as office spaces in overseas markets. Its scope broadened in the 2000s to include Information and Communications Technology (ICT), creative and professional services, and medical services in the 2010s.<sup>13</sup>

Different ministries and their agencies support SME exports (see diagram 1). Export support programs focus on operational, informational, and financial support (e.g., Catanzaro, Messegem, and Sammut, 2019; Catanzaro and Teyssier, 2021). Diagram 1 also shows the central area of support of each agency. Multiple organizations provide financial assistance, whereas KOSME and KOTRA mainly provide operational support.

The current government, which took office in May 2022, has added logistics as a new area of SMEs' export support.<sup>14</sup> It announced 120 policy goals, of which five target SMEs.<sup>15</sup> Two of these (Tasks 31 and 32) focus on SME support, while three others (Tasks 29, 30, and 33) promote competition (i.e., fair trade or level playing field). Task 31 (*restructuring SME policies for private sector-led innovative growth*) contains one component for SMEs' exports. It aims to strengthen logistics for SMEs' exports and increase the number of SMEs with exports exceeding 10 million USD from 2,262 in 2021 to 2,400.<sup>16</sup>

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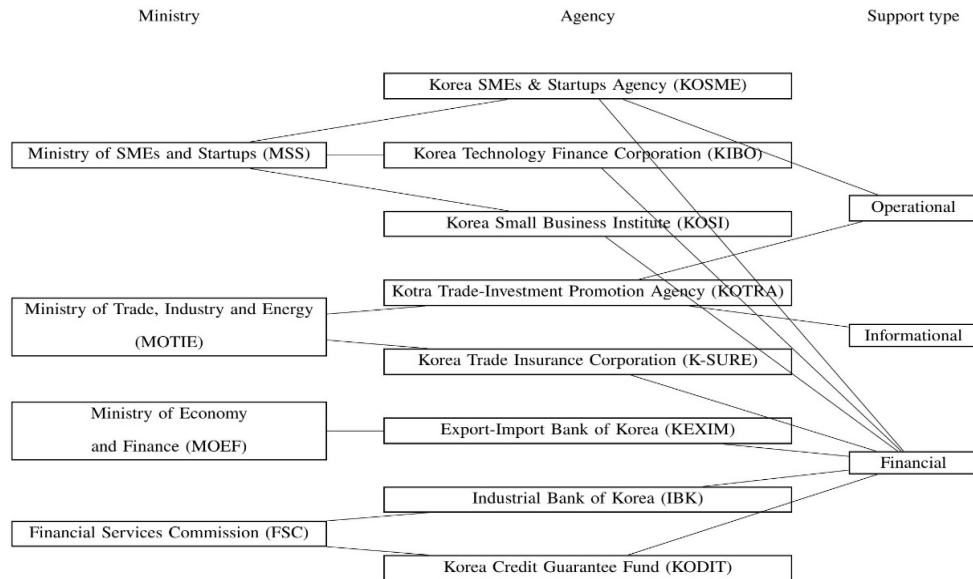
<sup>13</sup> See Lee (2021) for a longer review of Korea's export promotion policies.

<sup>14</sup> "SMEs and Ventures as the Main Driver of Our Economy," Policy Brief (May 30, 2022), <https://www.korea.kr/news/policyNewsView.do?newsId=148902073> (accessed on January 5, 2023).

<sup>15</sup> Government of the Republic of Korea (2022).

<sup>16</sup> While the Task does not specify a target date for this goal, the administration's term ends in 2027. Task 32 (constructing a complete venture ecosystem from pre-startups to global unicorns) focuses on supporting startups, and has no component for SME's export.

**Diagram 1**  
**Central ministries and agencies providing support for SME exports**



Source: Elaboration by the author.

Note: Only suggestive for significant support programs for SMEs' export by central agencies in Korea. Neither exhaustive nor complete.

The MSS and MOTIE are the central ministries to support SMEs' exports. The MSS operates different agencies to support SMEs, of which KOSME focuses on SME exports (Lee, 2021). As part of MOTIE, KOTRA promotes Korean exports through a global network of 129 offices in 84 countries.<sup>17</sup> KOTRA mainly targets SMEs (Lee, Chung and Kim 2011).

MSS's budget to promote SMEs' exports was about 195 billion KRW (approximately 150 million USD) in 2021 and slightly less in 2022 (see Table 8). It operates nine programs, of which the Export Voucher is the largest, accounting for over half the total budget. The e-commerce program is the second largest, accounting for about 20%. Since its creation in 2017, it grew very fast, from about 10 billion KRW (about 8 million USD) in 2017 to about 38 billion KRW (about 29 million USD) in 2021, and then declined slightly in 2022. Some categories, such as Designation of High Export-potential SMEs, had no budget but are linked to other benefits. For instance, if an SME is designated as having a High export potential, it has advantages in applying for other support programs by MSS and other Ministries or agencies.<sup>18</sup> Export Incubator and K-startup Center were to support SMEs in export destinations by, for instance, offering office spaces or consulting.

<sup>17</sup> There is also the Korea International Trade Association (KITA hereinafter), which is a private organization based on membership, who supports exports of, and only of, their members, of all sizes. As such, the current report does not cover KITA in detail. See Lee (2021) for an overview of policies and agencies related to supporting SMEs' exports.

<sup>18</sup> For instance, the designated SME has a priority when applying for certain support programs by KOTRA, including foreign exhibition, foreign marketing and promotion (Ministry of SMEs and Startups 2021).

