
Current Status and Future Challenges of the Micro-Enterprise Policy

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Chapter 1. Introduction

Since the introduction of Korea's micro-enterprise policy 18 years ago, support systems for micro-enterprises have been established, many more support programs have been put in place, and significant amounts of investment have been made every year. Nonetheless, little systematic analysis has been done of the current status of the micro-enterprise policy. As policies for micro-enterprises are led primarily by the Small and Medium Business Administration (SMBA), it is important to approach such analysis from the perspective of small and medium enterprises (SMEs). Given that policies for micro-enterprises have diverse policy aspects, it is necessary to increase the consistency and effectiveness of the micro-enterprise policy based on comprehensive analyses.

Against this backdrop, this study analyzes the stages of development that the micro-enterprise policy in Korea have undergone

since the introduction of the policy in 1999 and reviews the background of policy discussions and the direction of major policies. To gain a better understanding of the current status of Korea's micro-enterprise policy, this study adopts diverse perspectives in examining relevant policies for SMEs, employment and the social safety net, consumers, and local economies. Finally, this study looks at the consistency of these four aspects and identifies policy issues that need to be addressed.

This study also examines recent cases and trends of micro-enterprise policies in major economies around the world, employing an analytic framework similar to that used in the analyses of the phased development and current status of small business policies in Korea. Based on the results of these analyses, this study suggests relevant policy directions and specific improvements that can be made, aiming to ensure that micro-enterprise policies implemented in the future achieve better results.

To carry out this study, a comprehensive review of the existing literature, both domestic and foreign, and a survey of micro-enterprises were conducted. For the survey of micro-enterprises, a population was established, composed of ordinary Koreans, including micro entrepreneurs, and stratified by gender, age, geography, and whether the participants were economically active and small business owners. From this stratified population, a sample was taken to carry out the survey, which spanned a period of about one month, from October 24 to November 25 of 2016, with a total of 2,564 participants responding. The participants were comprised of 2,164 non-micro entrepreneurs (84.4 percent) and 400 micro entrepreneurs (15.6 percent), and the sampling error of the survey

results was ± 1.94 percent with a confidence level of 95 percent. To complement the survey, interviews with individual micro entrepreneurs were conducted, and consultations with outside experts and officials responsible for micro-enterprise policies at relevant organizations were actively utilized. In addition, relevant materials were collected and analyzed in order to conduct a case study on the current status of micro-enterprise policies in foreign countries, and qualitative and quantitative approaches were combined in analyzing the results and identifying future policy tasks.

Chapter 2. Analysis of Phased Development of Micro-Enterprise Policies

The term “micro-enterprise,” defined in Article 2 of the Act on the Protection of and Support for Micro Enterprises and the Enforcement Decree of the same Act, refers to a business entity that employs fewer than 10 full-time workers in the mining, manufacturing, construction, or transportation industries or fewer than five in other industries. As of December 31, 2014, there were 3.063 million micro-enterprises in Korea, accounting for 86.4 percent of all businesses in the country and employing about 6.046 million workers, making up 37.9 percent of the total employed population. Since 1999, when Korea’s micro-enterprise policy was first introduced, the number of micro-enterprises has increased at a steady rate, except for a few years when the policy was still in its infancy. Since 2006, the numbers of firms and workers has continued to increase as well, at annual growth rates of 2.2 and 2.4 percent, respectively.

Looking at the status of micro-enterprises by industry as of 2014, wholesale/retail trade sector and lodging/restaurant sector occupied the largest proportions in terms of the numbers of firms and employees. As for the micro-enterprise share of total number, over 90 percent of micro-enterprises were involved in transportation, repair/other private service, arts/sports/leisure-related service sectors. In terms of employees, lodging/restaurant, repair/ other private service, arts/sports/leisure-related service, and wholesale/retail trade sectors made up more than 50 percent.

There were 1,536 traditional markets operating throughout the country as of 2014. By type of market, registered markets accounted for 49.9 percent of the total. Although a slight year-on-year increase was seen in 2014, the number of traditional markets has been following a downward trend since 2006. By size, small-sized markets have been increasing their share, while mid- and large-sized markets are on the decline.

The Korean government began introducing the micro-enterprise policy in the late 1990s as a means of promoting social stability by providing assistance for the soaring numbers of unemployed Koreans in the wake of the 1997 financial crisis, which dealt an incredible blow to the nation. Since its full introduction in 1999, the micro-enterprise policy has evolved through four main phases. The first phase spanned 1999 to 2001, and the second progressed from 2002 to 2007, during which time the micro-enterprise policy began taking root in the aftermath of the financial crisis. The third phase took place between 2008 and 2011, when the policy began attracting greater public attention amid the unfavorable global economic environment and sluggish domestic economy, driven by the global

financial crisis and the European debt crisis, while the fourth and current phase began in 2012, since which time the Korean government has systematically implemented micro-enterprise policies.

We will now take a closer look at the phased development of the micro-enterprise policy. The Korean government first implemented policies for micro-enterprises to control the sharply increasing unemployment rate and unstable economic fundamentals, which were caused by the financial crisis that hit the nation at the end of 1997. During the first phase of the micro-enterprise policy, from 1999 to 2001, much of the policy focused on solving the unemployment problem. Toward this end, the Micro-Enterprise Support Centers were founded, tasked with helping unemployed people start their own businesses, and the Micro-Enterprise Creation and Management Improvement Finance was established, for the purpose of providing financial assistance for those who wanted to launch a micro-enterprise. To provide legal support, the government amended the Act on Special Measures for Development of Small Enterprises, adding measures pertinent to small businesses. This resulted in the creation of the Act on Special Measures for Development of Small and Micro Enterprises.

During this first phase, the micro-enterprise policy placed particular emphasis on addressing unemployment and strengthening the social safety net. The government administration at the time aimed primarily to resolve the massive wave of unemployment that had swept the nation, the likes of which had never occurred during the country's remarkable economic development, as well as to create jobs by enhancing the social safety net.

