

(Conference Draft)

“Government Relief for Small Businesses Impacted by COVID-19 in Korea”

Dami Kate Park*

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* Researcher/Law Clerk, Constitutional Court of Korea
damipark@ccourt.go.kr

1. Introduction

The outbreak of COVID-19 was first considered as a health crisis but it was not just a health crisis. It is a social, economic, and political crisis that has disrupted numerous lives away and endangered the global economy as a whole.¹ The COVID-19 pandemic created shock waves throughout the world economy and it is considered as the largest global economic crisis in more than a century.² Due to the pandemic, countries around the globe started to enact unprecedented emergency measures, such as mobility restrictions, mandatory closure of nonessential businesses, travel bans, limitations on social and public gatherings, and mandatory home-based work, which severely affected economic activity of people.³ In return, household incomes, business revenue, and employment declined dramatically. Small businesses, low-income households, and vulnerable populations were disproportionately affected, and global poverty increased for the first time in a generation.⁴

In this paper, I’d like to introduce detrimental influence of COVID-19 towards small business in Korea and review what measures were taken by Korean government to contain the economic damage caused by COVID-19, focusing on the support provided to small and medium enterprises (SMEs). I’d like to examine what forms and types of financial and legal support were available to companies and businesses impacted by COVID-19 in Korea.

2. Impact of COVID-19 in Korean Economy and its SMEs

2.1. Impact of COVID-19 in Korean Economy

According to Korea Disease Control and Prevention Agency, South Korea witnessed its first confirmed case of COVID-19 on January 20, 2020 and the cases of infection went gradually up by 30 around in mid-February same year.⁵ Soon after, South Korea became a hotspot of the COVID-19 pandemic with confirmed infections drastically increasing, and as of August 31, 2023, the total number of reported and recognized infections is amount to 34,571,873⁶, which made it Korea ranked on top 7 of the WHO COVID-19 statistics dashboard.⁷

¹ A UN framework for the immediate socio-economic response to COVID-19 (United Nations. 2020), p.3.

² Finance for an equitable recovery (World Bank Group. 2022), p.25.

³ *Supra* report, p.26.

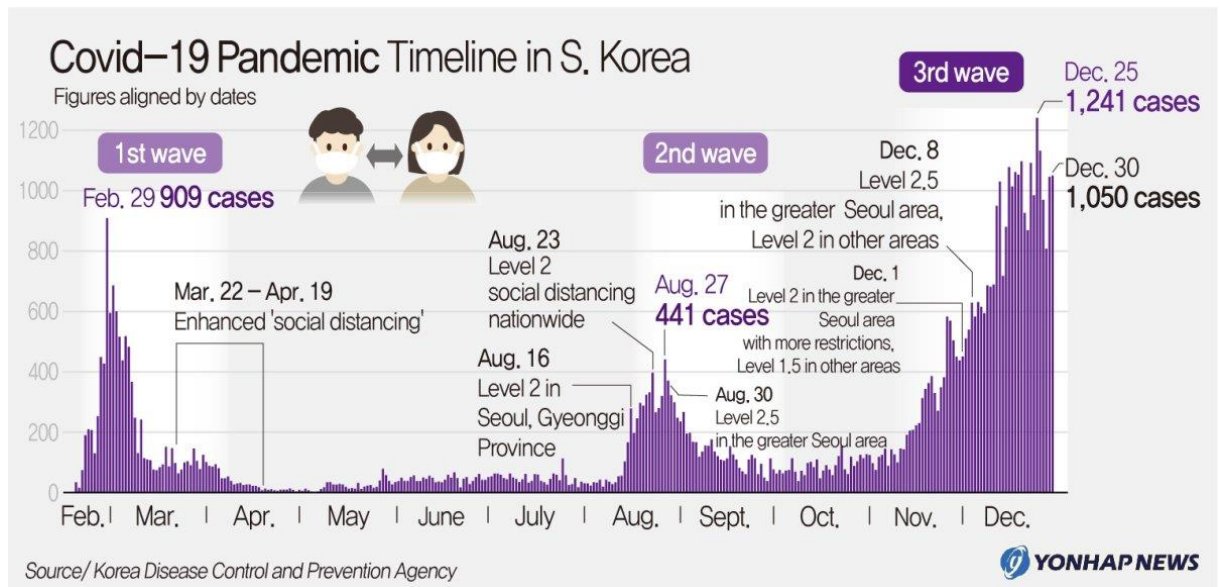
⁴ *Supra* report, p.26.