**Table 8**  
**Ministry of SMEs and Startups: budget for SMEs' export support programs, 2021–2022**  
*(Percentages)*

Category	2021				2022			
	Budget		Share	N of target participants	Budget		Share	N of target participants
	KRW	USD			KRW	USD		
Export Voucher	106.4	81.9	54.5	3 125 SMEs	107.5	82.8	55.6	3 972 SMEs
Export Consortium	10.4	8.0	5.3	103 Consortia	14.1	10.9	7.3	120 Consortia
E-commerce	37.9	29.2	19.4	5 500 SMEs	36.7	28.3	19.0	5 807 SMEs
Overseas Certification Acquisition	15.3	11.8	7.8	720 SMEs	15.3	11.8	7.9	630 SMEs
Designation of High Export-potential SMEs	0.0	0.0	0.0	1 000 SMEs	0.0	0.0	0.0	1 000 SMEs
Export Incubator	0.0	0.0	0.0	-	0.0	0.0	0.0	-
K-startup Center	0.0	0.0	0.0	120 SMEs	0.0	0.0	0.0	120 SMEs
Joint Export between Big Firms and SMEs	19.0	14.6	9.7	1 320 SMEs	17.1	13.2	8.8	1 200 SMEs
Brand K	6.2	4.8	3.2	200 SMEs	2.6	2.0	3.2	300 SMEs
Total	195.2	150.3	100.0	-	193.3	148.8	100.0	-

Source: Elaboration by the author based on the Ministry of SMEs and Startup (2021, 2022).

The e-commerce program had six initiatives in 2021:<sup>19</sup>

- (i) Sales agent: Under this initiative, experienced e-commerce sellers in Korea are hired as sales agents. Participating SMEs register their products with these sellers, promoting them abroad. The agents play a crucial role in selecting the SMEs' export products.
- (ii) Entry facilitation: This program supports SMEs' participation in global e-commerce platforms. It targets those SMEs with little experience in e-commerce export.
- (iii) Direct sale: This helps SMEs export via their websites, apart from via global e-commerce platforms just mentioned. For this purpose, it helps SMEs establish and promote their own websites.
- (iv) Joint logistics: This offers joint logistics for SMEs' e-commerce exports to reduce costs.<sup>20</sup>
- (v) Joint marketing: This employs global e-commerce platforms to promote Korean SMEs' e-commerce exports.
- (vi) Marketplace GOBIZ: This shows the SMEs' products and connects to foreign buyers (see diagram 2).

<sup>19</sup> Ministry of SMEs and Startups (2021).

<sup>20</sup> The next section of this report contains further descriptions of this.

**Diagram 2**  
**GOBIZ: marketplace for Korean SMEs**



Source: Gobiz Korea website, "Exhibition," <https://www.gobizkorea.com/user/goods/gobizExhibitionList.do> (accessed December 7, 2022).

The remainder of this section reviews the support programs operated by KOSME and KOTRA. Table 9 presents general information about both organizations.

**Table 9**  
**General information about KOTRA and KOSME, 2023**

		KOTRA	KOSME
Budget	In million KRW	586 160	10 239 834
	In million USD	442	7 724
Number of employees		1 300	1 421
Number of foreign offices		128	24
Ministry in charge of		MOTIE	MSS
English website		<a href="https://www.kotra.or.kr">https://www.kotra.or.kr</a> (accessed on May 19, 2023)	<a href="https://www.kosmes.or.kr">https://www.kosmes.or.kr</a> (accessed on May 19, 2023)

Source: Public disclosure of KOTRA and KOSME on ALIO, <https://www.alio.go.kr/main.do?pcVer=Y> (accessed May 19, 2023).

## A. KOSME

Most of MSS' support programs for SMEs' exports are operated by KOSME (Lee, 2021). The Small and Medium Enterprises Promotion Act establishes KOSME.<sup>21</sup> It runs nine support programs for cross-border e-commerce through its website, Gobiz Korea (see table 10).<sup>22</sup> Applications for the e-commerce programs are made on Gobiz Korea.<sup>23</sup> Some are not directly related to e-commerce exports, such as emergency matchmaking for those dependent on exports to Russia or Ukraine.

<sup>21</sup> English text of the Act is available at [https://elaw.klri.re.kr/kor\\_service/lawView.do?hseq=54872&lang=ENG](https://elaw.klri.re.kr/kor_service/lawView.do?hseq=54872&lang=ENG) (accessed on January 10, 2023).

<sup>22</sup> Their English website: <https://www.gobizkorea.com/user/main.do> (accessed on December 7, 2022).

<sup>23</sup> While the titles of KOSME's support programs may differ from the MSS' described above, each of KOSME's program falls into one or more of the categories of MSS' support programs.

**Table 10**  
**Gobiz Korea: nine support programs**

Title	Goal	Description
Online export platform	Facilitation of using Gobiz Korea's e-commerce platform	<ul style="list-style-type: none"> <li>Target group: 250 SMEs</li> <li>Main support: the creation of an online store on Gobiz Korea; online marketing</li> </ul>
Purchase offer post-management	Support for export operations for the SMEs that have online stores on Gobiz Korea by export experts	<ul style="list-style-type: none"> <li>Target group: around 2,000 SMEs</li> <li>Main support: agency for each stage of export operations, from searching and inspecting inquiries, matching with buyers, negotiation, and contracting</li> </ul>
Chinese media content marketing	Regular live promotion shows on major platforms in China	<ul style="list-style-type: none"> <li>Target group: around 250 SMEs</li> <li>Main support: the creation of digital promotion content, live commerce, promotion</li> </ul>
Global shopping mall sales	Entry into global e-commerce platforms	<ul style="list-style-type: none"> <li>Target group: around 1,350 SMEs</li> <li>Main support: support for the entry into global e-commerce platforms in significant e-commerce markets, including North America, China, Japan, and ASEAN</li> </ul>
Online exhibition	Online exhibitions on Gobiz Korea	<ul style="list-style-type: none"> <li>Target group: around 130 SMEs</li> <li>Main support: creation of online exhibition, online trade show; collaboration with offline exhibitions abroad</li> </ul>
Joint logistics project logistics support	Reduction of logistics costs by economies of scale	<ul style="list-style-type: none"> <li>Target group: around 1,714 SMEs</li> <li>Main support: reduced logistics fees for e-commerce export</li> </ul>
Fulfillment linked marketing	Reduction of fulfillment services fee by economies of scale	<ul style="list-style-type: none"> <li>Target group: around 400 SMEs</li> <li>Main support: reduced fees for fulfillment services that are linked with selected e-commerce platforms</li> </ul>
Online export package	Composite export support for promising SMEs	<ul style="list-style-type: none"> <li>Target group: around 100 SMEs</li> <li>Main support: package of existing support programs</li> </ul>

Source: Author's translation of Gobiz Korea website, <https://kr.gobizkorea.com/kruser/main.do> (accessed on April 27, 2023).