The policy's second phase spanned 2002 to 2007, during which

time the Korean economy recovered from the financial crisis of 1997 and 1998 by carrying out massive business restructuring and actively addressing the unemployment issue. It was also during this phase that the business environment for micro-enterprises underwent rapid change due to the spread of information technology. Accordingly, policies for micro-enterprises in Korea began diversifying and expanding. To keep abreast of the technological advancements being made in the digital economy at the time, the commercial area analysis system was established, and training programs for micro-enterprise owners and assistance for overseas business operations were enhanced. On the institutional front, the right to establish and operate Micro-Enterprise Support Centers was delegated to local governments, and the Micro-Enterprise Promotion Agency was founded in 2006.

The second phase is characterized by the introduction of a policy in 2002 to provide support for and revitalize traditional markets and the enactment of the Special Act on the Promotion of Traditional Marketplaces and Shopping Districts in 2004. At the time, less importance was placed on addressing unemployment, which was a major focus of the first phase of the micro-enterprise policy. However, great emphasis continued to be placed on enhancing the social safety net by reinforcing policies for the self-employed. During this developmental phase, more attention was paid to supporting business startups and strengthening the competitiveness of micro-enterprises, and diverse support projects were implemented to revitalize traditional markets.

Throughout the third phase of the micro-enterprise policy, from 2008 to 2011, more attention was paid to and greater assistance

provided for micro-enterprises in the aftermath of the global financial crisis and European debt crisis. Diverse support projects were carried out as well. The support programs targeting micro-enterprise included: the Measure Supporting Individual Proprietors and Micro-Enterprises (March 2008); Guarantee Loan for the Self-Employed Suffering from Financial Strain (January 2009); Financial Aid and Employment Support for the Self-Employed (April 2009); and Measure to Promote the Financial Soundness of Micro-Enterprises (May 2010). During this time, various support projects were carried out to increase the competitiveness of micro-enterprises and traditional markets, including projects to increase the number of educational programs available, launch a cable television broadcasting service dedicated to micro-enterprises, and conduct quality assessments for franchise businesses. To revitalize traditional markets, several campaigns and projects were implemented, including joint marketing campaigns, a culture and tourism promotion project, the Onnuri Gift voucher program, and a facility modernization project for small retail shops. This third phase of the micro-enterprise policy was characterized by one major feature: the rigorous deregulation efforts made by the government to promote micro-enterprises.

Although continued focus was placed on promoting SMEs and enhancing the social safety net, which were hallmarks of the second phase, the third stage is regarded as a period during which more emphasis was put on consumers and local economies. On the consumer front, regulations governing hypermarkets were implemented to protect micro-enterprises and traditional markets, ensuring greater consumer choice. In the meantime, the government

also made use of local culture to reinvigorate local economies. Since 2012, when Korea's micro-enterprise policy entered its fourth phase, the country has concluded FTAs with China and the United States. In this stage, the support system for micro-enterprise policies has been reorganized, and the quality of the government's support projects has been improved. The support system, which had been divided between micro-enterprises and traditional markets, has been integrated into a unified system, and a fund for the promotion of micro-enterprises and traditional markets has been established. In addition, the former Special Act on the Development of Traditional Markets and Shopping Districts was completely revised to create the Act on the Protection of and Support for Micro Enterprises. At the same time, the Special Act on Support for Small Urban Manufacturers was legislated in order to ensure the provision of support for micro manufacturers. During this phase, with Korea's FTAs with China and the United States coming into effect, the government's micro-enterprise policy has come to reflect the changing trade environment. Consequently, more emphasis has been placed on raising the competitiveness of micro-enterprises by encouraging them to make inroads into foreign markets and providing support according to their stage of development.

During this current fourth phase, the government's policy focus has been shifting toward the aspects of SMEs, consumers, and local economies. It has emphasized the promotion of Korean SMEs to increase their global competitiveness as well as the growth-centered management of SMEs, in line with the conclusion of the recent FTAs. To further broaden consumer choice, regulations on big-box stores and hypermarkets have been implemented, and tra-

ditional markets and small retailers have been encouraged to participate in big sale events. Going forward, the government needs to revitalize local economies by differentiating the traditional markets in different regions of Korea.

Legislation was first enacted under the micro-enterprise policy in December 2000, when the Act on Special Measures for Development of Small Businesses was amended to create the Act on Special Measures for Development of Small and Micro Enterprises. In January 2015, this amended act was completely revised, creating the Act on the Protection of and Support for Micro Enterprises, while the laws for small businesses were integrated into the Basic Law on Small and Medium Enterprises. Through this process, laws dealing exclusively with micro-enterprises were established. For micro manufacturers, the Special Act on Support for Small Urban Manufacturers was enacted in May 2015. Concerning traditional markets, the Special Act on the Development of Old Markets was established in 2004. In April 2006, this act was thoroughly revised, creating the Special Act on the of Old Markets and Shopping Districts. Later, the term “old market” was replaced with “traditional market,” a change that was also reflected in relevant laws. Accordingly, the act was renamed the Special Act on the Development of Traditional Markets and Shopping Districts, and its details were revised.

As policy support for micro-enterprises and traditional markets increased before and after the 2008 financial crisis, so did the government’s budget for such support. The government’s budgetary support in this area increased year-over-year from KRW 552.3 billion in 2010 to KRW 1.184 trillion in 2013. Following the National Assembly’s ratification of the Korea-United States FTA, the Micro

Enterprise Promotion Account was opened in December 2011, as part of the Small and Medium Enterprise Establishment and Promotion Fund, contributing to the expansion of the budget support. Consequently, the budget increased year-on-year by a considerable 55.4 percent in 2013.

One of the sources of funds for micro-enterprise support projects is the Micro-Enterprise and Marketplaces Promotion Fund, a fund dedicated entirely to micro-enterprises that was established 2015. As support projects are carried out according to the business lifecycles of micro-enterprises, budget support is awarded in three phases: establishment, development, and recovery. Of the various sources of budget assistance for micro-enterprises, loans make up the largest share. In 2016, KRW 1.555 trillion in support was provided through loans, more than double the figure of 2013.