⁵ “Covid-19 Pandemic Timeline in S Korea,” Yonhap News Agency, December 30, 2020.

⁶ Korea Disease Control Agency, COVID-19 Statistics, available at:

<https://ncov.kdca.go.kr/bdBoardList_Real.do?brdId=1&brdGubun=11&ncvContSeq=&contSeq=&board_id=&gubun=>

⁷ WHO, *COVID-19 Dashboard*, available at: <<https://covid19.who.int/>>



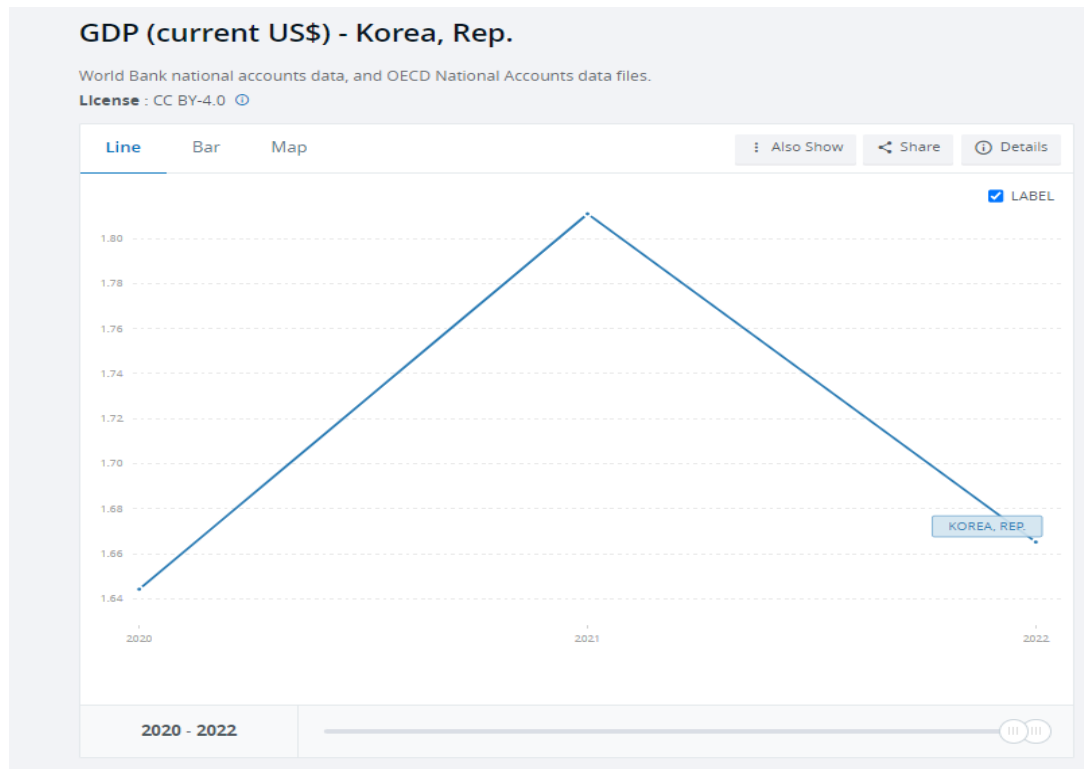
Graphic 1: COVID-19 Pandemic Timeline in S. Korea⁸

As it is shown on the graphic 1 above, Korean government started to implement social distancing policy at the early stage of COVID-19 outbreak. In order to fight against the unprecedented pandemic, the government set forth restrictive measures towards public, such as mandatory mask wearing in the transportation, ban on unnecessary gathering of large amount of people, mandatory early closure of local restaurants and shops, remote work and schooling for certain group of people, and etc. These measures were directly affecting most of the business nationwide. However, it hit even harder for the small businesses including local shops, cafés, restaurants, and retail shops for those places require actual confrontation of customers in person.