Note: Chrome translated Titles from Korean (accessed on April 27, 2023) to match Figure 4-2.

## B. KOTRA

KOTRA promotes cross-border trade and investment. It is established by law, *the Korea Trade-Investment Promotion Agency Act*.<sup>24</sup> The Act allows government funding for KOTRA. Table 11 shows KOTRA's budget for 2023 by categories.

**Table 11**  
**KOTRA: budget by categories of primary activities, 2023**

Category	In million KRW	In thousand USD
Training program	1 394	1 073
Foreign investment attraction	3 957	3 046
Strategic marketing	263 145	202 567
Information Research	10 264	7 901
Rental business	2 140	1 647
Special project	55 746	42 913

Source: Public disclosure of KOTRA on ALIO, <https://www.alio.go.kr/main.do?pcVer=Y> (accessed May 19, 2023).

Note: Category names are translated from Korean by Chrome. Categories only suggestive, i.e., non-exhaustive of KOTRA's budget.

<sup>24</sup> English text of the Act is available at [https://elaw.klri.re.kr/kor\\_service/lawView.do?hseq=52965&lang=ENG](https://elaw.klri.re.kr/kor_service/lawView.do?hseq=52965&lang=ENG) (accessed on January 10, 2023).

KOTRA's support activities for SME exports are nested within its vast global network, including 129 offices in 84 countries. This network helps find potential buyers for Korean products and reduces the risk of scams because offers from abroad are screened by KOTRA's overseas offices (Koo and others, 2021). As discussed in Section 2, the lack of information and communication difficulties related to foreign buyers and markets are some of the significant challenges faced by exporting Korean SMEs. KOTRA's country offices help overcome these challenges by inviting buyers and screening offers. KOTRA runs a B2B (Business-To-Business) e-commerce platform for Korean exporters and foreign buyers, *BuyKorea*.<sup>25</sup>

KOTRA's overseas offices provide information (i.e., market research) on and carry out marketing campaigns in foreign markets (Lee, Chung and Kim 2011). KOTRA's offices support Korean SMEs by organizing foreign exhibitions, trade missions, and market research on foreign markets.

An example of a KOTRA support program is the "Entry into the Distribution Network in Austria, the European Testbed."<sup>26</sup> KOTRA office in Vienna, Austria, has collected 18 specific inquiries for Korean suppliers from 4 distributors in Vienna. These inquiries are for home electronics such as air purifiers and robot cleaners from Baytronic Handels GmbH. KOTRA publishes these inquiries on its website. Interested SMEs in Korea examine these inquiries and apply for them on KOTRA's website. The KOTRA office in Vienna receives these applications, discusses them with the distributor, and gets back to the applicant SME. KOTRA in Vienna then arranges an online meeting with the applicant and distributor. Selected applicants are also invited to join an offline trade mission to Vienna.

Each country office continuously researches relevant information on the country, where it is based on a regular and ad-hoc basis. It supplies information for potential exporters to that country on its website, KOTRA Foreign Market News (<https://dream.kotra.or.kr/kotranews/index.do>). This country information includes a basic introduction, macro-economic situation, economic relations with Korea, trade-related information (customs, import tariffs, NTBs, logistics), and suggestions for export items. For Chile, for instance, it suggests exporting medical equipment (HS 9018), automotive parts (HS 8708.99), and cosmetics (HS 3304) (see diagram 3).

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<sup>25</sup> <https://origin.buykorea.org/bk/byr/potal/entryForm.do> (accessed on April 20, 2023).

<sup>26</sup> KOTRA, "Entry into the Distribution Network in Austria, the European Testbed," <https://www.kotra.or.kr/subList/2000005984/subhome/bizAply/selectBizMntInfoDetail.do?bizNo=DM0101220006&scrnSe=supBiz> (accessed on March 20, 2023).

**Diagram 3**  
**KOTRA: suggested items for Korean SMEs exports to Chile**

**Export Promising Item**

1) Promising export items ( products )				
item name 1	HS Code	9018	Import duty rate (%)	0%
Medical Equipment	Imports ('21/US\$ million )	558	Korea Imports ('21/US\$ million )	9.83
	Reason for selection	Rise in demand due to COVID -19, aging population and increase in chronic diseases		
	market trend	Total revenue in '21 \$ 558,423,220 (35.48%)		
	competitive trend	In 2021 , the No. 1 US (27.87%), No. 2 China (17.83%), No. 3 Germany (9.92%)		
	Advancement plan	- Finding local buyers , researching local markets and promoting products - As preference for European / American products is high, it is necessary to secure awareness to participate in exhibitions.		
item name 2	HS Code	8708.99	Import duty rate (%)	0%
Automotive Parts	Imports ('21/US\$ million )	154	Korea Imports ('21/US\$ million )	13.39
	Reason for selection	Demand for automotive parts with short replacement cycles is rising as there is no automobile manufacturing in Chile .		
	market trend	Total revenue in '21 \$ 154,517,093 (80.44%)		
	competitive trend	In 2021 , the No. 1 importing country is the United States (31.51%), No. 2 China (18.97%), No. 3 Korea (8.67%)		
	Advancement plan	- Implementation of brand marketing to increase market share - Establishment of strategies for genuine dealers and individual distributors		
item name 3	HS Code	3304	Import duty rate (%)	0%
cosmetics	Imports ('21/US\$ million )	303	Korea Imports ('21/US\$ million )	10.94
	Reason for selection	Demand for cosmetics is on the rise due to increased purchasing power from the growing middle class		
	market trend	Total revenue in '21 \$ 303,874,970 (73.68%)		
	competitive trend	France (15.75%), No. 2 USA ( 14.37%), No. 3 China (14.26%) in 2021		
	Advancement plan	- Designing strategies according to customers by product and income category - Targeting the organic and functional cosmetics market		