In the public sector, the SMBA is the competent authority dealing with small businesses and traditional markets. Under the SMBA, the Small Enterprise and Marketing Service (SEMAS) is responsible for carrying out support projects, while the Micro-Enterprise Support Center serves as a local support organization. In addition, the Small Manufacturers Support Center acts as a support organization extending aid to clusters of small manufacturers.

In the private sector, the competent authority responsible for supporting small businesses is the Korea Federation of Micro-enterprise (KFME), the establishment of which is provided for in Article 16 of the Act on the Protection of and Support for Micro Enterprises, which deals with cooperation among small businesses and the formation of micro-enterprise organizations. Founded in April 2014, the KFSB is composed of organizations represent-

ing various industries. In addition, the Korean Federation of Small and Medium Business also provides support for micro-enterprises, and the Small Business and Micro-Enterprise Management Support Team provides micro-enterprises with expert consultations on management issues and promotes the Yellow Umbrella Cooperative System, a kind of insurance project for small businesses and micro-enterprises.

Chapter 3. Analysis of the Current Status of the Micro-Enterprise Policy

In the following, Korea's policies for micro-enterprises will be discussed from the diverse aspects of SMEs, employment and the social safety net, consumers, and local economies while examining the current status, characteristics, achievements, and challenges of each policy approach.

A look at the current status of the micro-enterprise policy in Korea shows that assistance encouraging the establishment of SMEs has been maintained, while micro startups in overcrowded sectors have been controlled. During times of economic hardship in Korea, support for the management stabilization of micro-enterprises was expanded while assistance programs designed to help them remain competitive were continuously implemented. Concerning employment, the share of self-employed people in Korea has remained above 25 percent of all employed workers in the country since the financial crisis of the late 1990s, which is quite high compared to OECD member states. The proportion of micro-enterprises among the self-employed amounts to almost 95 percent,

showing the incredible overlap between the self-employed and micro-enterprise. In May 31, 2005, Korea's first comprehensive policy designed to support self-employed micro-enterprise owners was introduced, going on to serve as a framework for other related policies. With respect to consumers, hypermarkets have increased their market share by a significant margin since the mid-1990s, in line with the opening of the distribution industry to foreign competition and major structural changes in the sector. This growth led the government to introduce regulations to control hypermarkets and big-box stores in order to protect and promote traditional markets and micro-enterprises. In relation to local economies and provincial governments, the proportion of micro-enterprises among the total number of firms stands in the high 80-percent range, with no regional disparities. However, significant regional differences exist in terms of numbers of employees and proportions of revenue. Consequently, significant gaps were found among the relative efficiencies of micro-enterprises.

One notable feature of the policies for micro-enterprises is that they have provided support according to the stage of the business lifecycle enterprises are in. Such business lifecycle-based support is intended to enhance the dynamics of the micro-enterprise ecosystem and strengthen the foundation for the growth of micro-enterprises. In terms of employment and the social safety net, the policies have been focused mainly on offering indirect support for micro-enterprise owners, including building infrastructure that promotes the self-sustainability of businesses and supporting the job-seeking efforts of workers who have difficulty finding employment. In addition, particular emphasis has been placed on pre-

venting overcrowding in the micro-enterprise sector, promoting the management stability of micro-enterprises, and encouraging the conversion and withdrawal of business through consultations. On the consumer front, analysis of micro-enterprise support policies conducted from the viewpoint of consumers has been scarce. Also, the business regulations imposed on large-scale distribution firms and the policies implemented to protect and support traditional markets and micro-enterprises have been serving as effective means of inducing sound market competition. Concerning local economies, it was found that the qualitative, rather than quantitative, enhancement of micro-enterprises has the greatest impact on local economies. The growth of small businesses offers greater benefits not only to the local economies in which they operate but to neighboring economies as well.

Let us now take a look at the achievements and issues of the micro-enterprise policy. First of all, in terms of SMEs, the high rates of micro-enterprise startups and bankruptcies highlight the dynamic aspect of micro-enterprises in Korea. In times of economic crisis, micro-enterprises were found to remain financially stable. Also, continued support for traditional markets has contributed to curbing decreasing revenues, even causing revenues to increase in 2014. The challenges currently facing the policy support for micro-enterprises include reducing the high rates of business startups and bankruptcies and reducing the excessive competition in petty industries, such as wholesale and retail, and restaurant and lodging sectors, which usually leads to lower profitability.

In terms of employment and the social safety net, the inclusion of micro-enterprise owners (the self-employed) as beneficiaries of

the government's employment and social safety net policies has helped reduce the social costs incurred by job losses and intensifying competitiveness. However, increasing the self-sustainability of micro-enterprise remains a major policy focus. In addition, it is necessary to provide effective support services for micro-enterprise owners and place greater focus on micro-entrepreneurs in their 50s, whose entry into the micro-enterprise sector has been increasing steadily.

On the consumer front, according to a survey examining the public perception and awareness of regulations, respondents indicated that the regulations imposed on large companies in favor of micro-enterprises were not too aggressive, with 80 percent of respondents answering that they were willing to accept any inconveniences resulting from the imposition of such regulations. This result demonstrates that there exists broad public consensus on policies aimed at protecting and promoting micro-enterprises. The challenge facing policies pertinent to the consumer sector is the need for traditional markets and micro-enterprise owners to gain an advantage over supermarkets in order to remain competitive.

Achievements of local economy-related policies include the improvement of micro-enterprise-related institutions by local governments and the raising of public awareness of such policies. However, it was difficult to conduct a thorough analysis of the progress made to date, due to the lack of data held by local governments. What needs to be done in the future, however, includes increasing the business performance of micro-enterprises and narrowing the gap in the levels of policy arrangements among local governments. One of the major tasks that needs to be addressed is increasing the

positive influence of the qualitative growth of micro-enterprise on the development of local economies. Another survey was conducted to determine other such pressing issues that need to be solved in order to ensure the effective completion of tasks related to micro-enterprise policies. According to the survey's findings, these tasks, listed here in descending order according to their level of urgency, are: stabilizing the management of existing micro-enterprises, increasing the competitiveness of goods produced and services provided by micro-enterprises, promoting the growth of existing micro-enterprises, and reducing excessive competition.