The statistics showed that due to the halt of the production and limitation of the trade after COVID-19, South Korea’s gross domestic product shrank by the largest amount in 2022 since the 2007-2008 global crisis, dropping two places to rank 13th in the world.⁹ It reflects the structural weakness of the Korean economy, which relies heavily on certain industrial sectors, such as raw material imports, semiconductor exports, and exports to China. As shown in the below graphic 2, South Korea’s nominal GDP for 2022 was US\$1.665 trillion, down 8% from 2021, showcasing the largest decline since 2009 (-9.9%), during the financial crisis. Denominated in the US dollar, South Korea’s GDP jumped 10.1% in 2021 after falling 4.3% and 0.4% before and after the COVID-19 pandemic in 2019 and 2020, respectively. Then, in 2022, it began to decline again.

⁸ “Covid-19 Pandemic Timeline in S Korea,” Yonhap News Agency, December 30, 2020.

⁹ “2022 saw biggest dip in Korea’s GDP since 2008 financial crisis,” Hankyoreh, August 9, 2023.



Graphic 2: South Korea’s GDP in USD from FY 2020 to FY2022¹⁰

Although Korean government declared end to COVID-19 emergency in earlier this May and lifted many of pandemic related restrictions, economic hardships from the COVID-19 is still at hand.¹¹ The Korean economy is continuing a moderate recovery on improving exports despite weak domestic demand resulting from the COVID-19 spread and global supply disruptions.¹²

2.2. Impact of COVID-19 for its SMEs

Pursuant to article 2 of Framework Act on Micro Enterprises, the micro enterprise shall have less than 10 full-time employees. According to the statistics, as of 2019, 3,285,000 out of 3,874,000 enterprises registered in Korea were micro enterprises.¹³ The percentage of micro enterprises is amount to 84.8%. The same statistics showed that 6,617,000 were employed by micro enterprises, and the percentage of these people is amount to 36.9%.¹⁴ Among them, as of

¹⁰ World Bank, *GDP Database*, available at: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=2022&locations=KR&most_recent_year_desc=false&start=2020&view=chart

¹¹ “Korean government declares end to COVID-19 emergency,” Korea Joongang Daily, May 11, 2023.

¹² KDI, *Korea Development Institute’s Economic Outlook 2022*, available at: https://www.kdi.re.kr/eng/research/economy?pub_no=17458#:~:text=After%20the%20COVID%2D19%20crisis,to%20bolster%20the%20economic%20recovery.>

¹³ Korean Government’s Official Statistics, *Micro Enterprises*, available at: https://www.index.go.kr/unity/potal/main/EachDtlPageDetail.do?idx_cd=1198

¹⁴ *Ibid.*

2019, 5,606,000 were self-employed.¹⁵¹⁶ Considering the numbers of entities, micro enterprises are crucial backbone of the Korean economy.

As it was mentioned earlier, since most of the small and medium enterprises including retail shops, restaurants, service providers, and etc. require actual confrontation of customers in person, it made it a lot difficult for SMEs to survive during the pandemic while most of people were not encouraged to gather freely due to the social distancing order. In the midst of pandemic, Korean government imposed not only the limitation of public gathering of certain amount of people amount to 4 to 5, the government even set COVID-19 curfews for small businesses including shops, markets, restaurants, cafes, karaoke, pc playroom, arcade, and etc. According to the survey conducted by the Korea Federation of Micro Enterprise¹⁷ in 2020, 80.2% of micro enterprises answered COVID-19 has influenced their revenue. Many of small business owners thought it was too much burden for them to bear.