Source: Author's translation of KOTRA's Foreign Market News website, [https://dream.kotra.or.kr/kotranews/cms/nation/action/NatlemDetail.do?pageNo=&pagePerCnt=10&SITE\\_NO=3&MENU\\_ID=220&CONTENTS\\_NO=1&pUnntyCntCd=&pUnNatCd=&uperCd=2&ctgySn=485&lowerCtgySn=561&chkNatSn=152&pRegnCd=05&pNatCd=152](https://dream.kotra.or.kr/kotranews/cms/nation/action/NatlemDetail.do?pageNo=&pagePerCnt=10&SITE_NO=3&MENU_ID=220&CONTENTS_NO=1&pUnntyCntCd=&pUnNatCd=&uperCd=2&ctgySn=485&lowerCtgySn=561&chkNatSn=152&pRegnCd=05&pNatCd=152) (accessed on May 9, 2023).



## IV. Operational aspects of support programs

This section discusses five operational aspects of support programs for exporting SMEs: budget, application, selection, coordination between public and private actors, and evaluation. For each aspect, concrete examples are provided. Table 12 summarizes key features and examples for each of the five operational aspects discussed in this section.

**Table 12**  
**SMEs' export support programs: operational aspects and examples**

Operational aspect	Important features	Examples
Budget	<ul style="list-style-type: none"> <li>• Minimum amount required to cover fixed costs</li> <li>• Increasing demands for efficient use of public funds and performance evaluation against budget</li> </ul>	<ol style="list-style-type: none"> <li>1. Discounted Fees for E-commerce Export by KOSME <ul style="list-style-type: none"> <li>• No separate budget</li> <li>• KOSME negotiates discounted fees with logistics providers for exporting SMEs</li> </ul> </li> <li>2. Reimbursement of service fees by KOSME <ul style="list-style-type: none"> <li>• Preset target number of beneficiaries to guarantee a minimum per-beneficiary budget</li> </ul> </li> </ol>
Application	<ul style="list-style-type: none"> <li>• Burden to SMEs without enough human resources</li> <li>• Needs to extract necessary information necessary for the selection of the suitable applicants</li> </ul>	<ol style="list-style-type: none"> <li>1. KOSME's online application system <ul style="list-style-type: none"> <li>• The application process is entirely online, with application support centers and semi-automatic submission of necessary official documents</li> </ul> </li> </ol>
Selection	<ul style="list-style-type: none"> <li>• Targeting of SMEs, e.g., more likely to leverage support programs for exportation or in more significant need of support</li> <li>• The lower the selection criteria, the higher the application and utilization</li> </ul>	<ol style="list-style-type: none"> <li>1. Online Export Platform by KOSME <ul style="list-style-type: none"> <li>• Selection based on a scoring system of 100 points: 50 points on competitiveness, 20 points on readiness and willingness, 30 points on contribution to employment</li> </ul> </li> <li>2. Discounted Fees for E-commerce Export by KOSME <ul style="list-style-type: none"> <li>• Minimal selection (any exporter with general eligibility) because no separate budget is involved</li> </ul> </li> <li>3. Reimbursement of service fees by KOSME <ul style="list-style-type: none"> <li>• Evaluation of applications by KOSME and designated service providers, giving favors to minorities</li> <li>• Upper bound for each candidate set by evaluation</li> <li>• Final decision by a selection committee of experts based on KOSME's evaluation</li> </ul> </li> </ol>

Operational aspect	Important features	Examples
Coordination among different players	<ul style="list-style-type: none"> <li>Division of labor among specialized players, coordinated by the agency</li> </ul>	<ol style="list-style-type: none"> <li>Joint Logistics for E-commerce Export by KOSME <ul style="list-style-type: none"> <li>KOSME's negotiates discounted fees with logistics companies</li> <li>Exporters subcontract directly with logistics companies and apply for support</li> <li>KOSME selects beneficiaries</li> <li>Logistics companies deliver services at discounted fees</li> <li>Beneficiaries pay to logistics companies</li> </ul> </li> <li>KOTRA's K-Studio <ul style="list-style-type: none"> <li>KOTRA's design and organization of different actors</li> <li>Local governments and public organizations offering physical space for studios and recruiting participant SMEs</li> <li>Local universities recruiting their students as production staff to create digital marketing content</li> </ul> </li> </ol>
Evaluation	<ul style="list-style-type: none"> <li>Provision of incentives for performance to operators and for due efforts to participants</li> <li>Feedback into operators' payoffs and participants' benefits from current and future programs</li> </ul>	<ol style="list-style-type: none"> <li>KOTRA's evaluation system based on KPIs <ul style="list-style-type: none"> <li>Performance at each level is evaluated based on KPIs and fed back into payoffs, with a real-time online evaluation system</li> <li>Considered to be the key to KOTRA's success</li> </ul> </li> <li>Sanctions in KOSME's support programs <ul style="list-style-type: none"> <li>Exclusion from current and future programs and recall of benefits from the current program in case of misconduct or misreporting</li> </ul> </li> </ol>

Source: Elaboration by the author.

## A. Defining the budget

Defining an adequate budget is essential for a support program's performance. This is mainly when a program's performance is subject to scale economies. Some programs require a significant initial investment for their implementation (for example, to build software), after which the cost drops to almost zero, independent of the number of beneficiaries. Without this minimum budget, this program will probably not be successful. Too large budgets may also be problematic, with costs outweighing the benefits. Underperforming support programs are particularly problematic because government resources are scarce, and cost performance evaluations are increasingly common in many countries (Catanzaro, Messeghem and Sammut 2019).