Slight differences were noted concerning the pressing issues faced with each aspect of the micro-enterprise policy. In terms of the consumer sector, the two most urgent issues are increasing the competitiveness of goods and services provided by micro-enterprises and increasing consumer access to the goods and services of existing micro-enterprises, while survey respondents also pointed out the importance of protecting micro-entrepreneurs through the social safety net. Concerning local economies, more respondents pointed to the necessity of promoting micro-enterprise startups.

Chapter 4. Analysis of Micro-Enterprise Policies in Major Developed Countries

This study also examined the current status of micro-enterprises and relevant policies in major developed countries, including the United States and Japan, as well as in the European Union. First, we looked at the definition of a micro-enterprise and the criteria used by each country for its classification. In the United States,

the Census Bureau classifies a company employing fewer than 20 workers as a “Very Small-Sized Firm” in its statistical data. The Association for Enterprise Opportunity (AEO), a leading private organization supporting the development of micro-enterprises, regards a business with fewer than four workers and initial capital of below USD 35,000 as a micro-enterprise. In Japan, a micro-enterprise is defined by relevant laws as a business in the wholesale and retail or service industries that employs fewer than five full-time workers or a business in the manufacturing or other industries that employs fewer than 20 workers. In the European Union, a micro-enterprise is a company that employs fewer than 10 workers and generates an annual revenue of below EUR 2 million or holds total assets of below EUR 2 million.

According to statistics released by the United States’ Census Bureau as of 2012, the number of American companies with fewer than 20 employees was approximately 5.18 million, accounting for 69.8 percent of all companies. Companies with fewer than 20 workers employed a total of 20.41 million people, making up 17.6 percent of the country’s entire workforce. In Japan, as of 2014, there were 3.52 million micro-enterprises, accounting for 85.1 percent of all companies in the country. These micro-enterprises employed approximately 11.27 million people, making up 23.5 percent of the entire workforce. However, the number of such micro-enterprises in Japan fell by about 91,000 between 2012 and 2014. In the European Union, as of the end of 2014, there were 20.71 million micro-enterprises, accounting for 92.7 percent of all companies in the Union. These companies employed 39.27 million workers, or 29.2 percent of the total employed population, and generated val-

ue-added of EUR 1.36 trillion, or 21.1 percent of the total.

Now, we will discuss the current status of relevant policies implemented in each country. In the United States, the Small Business Administration (SBA) is responsible for support projects for micro-enterprises, focusing primarily on support for SMEs. Of the projects implemented by the SBA, the PRIME project has been designed especially for micro-enterprises. Strictly speaking, however, the project offers only indirect support for micro-enterprises by assisting organizations that provide support for micro-entrepreneurs. One of the major private organizations supporting micro-enterprises in the United States is the Association of Enterprise Opportunity (AEO). In Japan, one of the economic powerhouses of Asia, further reinforced its micro-enterprise policy with the enactment of its Basic Law on the Promotion of Small-Sized Enterprises in June 2014. Prior to that, however, it was with the amendment of the former Basic Law on Small and Medium-Sized Enterprises in 1999 that Japan's SME policy began taking a new turn. Under the new Basic Act for Promoting Small Enterprises, the country's basic plan for the promotion of small businesses, comprised of four objectives and 10 major action plans, was established in October 2014. This five-year plan is currently underway. By strengthening the role of local Society of Commerce and Industry (SCI) and local Chamber of Commerce and Industry (CCI), support measures customized to each local community have been devised. In the European Union, the Initiative for the Small and Medium-Sized Enterprise Policy, which was established in 2008, serves as an institutional framework for providing assistance to micro-enterprises. Major countries in Europe are striving to protect the owners of micro-enterprises

by imposing regulations on large retail stores.

We will now take a look at some of the notable features of policies implemented in major developed countries. As the competent authority for the micro-enterprise policy in the United States, the SBA is operated as part of the SME support policy. Notably, the policy of the United States is to provide assistance for micro-enterprises as a means of giving underprivileged citizens opportunities to support themselves. Toward this end, both the public and private sectors are actively involved in micro-enterprise promotion efforts. The federal government also supports micro-enterprises indirectly by offering aid to related private organizations operating throughout the country. In addition, the federal government assists local frontline agencies to promote the provision of demand-based support and ensure that such support is properly customized to local regions. Japan's micro-enterprise policy is implemented by the Japanese Small Business Administration as part of the country's policy on SMEs. The same is true in the European Union, where policy focuses mainly on invigorating the activities of startups, promoting the entrepreneurial spirit, actively providing information on different policies and regulations, and simplifying project-related regulations and administrative procedures. Major European states also impose regulations on large-scale distribution enterprises, with a view to promoting urban management and quality of life and protecting micro-enterprise owners.

In summary, major economies such as the United States, Japan, and European countries are implementing micro-enterprise policies within the framework of their SME policies. In summary, the primary policy focus in the United States is the social safety net

and local economies; in Japan, employment and local economies; and in European countries, consumers and local economies.

Chapter 5. Future Tasks for the Micro-Enterprise Policy

(1) Basic Direction

In implementing Korea's micro-enterprise policy in the future, it will be necessary to completely change the government's perspective on micro-enterprise and related policies, given the great importance of securing the stable business management and growth of micro-enterprises, which underlie much of the national economy and promote the sustainable growth of the Korean economy. Micro-enterprises play a particular crucial role in stimulating local economies and promoting the development of local communities. In addition, the traditional markets and shopping districts in local communities serve as centers of local culture.

In this sense, it is desirable to develop micro-enterprise policies that focus more on creating a favorable ecosystem for the growth of micro-enterprises in the future. In other words, future policies need to put greater emphasis on reviving micro-enterprises, traditional markets, and shopping districts, which have long served as the backbone of local economies and communities. By doing so, local economies and communities will be revitalized, and the foundation of the national economy will be strengthened, thereby ensuring the future growth of the economy in general. Accordingly, the future direction of Korea's overall micro-enterprise policy should be fostering the competitiveness of micro-enterprises and

traditional markets and expanding their business base.

