

## The Effect of the Financial Crisis on Small and Medium-Sized Manufacturing Enterprises in the ROK (Summary)

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This paper analyses the way in which the problems faced in the past by small and medium-sized manufacturing enterprises in the ROK have altered amid the significant changes to the structure of the ROK's economy that have resulted from the financial experienced by the country. To be more specific, we first of all conducted a survey of the overall quantitative and structural changes, and then analyzed changes in the procurement of finance, which is the biggest problem facing small and medium-sized enterprises. Finally, we analyzed subcontracting transactions and exports, in which areas small and medium-sized enterprises have been singled out as factors that have contributed to a steady rate of growth, despite past bias in the allocation of resources.

Firstly, the most pronounced quantitative change in the small and medium-sized enterprise sector was in employment. Small and medium-sized enterprises accounted for 74% of all manufacturing businesses in 2000, a rise of about 5% on the figure for 1997. With regard to structural changes, the soundness of the fiscal structure as a result of the reduction in the debt/asset ratio was particularly noteworthy. The debt/asset ratio underwent a sustained fall from 305.5% in 1997 to 173.7% in 2001.

We then tried to analyze the bias in the allocation of resources, which is the biggest problem for the ROK's small and medium-sized enterprises, from the perspective of changes in the procurement of finance. The total sum provided by banks, which were the biggest suppliers of money to the indirect financial market, has been increasing, apart from in 1998 when there was turmoil in the immediate aftermath of the financial crisis. Total finance supplied in 2000 had grown by as much as 95.3% on 1997 levels. However, the share of the total value of loans from the ROK's banks of deposit accounted for by small and medium-sized enterprises fell by 7.1% from 47.0% in 1997 to 39.9% in 2002, because although the share of loans to large companies was low, there was a sharp increase in loans to cover household budgets. Moreover, the number of companies that were abolished or merged as a result of the financial crisis was greatest in non-bank financial institutions. The effect of this was to reduce the value of finance supplied by non-bank financial institutions in 1998 by 91.2% compared with the previous year and it is presumed that it will be difficult to procure finance from such financial institutions for the foreseeable future. In the direct financial market, the venture bubble and rapid expansion in the stock market in 1999 led to a significant increase in the amount of finance procured, but in the subsequent period of adjustment, it has shrunk once more to the level seen before the financial

crisis. Government finance for small and medium-sized enterprises, which complements that provided by the market, can be said to have played a certain role in augmenting to a significant degree the total value of credit guarantees in 1998, when it was most difficult to procure finance. However, although the share of the government budget earmarked for small and medium-sized enterprises is increasing steadily, it is still small in comparison with the funding provided by the Japanese government. To summarize, whilst it is true that the value of finance procured by small and medium-sized enterprises is increasing in absolute terms and improvements have been seen in the area of finance procurement, one could not go so far as to say that the bias in the allocation of resources has been corrected, as the relative share has decreased.

Furthermore, in this paper we look at changes in the structure of subcontracting around the time of the economic crisis, believing that one factor in the growth of small and medium-sized enterprises is subcontracting transactions that they conduct with major exporting companies, as stated in the *White Paper on Small and Medium-Sized Enterprises*. As of 2000, subcontracting transactions accounted for more than 60% of all transactions and it is believed that cooperative relationships with major companies, focusing on the division of labor, will also be of great importance in the future.

In addition, we have analyzed trends in exports by small and medium-sized enterprises themselves, ascertaining that the industrial structure has become more sophisticated in the aftermath of the financial crisis, shifting from a labor-intensive structure to a technology-intensive one. More specifically, the share of exports accounted for by the textile industry has decreased, while the share accounted for by such sectors as electrical and electronic equipment and transport equipment for haulage purposes has increased.

Thus, the financial crisis forced many small and medium-sized enterprises to withdraw from the market due to bankruptcy. However, small and medium-sized enterprises have subsequently experienced many positive changes, such as the increase in the value of finance procured and the increasing sophistication of the industrial structure in terms of the types of goods exported.