In some cases, programs require little or no budget. A notable example is the Discounted Fees for E-commerce Export offered by KOSME, which reduces the logistics cost of SMEs' e-commerce cross-border operations. In this case, the government negotiated discounted fees with logistics providers. The latter benefits many clients while exporting SMEs reduces logistics costs. In 2022, fifteen logistics companies offered discounted fees linked with this program.<sup>27</sup> Table 13 lists examples of the discounted fees vis-à-vis standard fees.

<sup>27</sup> The list of logistics companies and their detailed fees are available at [https://kr.gobizkorea.com/krcommon/baseFileDownload.do?file\\_path=/support/appForm/attach/2022/&file\\_nm=file\\_rprice\\_e8\\_2022.xlsx](https://kr.gobizkorea.com/krcommon/baseFileDownload.do?file_path=/support/appForm/attach/2022/&file_nm=file_rprice_e8_2022.xlsx) (accessed on December 21, 2022).

**Table 13**  
**Examples of discounted logistics fees, 2022**  
*(Dollars)*

Destination Weight (Kilograms)	US			China			Japan		
	Program (A)	EMS (B)	A/B	Program (A)	EMS (B)	A/B	Program (A)	EMS (B)	A/B
0.5	9.4	20.4	0.46	2.5	18.1	0.14	5 800	23 500	0.25
1.0	13.9	25.8	0.54	2.7	20.4	0.13	7 200	25 500	0.28
1.5	20.7	31.2	0.67	3.5	23.1	0.15	7 900	28 500	0.28
2.0	25.1	36.6	0.69	4.2	25.0	0.17	8 500	33 000	0.26

Source: Elaboration by the author based on Gobiz Korea website, "2022 Joint Logistics Program" [in Korean], <https://kr.gobizkorea.com/support/ebsns/supporteBsnsInfo.do?svc=e8> (accessed on December 21, 2022).

Budget performance also depends on the number of participants. Increasing the number of participants reduces the budget allocated for each participant for a given budget. This is why several Korean support programs for SME export have a targeted number of participants. For instance, the joint logistics program also aims to partially reimburse service fees for storage, fulfillment, and customs requirements.<sup>28</sup> The program reimburses 70% of such fees, up to 25 million KRW (approximately 20 thousand USD). An increase in the number of participants in this program raises its cost. As this program had a fixed budget in 2022, it defined a maximum of 500 participant SMEs.

## B. Application procedures

In many countries, applying for support programs is burdensome for SMEs, which lack human and financial resources. This, in turn, discourages their participation. Simplified application procedures reduce entry barriers to support programs, increasing the probability that interested SMEs will enroll. Nevertheless, institutions require enough information to evaluate and select suitable applicants.

KOSME's online application system is simple and transparent. For each program, KOSME calls for application on Gobiz Korea's website.<sup>29</sup> Each call includes details on the program's purpose, provided support, and application procedure. KOSME operates support centers by phone and email to answer possible queries. As applications often require submitting official documents, such as the firm's registration and tax records, KOSME runs a separate website, "One-click Application", where applicants can submit all documents in a few simple clicks.<sup>30</sup> KOSME also has a support center by phone for this latter step.

A clear example is the Online Export Platform by KOSME, "Gobiz Korea." This is a cross-border B2B e-commerce marketplace for SMEs. It has comprehensive help webpages to assist SMEs in creating product and seller pages, doing product reviews, and responding to inquiries and offers. The first part of the program targets 300 SMEs, offering up to 650 million KRW (about 500 thousand USD) support to each. The second part, offered exclusively to those SMEs that have already registered their products on Gobiz Korea, targets 1,700 SMEs.

The application process for the first part of the Online Export Platform includes ten documents (7 mandatory and three optional); see table 14. Two mandatory documents are official documents, certificates of the applicant firm's business registration, and tax clearance. These two official documents are submitted via, and only via, the One-click Application. By combining the process of accessing,

<sup>28</sup> Fulfillment service refers to the process from storage in the destination country to packing and delivery to the customer.

<sup>29</sup> <https://kr.gobizkorea.com/kruser/main.do> (accessed on March 6, 2023).

<sup>30</sup> [https://www.one-click.co.kr/cm/CM0100M001GE.nice?cporcd=097&pdt\\_seq=3&](https://www.one-click.co.kr/cm/CM0100M001GE.nice?cporcd=097&pdt_seq=3&) (accessed on March 6, 2023).

obtaining, and submitting official documents from different authorities, the One-click Application significantly reduces the time and effort required for application. This reduces the program's entry barriers, potentially discouraging potential applicants from applying. It also reduces the risk of documents being lost or forged.

**Table 14**  
**Application requirements for the GoBizKorea support program**

	Document	Submission channel
Mandatory	Application and export plan	Gobiz Korea
	Consents related to the applicant firm's information	
	Consents related to the applying person's information	
	Export record of the previous year	
	Certificate of employment insurance	One-click Application
	Certificate of business registration	
	Tax clearance certificate	Gobiz Korea
Optional	Product catalogs and promotion materials in Korean and English	
	Product certificates, intellectual property, and the like	
	Employment assessment	

Source: Elaboration by the author based on the sGobiz Korea website, "2022 Online Export Platform" [in Korean], <https://kr.gobizkorea.com/support/bsns/supportBsnsInfo.do?svc=plat> (accessed on March 6, 2023).

## C. Selection process

The selection process of support programs can prioritize SMEs most likely to succeed or require more support. Targeting the first type of SMEs increases the likelihood of the program's success, but governments may instead choose those firms with more significant needs. As such, the design of the selection process is not dichotomous but instead attaches relative weights to both options. Governments may also privilege SMEs according to other characteristics, like sector, job creation, or innovation potential.