When such a vision and basic direction for the micro-enterprise policy is firmly established, it will be possible to implement detailed action plans, including plans for the consistent implementation of the micro-enterprise policy, creation of a favorable environment and support programs for micro-enterprises, establishment of an organic system of cooperation, and creation of a fair business environment for micro-enterprises. The implementation of consistent policies requires reinforcing the identity of the micro-enterprise policy and consistently implementing the policy under a mid- to long-term plan. To create a favorable environment and provide support for micro-enterprises, more emphasis needs to be placed on strengthening the capability of micro-enterprise owners to cope with difficult situations and raising their awareness of the integrated global economy. To build an organic policy support system, cooperation between the central and local governments and the role of the private sector must be strengthened. Furthermore, creating a fair business environment for micro-enterprises requires protecting the business districts in which small businesses operate and reducing excessive competition.

(2) Detailed Action Plan

1) Implementation of consistent micro-enterprise policies

A. Strengthening of the identity of the micro-enterprise policy

Korea's micro-enterprise policy has come a long way since its

introduction. The policy was first adopted as a measure for coping with the mass unemployment that occurred in the aftermath of the foreign exchange crisis in 1999. Since its adoption, however, the policy's role has been strengthened through the improvement of related laws and regulations, expansion of support targets, diversification of support projects, increase of support budget, and reorganization of support organizations. Since 2012, a much stronger policy support system has been created, with the establishment of an independent and systematic legal system, support agency, and funds.

Despite these improvements, however, the identity of the policy remains ambiguous, which can be attributed to multiple factors. These include the complexity of the micro-enterprise policy and the similarity between it and the policy on self-employed and small business owners, the definitions of which overlap with that of micro-enterprises.

The term "micro-entrepreneur," representing the target of the policy, is not clearly defined, which has contributed to the ambiguity of the policy's identity. The name of the micro-enterprise policy contains a micro-enterprise owner, who is the recipient of support provided by the policy. The term "micro-entrepreneur" is concretely defined by relevant laws.

The term "micro-entrepreneur" encompasses small traders and manufacturers, seemingly referring to small business owners involved in commerce and manufacturing. Although the term, as defined by relevant laws, encompasses a wide range of industries, it seems to be used in reference only to business owners involved in the distribution and manufacturing industries, as well as to inde-

pendent traders rather than business entities.

In foreign countries, terms such as “micro-business,” “micro-enterprise,” and “small-scale firm” are all used when referring to small-sized companies. In this sense, the government is strongly recommended to change the existing term in favor of one that can be used to refer to business entities. In particular, given that the legal designations of companies, including small-sized firm, medium-sized firm, middle-standing enterprise, and large-sized firm, are based on firm size, it is even more important to clarify the terms used. Korea’s SMBA currently uses the term “micro-enterprise” in English.

In addition, it is also desirable to build and systematically manage a database related to policies for micro-enterprises. Paragraph 5(4) of Article 17 of the Act on the Protection of and Support for Micro Enterprises, states that SEMAS shall create and operate a database designed to support micro-enterprises. In doing so, the agency should create a database of support targets, classified by separate support projects and achievements, and divide the collected data into two categories: publicly available data and non-publicly available data. A good example of this is the United States’ Small Business Innovation Research (SBIR) program, which encourages small businesses to engage in research or research and development activities.

Building such a database would offer multiple benefits. Above all, it would provide micro-entrepreneurs and merchants in traditional markets with easy access to information on successful examples of the policy’s support projects, encouraging them to benchmark such cases and raising their awareness of and participation in

the micro-enterprise policy as a result. Furthermore, the wealth of detailed information on the policy and the support it provides that small entrepreneurs would gain through the database would serve to prevent abuses of the policy's support projects.

With the growing interest in micro-enterprises, so too is the interest in research on micro-enterprises and related policies in academic and research circles. Accordingly, there is a need for more data on the issue suitable for analysis. As mentioned earlier, the reason that research on micro-enterprise policies is centered on policy funds and credit guarantees is attributed to the limited availability of relevant data. It is therefore necessary to make the results of the regular survey on the current status of micro-enterprises and traditional markets publicly available. Excluding personally identifiable information, the survey findings that can be used as statistical data need to be released to the public in raw-data form, thereby contributing to the expansion of research on micro-enterprises.

B. Consistent implementation of a mid- to long-term policy plan

Due to the current circumstances, most policies for micro-enterprises are implemented with short-term goals related to stimulating the economy. In its efforts to overcome difficult economic situations in the past, the Korean government has frequently resorted to policies supporting micro-entrepreneurs and the self-employed. A brief look at the data clearly shows that, since the global financial crisis in 2008, measures providing assistance to micro-enterprise owners and the self-employed have been implemented frequently. Although micro-enterprises and self-employed businesses are vul-

nerable to the changes of the economic cycle, such measures need to be implemented with consistency under a mid- to long-term plan, as excessive dependence on short-term policies often leads to structural aspects of the policy being overlooked to some degree.

In Japan, Article 13 of the Basic Law on the Promotion of Small-Sized Enterprises requires that medium- and long-term plans be drawn up for the comprehensive and systematic implementation of policies supporting micro-enterprises. Currently under the same law, the Basic Plan for the Promotion of Small-Sized Enterprises was established in October 2014. This five-year basic plan has been carried out with four objectives and based on 10 major action plans, which have been drawn up in detail and implemented on an annual basis. By doing so, the Japanese government has carried out the policy with great consistency based on a mid- to long-term perspective.

Under Article 6 of the Act on the Protection of and Support for Micro Enterprises, the Korean government announced the 1st Basic Plan for Micro-Enterprise Support (which will be carried out between 2017 and 2019) in November 2016. This basic plan is made up of five strategies and 14 policy tasks designed to strengthen the capability of micro-enterprises to achieve self-sustainability by increasing their survivability and profitability. Specific goals designed to promote the self-sustainability of these businesses were also introduced, i.e., increasing the five-year survivability of micro-enterprises to 34 percent by 2019 and raising the operating profit-to-sales ratio to 14.1 percent. This three-year basic plan and its specific goals seem to be very appropriate. Going forward, one of the most important tasks is the establishment and execution of concrete ac-

tion plans based on the basic plan.

In accordance with the basic plan, action plans designed to support micro-enterprises need to be established and implemented every year, as stipulated by relevant laws, and action plans for supporting local micro-enterprises need to be drawn up and executed at the local government level. In particular, local governments will have to establish and carry out implementation plans that take into account regional characteristics in order to provide effective support for local micro-enterprises. In the meantime, the SMBA needs to collect data on and conduct a comprehensive evaluation of the outcomes of support programs. To do so effectively, close cooperation between the central and local governments is crucial.

2) Establishing conditions and focusing on support

A. Promotion of micro-enterprises' efforts to become self-sustaining

It would be desirable for the government, if possible, to not treat micro-enterprise owners as socioeconomically underprivileged citizens to which direct aid is granted in the implementation of the micro-enterprise policy, due to the risk that government-led support projects could prevent micro-entrepreneurs from making efforts to achieve self-sustainability. Instead, the government should establish a system through which it can provide policy support while also encouraging micro-entrepreneurs to find ways of helping themselves, thereby strengthening their ability to become self-sustaining. In this sense, it would be a good idea for the gov-

ernment to increase the number of joint projects in which micro-enterprises can take leading roles. The government also needs to devise measures to increase micro-enterprises' ability to achieve financial viability through diverse cooperative networks, thereby helping them overcome the disadvantages of their small size based on organizational power and cooperation. It is therefore necessary to continue carrying out projects designed to promote the systematization and cooperation of micro-enterprises by nurturing promising franchise businesses. Another urgent task is to build a business model that promotes cooperation and systematization and encourages micro-enterprises to make greater efforts toward achieving autonomy and self-sustainability.

Toward this end, support for the systematic efforts toward integration made by micro-enterprises needs to be further strengthened. The government must encourage micro-entrepreneurs to actively join the concerted effort to create an organized association of micro-enterprises, the purpose of which is to help these firms overcome the limitations placed on them by their lack of funding and small size. Such projects designed to encourage the joint activities of organizations related to small distribution businesses, including the Integrated Procurement of Small- and Medium-Sized Distribution Businesses, Improvement of the Distribution Infrastructure for Small Distribution Businesses, and Support for the Joint Marketing of Traditional Markets projects, need to be given greater support. The Small Urban Manufacturer Support Center program, which is carried out in districts with high concentrations of micro-manufacturers in order to aid the growth of such micro-enterprises, needs to pursue qualitative improvements, so that it may be able to satisfy

the substantial demand of micro-enterprises within those districts. To do this, however, it will need to abandon its existing strategy of encouraging quantitative expansion.

As mentioned earlier in the section about policy support for employment and the social safety net, more attention needs to be paid to micro-entrepreneurs in their 50s in relation to the encouragement of micro-enterprises' efforts to become self-sustaining. Recently, a growing number of Koreans in their 50s have been starting micro-enterprises. The share of micro-entrepreneurs in this age group, many of whom responded that they had started their businesses as it was the only means for them to earn a living, was much higher than those in other age groups. Therefore, it is clear that this issue needs to be approached from the perspective of providing welfare in connection of job creation.

With so many Koreans in their 50s—representing Korea's baby boomer generation—starting small businesses after retirement to earn income, it is necessary to strengthen measures and policy programs that can help them achieve financial security in this new stage of their lives, including consulting services, job training, and education programs on how to succeed as an entrepreneur. In addition, policy programs are needed that help new micro-enterprise owners achieve success by leveraging the experience they accumulated during their previous careers.

B. Raising of awareness of open competition in the global economy

The current reality is that micro-enterprises are now exposed

to open competition in the global economy, and this competition is expected to intensify in the future. Korea's FTAs with China and the United States are telltale signs that small businesses will no longer remain unaffected by the open global economy. Although the pace of progress on the Trans-Pacific Partnership (TPP) negotiations has slowed down since the inauguration of the Trump administration in the United States, talks on creating a China-Japan-Korea FTA and a Regional Comprehensive Economic Partnership are also currently underway.

The establishment of mega-regional trade agreements, of which Korea's recent FTA with China is an example, is a strong sign that an open global economy will become the new and unavoidable reality, even for Korea's micro-enterprises. With the rapid advancement of IT and improvement of related regulations, e-commerce and overseas online shopping have been on the rise. The emergence of this new shopping pattern indicates that the business activities of micro-entrepreneurs will no longer be bound by the national border.

Amid such changes, consistent efforts need to be made to ensure that micro-entrepreneurs are sufficiently aware of the expanding open global economy and its ramifications. In particular, it will be necessary for micro-enterprises to abandon their passive attitudes as victims of the integrated global economy, represented by FTAs, and deserving recipients of government assistance and begin making efforts to anticipate and actively seek ways of overcoming the difficulties that the arrival of the open global economy may bring. In the meantime, the government should provide policy assistance for micro-entrepreneurs as a means of enabling them to

seize business opportunities that may be generated in the process and develop related plans.

Toward this end, educational opportunities for micro-enterprises need to be expanded. The micro-enterprise support projects, including educational programs, currently underway should be adjusted in response to the expansion of the open global economy, and countermeasures should be suggested.

In addition, as many micro-entrepreneurs have almost no knowledge of government-led support projects, the government should educate them and regularly release detailed information on the variety of support policies that have been actively implemented in response to the opening of the global economy. The effectiveness of support projects is likely to increase when the central government, working in close cooperation with local governments, reflects the regional characteristics of small enterprises in these projects. It would also be useful to distribute related promotional materials via diverse media, such as broadcasts, websites related to micro-enterprises, and micro-enterprise support centers.

3) Building of an organic system of cooperation

A. Strengthening of cooperation between the central and local governments

As many micro-enterprises are based in local areas, their respective local governments are quite familiar with their circumstances. This is why the role of local governments is crucial in implementing Korea's micro-enterprise support policy. Moreover, it

is impossible for the central government to oversee every minute detail of the policy. Therefore, it is of great importance that the central and local governments work together closely in the process of developing and moving forward with plans to support micro-enterprises.