In Korea, some support programs prioritize the likelihood of increasing exports but also consider other aspects. For example, the selection process of KOSME's Online Export Platform uses a scoring system of five categories (see table 15) totaling 100 points: 50 points refer to the applicant's competitiveness (including export competitiveness and marketing and management capacities) and another 20 points to the firm's readiness and willingness. Combined, 70 points are on the likelihood of increasing exports. The remaining 30 points refer to the applicant's potential contribution to employment creation.

**Table 15**  
**Scoring system for the selection of KOSME's online export platform**

Category	Score	Evaluation criteria
Purpose and willingness	20	<ul style="list-style-type: none"> <li>Relevance of purpose and direction, detailedness of the export plan</li> <li>Quality of application</li> </ul>
Export competitiveness	25	<ul style="list-style-type: none"> <li>Exportability of product</li> <li>Marketing activities in foreign markets during the last two years</li> <li>Possession of product certificates, intellectual property, and the like</li> </ul>
Marketing capacity	20	<ul style="list-style-type: none"> <li>Human resources in export and marketing</li> <li>Possession of catalogs and promotion materials in a foreign language</li> </ul>
Management capacity	5	<ul style="list-style-type: none"> <li>Quality of management and experience in the industry</li> </ul>

Category	Score	Evaluation criteria
Employment	30	• Quality and quantity of jobs
Total	100	

Source: Author's translation and interpretation of the call for application, <https://kr.gobizkorea.com/support/bsns/supportBsnsInfo.do?svc=plat> (accessed on March 5, 2023).

Programs without or with little cost tend to have minimal selection criteria. Many SMEs seem unaware of government support programs and have opposing views on their effectiveness. Low selection criteria could encourage application for support programs and increase their use. This would be particularly beneficial for programs with economies of scale. A good example is the discounted fees for e-commerce export mentioned above, one of the two components of the Joint Logistics for E-commerce Export. As the discounted fees program involves no cost, selection criteria are minimal, making almost any exporter eligible for these support programs.

As the joint logistics program includes partial reimbursement of the services fees for storage, fulfillment, and customs requirements, selection is more selective. Considering the critical role that service providers play in this program, the evaluation of applications is performed by KOSME alongside the designated service providers. Selection criteria include the export share in total sales, growth, and e-commerce export value. SMEs with specific characteristics, e.g., run by women or handicapped persons, are also privileged. For each selected firm, an upper bound of reimbursement is set. Finally, a selection committee of at least five experts makes the final decision based on KOSME's evaluation.

#### D. Coordination among different players

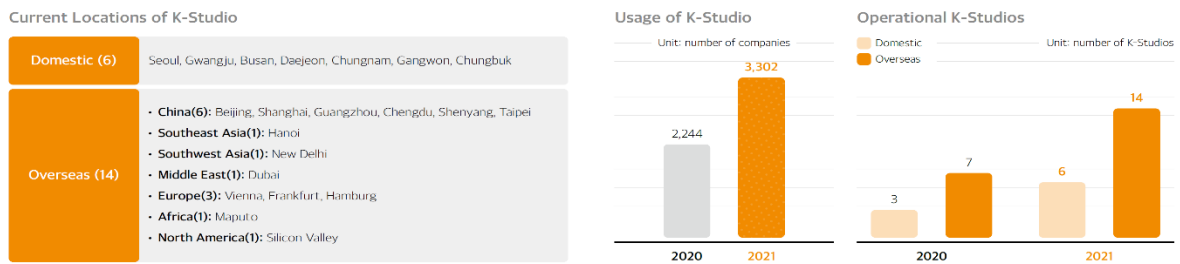
Coordination between public and private entities may increase the success of support programs. On the one hand, private actors may carry out some activities, such as logistics, more efficiently than public entities. On the other hand, the public sector may better perform other operations, such as providing subsidies and coordinating different actors.

The Joint Logistics for E-commerce Exports in Korea is a good example of public and private actors collaborating. It has two components. The first is discounted fees, negotiated by KOSME with selected logistics companies. KOSME also selects the SME beneficiaries, which subcontract the logistics services at discounted fees.

The second is the (partial) reimbursement of service fees for storage, fulfillment, and customs procedures; in this case, KOSME selects the service providers who announce their fees. Exporters sign contracts for services with these providers, which are partially reimbursed. KOSME selects the beneficiaries and the upper limits of reimbursement for each. The service providers deliver the contracted services and report the results to KOSME. If a beneficiary uses a designated services provider, it pays its share of fees to the provider; KOSME pays the rest directly to the services provider bimonthly. A beneficiary can also use service providers not designated by KOSME, such as Amazon-FBA, Shopee-SLS/FBS, Lazada-FBL, and eBay-Managed Delivery. In this case, the beneficiary first pays the fees to the services provider and applies for reimbursement to KOSME with all necessary information, which reimburses (if legitimate) bimonthly.

KOTRA's *K-Studio* support program is another example of public-private coordination (KOTRA 2021, 2022). One frequent obstacle for SMEs to engage in cross-border e-commerce is the lack of skills related to digital marketing and the high cost of outsourcing. K-Studio helps to solve this problem with six offices in different parts of Korea and 14 offices abroad.