Article 3 of the Act on the Protection of and Support for Micro Enterprises states that the State shall formulate and implement comprehensive support policies for micro-enterprises, while local governments shall formulate and implement their own support policies so as to promote the management stability and growth of micro-enterprises. In particular, Paragraphs (1) to (4) of Article 6 of the same Act, which provide for the formulation and implementation of basic support and action plans, state that every three years, the administrator of the SMBA shall formulate a basic plan for supporting micro-enterprise. In accordance with this plan, the administrator shall formulate action plans to support micro-enterprises on an annual basis, and the mayors of special metropolitan cities shall formulate and execute support action plans, taking into account the characteristics of the districts under their jurisdictions. Paragraphs (5) to (6) of Article 6 of the same Act stipulate that, in formulating and implementing the basic and action plans and conducting surveys on the status of the action plans, the SMBA, local governments, and relevant central government agencies shall work together in close cooperation.

The central government and relevant support agencies of local governments need to work together closely and ensure that their activities conform with such rules. Currently, support organizations for micro-enterprises and traditional markets are divided largely

into central government and local government organizations. The central administrative agencies include the SMBA, the Small Enterprise and Market Service (SEMAS), which is an affiliated organization of the SMBA, and the Micro-Enterprise Support Center, which are located in each district. However, local governments also operate independent support organizations. To ensure that support projects for micro-enterprises are carried out effectively, interconnectivity between the SMBA-led projects and local governments-led ones needs to be strengthened, and information-sharing expanded, which is expected to generate synergy effects.

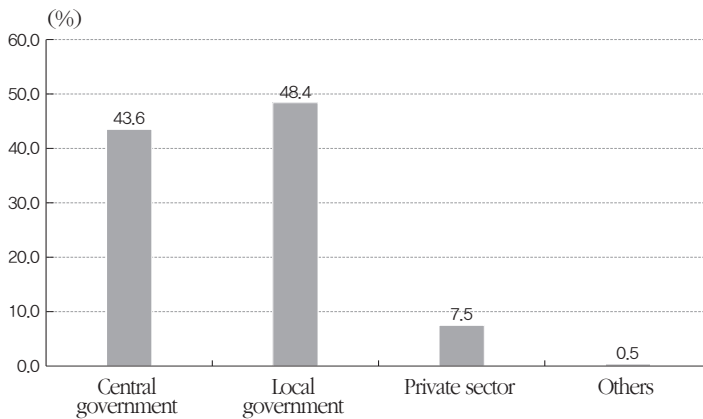
On the survey concerning the current status of the micro-enterprise policy, when asked which organization they thought should be in charge of ensuring the effective implementation of the policy in the future, 48.4 percent of the respondents said local governments should take the role, while 43.6 percent said the central government should. Although local governments scored slightly higher than the central government, each accounted for over 40 percent of respondents, indicating the necessity of the two types of government maintaining close cooperative relationships.

More than 50 percent of all respondents said that an economy- or industry-related agency of the central government should take the lead in implementing the policy. The number of those who thought local governments should play a principal agent was slightly higher than those who thought metropolitan city governments should. Considering these findings, it is desirable to strengthen the cooperative relationship between the central and local governments, including metropolitan city governments and lower-level local governments.

B. Enhancement of the role of the private sector

In terms of the implementation of the micro-enterprise policy, the private sector's role needs to be expanded. The reason for this is related to the role of the central government in creating a favorable business environment for small businesses and then providing them with assistance. To maximize the results of the policy,

Figure 1. Public Awareness of the Principal Agent of Policy Implementation



Source : Survey on the Current Status of the Micro-Enterprise Policy

Note : A total of 2,564 people participated in the survey.

Table 1. Authority Preferred to be Responsible for Policy Implementation among Local Governments

Unit : persons, %

	Number of respondents	Regional local government	Basic local government
Micro-entrepreneur	215	45.1	54.9
General public	1,047	48.6	51.4
Total	1,262	48.0	52.0

Source : Survey on the Current Status of the Micro-Enterprise Policy

Table 2. Authority Preferred to be Responsible for Policy Implementation among Central Government Agencies

Unit : persons, %

	Number of respondents	Economy- and industry-related agency	Employment- or welfare-related agency	Fair trade or mutual growth-related agency
Micro-entrepreneur	169	53.8	8.3	37.9
General public	949	54.9	15.7	29.4
Total	1,118	54.7	14.6	30.7

Source : Survey on the Current Status of the Micro-Enterprise Policy

micro-entrepreneurs need to make continued efforts to achieve self-sustainability in their businesses.

Toward that end, private organizations comprised of micro-enterprises should be actively utilized. As mentioned earlier in this report, little progress has been made so far in organizing small businesses owners. However, since the establishment of the Korean Federation of Micro-Enterprise (KFME) in 2014, numerous projects for small businesses have been carried out. As the KFME has affiliated organizations in different industries under its umbrella, it would make an effective instrument in implementing support projects for organizing individual micro-enterprise owners. In addition, the Korea Federation of SMEs is also promoting support projects for micro-enterprises. Such independent organizations, if utilized effectively, could play an increasing role as intermediators between small businesses and the government.

Regarding the use of locally based organizations, the United States and Japan are leading examples. Japan makes use of local SCI and CCI as policy support organizations. In particular, with the

revision of the Law on Support for Small-scale Businesses in 2014, the role of local SCI and CCI has been further strengthened. Each local SCI and CCI that devises its own plan for projects to support management development and gains the approval of the Japanese Ministry of Economy, Trade and Industry is awarded assistance by the central government.

In the United States, it is much the same. When one of the Small Business Development Centers, an American small business support organization upon which Korea's Micro-Enterprise Support Center was modelled, formulates and presents a project proposal to and earns the approval of the Small Business Administration (SBA), it will then receive government assistance. In addition, the United States government highly regards the micro-enterprise policy as a means of fighting poverty and promotes indirect assistance for micro-enterprises through private organizations that carry out support projects for micro-entrepreneurs.