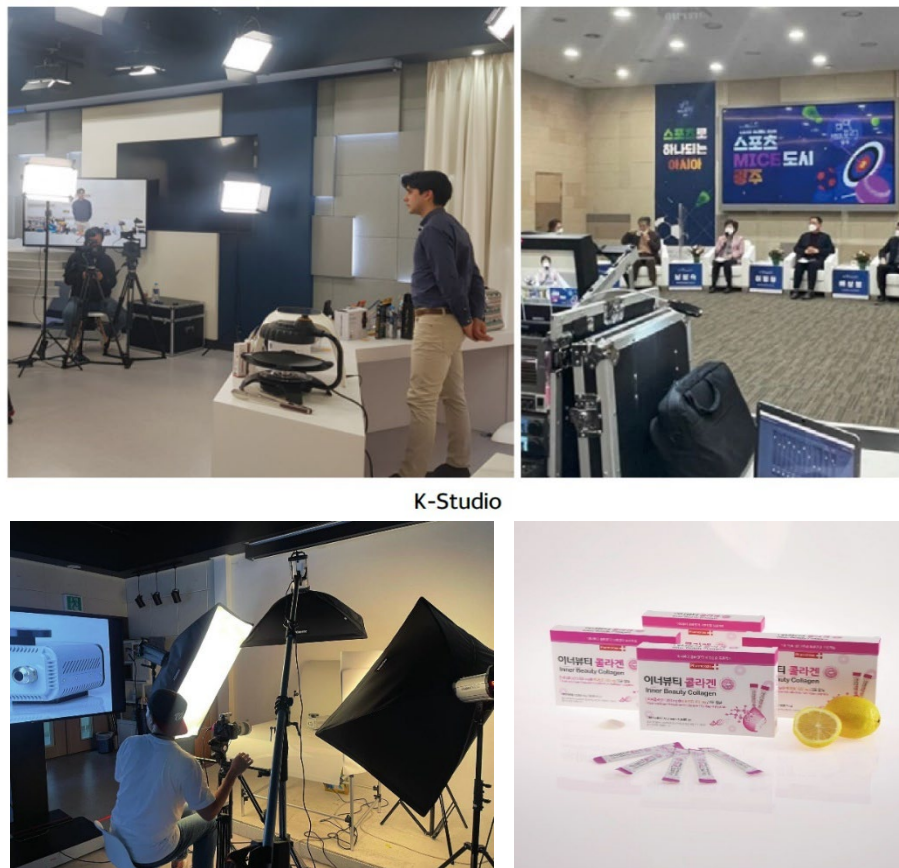
**Diagram 4**  
**Characteristics of K-Studios, 2021**



Source: KOTRA (2022), p. 45.

Local governments and public organizations, such as local chambers of commerce, offer physical space for studios, where digital marketing content is created for SMEs. The same entities select the beneficiary SMEs. Local universities recruit students, called *digital marketers*, as staff to produce digital content. There were 103 digital marketers in 2020 and 157 in 2021. KOTRA's role in K-Studio is the coordination of these different actors.

**Diagram 5**  
**Examples of K-Studio**



K-Studio

Source: KOTRA (2022), p. 45, and KOTRA website, "K-Studio Instructions" [in Korean], <https://www.kotra.or.kr/kp/module/upload/file/fileDown.do?atchFileId=20000087500&fileSn=1> (accessed on April 3, 2023).

## E. Evaluation

For a support program to be effective, the incentives of the program's operators need to be aligned with the program's performance. Misalignment of the incentives may result in inefficiencies, ineffectiveness, or other adverse side effects. Participants' commitment and efforts also affect a program's performance. If participants do not dedicate enough time and energy, the outcomes of a program may be poor despite its good intentions and hard work by operators. The evaluation of support programs needs to check if its operators' incentives align with those of the participants.

KOTRA's current evaluation system was created in the 2000s when the government reformed the overall evaluation system for the public sector (Lee, Chung and Kim, 2011). This reform was driven by evaluating the entity's previous incentives and indicators to measure performance. As a result, KOTRA introduced a new evaluation system in 2001 with multiple steps. First, it defined strategic goals and tasks to achieve these goals. Second, it selected Key Performance Indicators (KPIs) for tasks at each level in a cascading manner: from the top (KOTRA as a whole) to each subunit, including each overseas office and individual employees. Each evaluation feeds back into the rewards at each level. For each employee, for instance, the evaluation affects not only his or her remuneration but also promotion opportunities. KOTRA has a real-time online evaluation system called KOTRA Performance Evaluation System (KOPES) for practical evaluation and monitoring. KOTRA's KPIs include the number of export consults, export deals, and new buyers.

KOTRA's evaluation system offers strong performance incentives for individual employees, subunits, units, and the organization (Lee, Chung and Kim, 2011). Before this evaluation system's implementation, many employees applied for jobs in KOTRA's offices in advanced countries where demand for support and work pressure was relatively low. With the new evaluation system, offices in developing countries demanding more support and bigger workloads became the most demanded positions as these offer more pay and career perspectives. As a result, KOTRA's performance is among the best public services in Korea. In 2019, KOTRA's performance evaluation was A, the highest of a scale from A to E, together with 9 out of 50 public enterprises (Ministry of Economy and Finance, 2020).

KOTRA's KPIs are intuitive, simple, and relevant. One example is the "K-testbed" program (KOTRA, 2021). KOTRA organizes a competition among start-ups in Korea that offer digital business solutions. It tests selected solutions within its offices at home and abroad. One example is a technical solution of Vodaphone for KOTRA's global network. This program's KPI has two quantitative and one qualitative indicator. The quantitative indicators are three and five adopted solutions by KOTRA in 2021 and 2025, respectively, and two and five successful installations in testbeds abroad for the same years. This program evaluation is based on the performance relative to these targets.

To incentivize SMEs' commitment to KOSME's support programs, it strictly forbids the participation of those SMEs that suffered disciplinary measures in past programs. These programs oblige SMEs that apply to sign a code of conduct. If a beneficiary SME breaks this code, KOSME excludes it from the program and forces a reimbursement of the subsidy. The sanction's duration and size depend on the type of violation with an upper bound (for example, five years). Moreover, SMEs that provide false information in an application are disqualified from that and future programs.



## V. Conclusions

SMEs represent 99.9% of all enterprises in Korea, the highest share among the OECD countries. They represent approximately 97% of all export firms. However, SMEs account for only 18% of total exports in recent years. Nevertheless, this group of firms participates actively in the broad exporters' value chain, selling raw materials, intermediate goods, and services to large exporting firms. These indirect SME exports are about 21% of total exports. Recently, the government has been supporting SMEs to participate in cross-border e-commerce as a new export channel.

SMEs face multiple export obstacles. These include administrative requirements, uncertainties, lack of information on foreign buyers and markets, costs, and lack of knowledge and skills to conduct online business operations. Due to their limited resources, SMEs find it more difficult than large firms to overcome these barriers.

Econometric studies found that Korean government support programs effectively reduce some barriers to SMEs' e-commerce exports, especially for younger and smaller SMEs in the short run. These support programs are nested in a complex web of organizations of different levels and functions, including government ministries and their support agencies, local governments, and private associations. These export support programs are similar regarding budget decisions, program application and selection, public-private sector coordination, and impact evaluations.

### A. Budget

Budgets and performance evaluations for support programs have been scrutinized recently in Korea. In this context, KOSMEs developed some support programs at no cost. Instead, KOSME intermediates between exporters and service providers. For example, the Discounted Fees for E-commerce Export program lowers the logistics cost of SMEs' e-commerce exports by 13% to 69% of the usual fees depending on the destination. KOSME's support programs also have target numbers of beneficiaries. The larger the number of participants, the lower the budget per participant.

## B. Application and selection

As SMEs have limited (human) resources, the application process for support programs should be simple and easy. Nevertheless, applications require the necessary information to select suitable applicants.

KOSME's online application system has clear merits. It runs support centers by phone and email. As applications often require submitting official documents, KOSME has a separate website for applicants to submit all necessary documents within a few clicks. It combines the process of accessing, obtaining, and submitting official documents from different authorities, facilitating access to its program. It also reduces the risk of forging or mishandling documents.

A dilemma in the selection process is which SMEs should be targeted: those more likely to succeed, with more significant needs, or more significant employment creation potential. The first type of SMEs probably contributes most to the export performance of the program, but governments may want to focus support on those with more significant needs. Korean support programs emphasize the likelihood of success but also consider other aspects. For example, the selection for the Online Export Platform is based 70% on the likelihood of success and 30% on the applicant's contribution to employment creation. Support programs with little or no cost, have minimal selection criteria, encouraging the application of many SMEs.

## C. Coordination among different players

The success of many SME support programs depends on the coordination between public and private entities. KOSME and KOTRA actively coordinate their programs with the private sector. In the case of the Discounted Fees for E-commerce Export program, KOSME's intermediates between exporting SMEs and logistics companies. It negotiates discounted fees and selects SME participants. Another example is KOTRA's K-Studio program: local governments and public organizations across the country offer studios and related services to create digital content for SMEs' products needed for e-commerce platforms. Local universities recruit their students as staff to produce digital content.

## D. Evaluation

An effective support program requires aligning the program's operators' and participants' incentives. KOTRA's evaluation system based on KPIs (such as the number of export consults, export deals, and new buyers) offers strong incentives for the performance of employees, subunits, and the organization. To increase the commitment of participant SMEs, the application process includes a code of conduct that penalizes misconduct by the applicant or operator. A breach of this code may cause the beneficiary to be excluded from the current and future programs and oblige the subsidy reimbursement.

## E. Possible implications for LAC

In a parallel report of the CORPYME project, Aguirre and Gaya (2023) analyze the existing support programs for SMEs' digital transformation in LAC. The findings and recommendations in this paper could be useful for the support programs identified in Aguirre and Gaya (2023).

First, support programs helping SMEs to export through e-commerce platforms or to create their own online stores are common in both LAC and Korea, but with contrasting evaluations. Aguirre and Gaya (2023) find that several of these programs are not cost-effective, whereas in Korea these seem more effective (see Section 2.2). As illustrated in Section 3.2, the e-commerce exports of Korean SMEs have expanded rapidly both in terms of export values and as a share of total SME exports. Fast-rising

e-commerce exports are clear evidence of the successful digital transformation of SMEs. In this context, interested parties in LACs could possibly learn from the operational aspects of Korean support programs for SMEs' e-commerce export explained in this report (such as KOSME's Online Export Platform and KOTRA's K-Studio).

Second, support programs in LAC aim to maximize the number of participants. While enlarging a program's reach may have merit, Aguirre and Gaya (2023) point to the trade-off between the number of participants and its expected impact for each participant, especially when its total budget is limited. To strike the right balance between reach and impact, most support programs in Korea have a target number of participants embedded in their designs, as discussed in Section 5.1. This target number guarantees a minimum budget amount allocated for each participant required for the program's impact. Some Korean support programs have no cost, such as KOSME's Discounted Fees for E-commerce Export, as discussed in Sections 5.1, 5.3, and 5.4. These programs, coordinated by the government, connect large service firms (in logistics or trade finance) to SMEs. Services providers benefit from the large number of participants (i.e., exporting SMEs), and participant SMEs benefit from reduced service fees.

Third, Aguirre and Gaya (2023) point to insufficient impact evaluations of public support programs in LAC, which may explain the mismatch between SMEs' needs and the types of support offered by public programs. KOTRA's evaluation based on KPIs reviewed in Section 5.5 offers an example of effective evaluation. Also, it offers a strong incentive to improve performance for individual operators, subunits, and KOTRA as a whole.

Finally, Aguirre and Gaya (2023) emphasize the importance of a division of labor according to the specialization of different players in support programs, which happens little in LAC. Section 5 of the current report shows two successful Korean examples: KOSME's Joint Logistics for E-commerce Export and KOTRA's K-Studio. In the latter, KOTRA designs the program and brings together different actors, while local governments and public organizations offer physical space for studios, select SMEs, and recruit students from local universities as production staff to create digital marketing content.



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Because international trade is essential for the Republic of Korea's economic growth and development, the government actively promotes exports by large companies and especially by small and medium-sized enterprises (SMEs). Several programmes support participation by SMEs in cross-border e-commerce, which may have contributed to their rapidly rising exports through this channel. This report reviews selected programmes implemented by the Korea SMEs and Startups Agency (KOSME) and the Korea Trade-Investment Promotion Agency (KOTRA). To maximize the programmes' impact, KOSME and KOTRA apply a circular process of assigning the required budget, selecting the most promising SMEs, coordinating with private sector stakeholders, and evaluating results. This document reviews each of these aspects in detail for a selection of the programmes.