4) Creating a fair business environment for micro-enterprises

A. Protection and nurturing of business districts for micro-enterprises

Recently the issue of protecting and nurturing business districts as a means of improving the business environment for micro-enterprises has been gaining greater attention. Existing micro-enterprise owners are being increasingly forced out of business districts, which were created through their own efforts, and relocating to other areas, due to the burden of the exorbitant rents required by

their landlords. At the same time, disputes over concession money pertaining to trade rights have been on the rise as well.

Insa-dong, located in Jongno-gu, Seoul, serves as a good example of this issue of the displacement of micro-enterprises from their traditional business districts. For years, Insa-dong has been widely known as Seoul's "Street of Arts and Culture," home to numerous art galleries, studios, and shops selling all kinds of brushes, antiques, porcelain, and frames. As a place that has preserved traditional Korean culture for visitors to experience, Insa-dong has been a major tourist attraction for Koreans as well as foreign travelers. Recently, however, this culture street has been undergoing rapid change. Insa-dong is attracting more and more big-name brand shops and franchise restaurants, leading rents to soar and changing the business structure of the area. As a result, micro-enterprise owners are now being driven out.

These business owners are also experiencing frequent disputes over concession money, or "key money," referring to the large deposit paid upon the signing of a rental contract. As a result of these disputes, many small business owners are unable to recover their deposit or success in recovering only part of it. This trend is causing a weakening of the unique culture and business structure that had been established in the area.

Seoul Metropolitan Government and Jongno-gu District Office, both fully aware of the importance of micro-enterprises' commercial supremacy in Insa-dong, have devised countermeasures to address the situation. Seoul Metropolitan Government has designated industries that are not allowed to move into the Insa-dong Culture Street area, while Jongno-gu District Office has kept a watchful eye

on the concentration of franchise stores. In this way, local governments need to make efforts to protect and nurture micro-enterprises' commercial supremacy in their jurisdictions, for which the roles of these enterprises needs to be strengthened.

Meanwhile, there are commercial districts where micro-enterprises are concentrated but have lost much of their commercial power for other reasons. Numerous projects designed to revitalize such areas are now underway. However, implementing such projects requires an organic system of cooperation between relevant government authorities and local governments and the support of existing micro-enterprise owners, who are the stakeholders in such projects.

In order to effectively protect and cultivate commercial districts for micro-enterprises, the role of the local governments under whose jurisdictions these businesses are operating is of absolute importance. Lower-level local and metropolitan governments should realize the necessity of maintaining close cooperative relationships with the central government, and act accordingly. In this respect, as mentioned previously, there is an urgent need to improve the institutional arrangements pertinent to micro-enterprises in local governments where the enactment of related ordinances has been lacking. In particular, lower-level local governments need to place greater emphasis on such institutional improvements than do metropolitan city governments. As of the end of 2016, 15 of Korea's 17 metropolitan city governments and 129 of the 228 lower-level local governments have enacted ordinances regarding support for micro-enterprises. As these figures show, the number of lower-level local governments that have enacted relevant ordinances is quite

low, making it necessary for the central government to continue improving laws and regulations for the protection and promotion of micro-enterprises' commercial supremacy in accordance with the changing structure of business districts.

B. Reduction of excessive competition among micro-enterprises

In terms of the proportion of micro-enterprises of the total number of firms in the country, Korea has a notably larger proportion of such enterprises than other nations. This proportion of micro-enterprises, however, has been on a downward trend. The reason for this, as mentioned earlier, is the overcrowding of small businesses in certain industries. In the manufacturing industry, for example, micro-enterprises accounted for 82.4 percent of the all firms, which is significantly higher than that of the United States or Japan. Such overcrowding translates into excessive competition, thereby making it much more difficult for micro-entrepreneurs to ensure the self-sustainability of their businesses.

Among the difficulties facing small businesses, excessive competition with other micro-enterprise owners has been identified as a major problem that needs to be solved. The high rates of micro-enterprise establishment and closure in Korea are largely the result of excessively intense competition. Although this situation heightens the industrial dynamics of micro-enterprises, the issue should be approached with great caution, as the livelihoods of micro-enterprises are at stake.

Most ordinary Koreans are aware of this excessive competition among micro-enterprises. Of survey respondents, 77.2 percent said

that there is an oversupply of micro-enterprises, and 81.1 percent thought that the competition among micro-enterprises is excessive. Respondents reported a greater perception of excessive competition among micro-enterprises than among non-micro-enterprises.

Having recognized this problem of excessive competition among micro-enterprises early on, the Korean government has been seeking measures to address the issue. To aid in this effort, the government has established an information system concerning the commercial districts of micro-enterprises and provided information on current conditions by region and industry. Through this information system, the government has helped micro-enterprises start new businesses well suited to the local communities in which they are located. Since 2010, the government has strengthened education programs designed to assist well-prepared business startups. It has also made continued efforts to aid the business conversion or industry transition of less competitive micro-enterprises. To ensure

Table 3. Public Awareness of Levels of Competition among Micro-enterprises

Unit : %

		Number of Respondents	Strongly Disagree	Disagree	Agree	Strongly Agree
“There is an oversupply of micro-enterprises.”	Micro-entrepreneur	400	2.8	20.3	54.3	22.8
	General public	2,164	2.2	21.2	61.0	15.6
	Total	2,564	2.3	21.0	60.0	16.7
“There is excessive competition among micro-enterprises.”	Micro-entrepreneur	400	1.8	16.8	56.8	24.8
	General public	2,164	1.4	18.3	62.8	17.5
	Total	2,564	1.5	18.1	61.8	18.6

that such efforts garner positive results, close cooperation is needed between the central and local governments. However, similar projects are also being carried out at the central and local government levels. It is only through close cooperation that the central and local governments will be able to reduce such inefficiency in the implementation of policy support for micro-enterprises.

Based on the results of the analysis on the levels of competition and rates of business establishment and closure by region and industry, the provision of policy support, including the micro-enterprise policy fund, should be temporarily suspended for local industries with rates of business establishment and closure above certain levels as well as for those with excessive competition. To maximize the results of the support policy for micro-enterprises, a highly thorough analysis, to the degree allowed by the data, of the levels of competition and rates of business establishment and closure by industry and region would be needed.