3. Actions taken by the small business owners

As the small business owners were directly affected by the government’s measures, such as ban or limitation of gatherings and COVID-19 curfews, they argued that government’s excessive restriction infringed the constitutional rights like freedom of assembly and religion and rights to occupation. They even further argued that government’s measure was prolonged to the extent that it was practically impossible for the small business owners to sustain their living. As a result, a group of small business owners filed a petition against the social distancing measures, which made them to reduce their business hours without compensation to the Constitutional Court.¹⁸ In this case, however, the Court unanimously dismissed the arguments of Complainants for pandemic situation of COVID-19 was unprecedented and it was difficult for government for predict beforehand for the duration of social distancing order by estimating accurate schedule for preventive measures to mitigate the damages.¹⁹ Similar cases were brought to the Constitutional Court but no fruitful outcome was made. Many of small business owners who were directly affected by government’s social distancing order were gathered to

¹⁵ Korean Government’s Official Statistics, *Self Employed*, available at:

<https://www.index.go.kr/unity/potal/main/EachDtlPageDetail.do?idx_cd=2779>

¹⁶ Unlike the term ‘micro enterprise’, which is defined by the law, the term ‘self-employed’ is not defined by the act. It is largely used for the statistical purpose by meaning both people work alone by self-employed or work with unpaid family member or paid employee.

¹⁷ This was the second survey aimed to assess the impact of COVID-19 towards the micro business owners. It was processed by Korea Federation of Micro Enterprise, an official association of micro enterprises pursuant to Framework Act on Micro Enterprises.

¹⁸ Hyunwook Shin. “Micro enterprises and Self-employed arguing that government’s measure is unconstitutional to restrict their business hours without providing compensation,” KBS NEWS, June 15, 2023. (in Korean)

¹⁹ 2020Hun-Ma1669, June 29, 2023.

initiate an administrative litigation against the government to ask for compensation, some of the cases damages are amount to 1.3 million USD²⁰, but all of the cases are still pending.²¹

4. Government Relief for Small Businesses Impacted by COVID-19

Although many of small business owners’ attempts to claim their damages by lawsuits did not work out, government tried to handle the situation by providing as much as support by granting government relief.²² The types of support and relief provided to small business owners are largely two: one is government subsidies and institutional support other than subsidies including tax relief, custom support, and etc.

4.1. Government Subsidies

4.1.1. Support Subsidy for Maintaining Employment

Under the Employment Insurance Act, The Ministry of Employment and Labor (hereinafter referred to as “MOEL”) provided support for companies meeting certain criteria if they reduce employee work hours or suspend their operations due to the unavoidable circumstances such as sudden drops in revenue. This aims to encourage companies to reduce work hours or suspend rather than lay off workers as they may need to do so otherwise. This is often called “subsidy for employee retention (“고용유지지원금/雇用維持支援金”)²³. Owing to pandemic, MOEL has to change its stance to gradually ease the edibility requirements to make the subsidy more easily available to companies regardless of industry and size of the business.

As of March 25, 2020, a company is eligible for support if (a) it reduces work hours or its work force by 20% or more in one month or orders its employees to suspend their work for more than one month due to COVID-19, and (b) pays its employees the necessary business suspension allowance or paid leave allowance. These allowances must be paid to employees pursuant to the Labor Standard Act in case of business suspension for reasons attributable to the employer. The Act requires the employer to cover at least 70% of the employee’s average wage as business suspension or paid leave allowance. If granted, the support subsidy will be up to 3/4 (for small and medium enterprises (“SME”) and certain other companies designated as requiring priority support) or 2/3 (for large companies) of the business suspension allowance

²⁰ 2022GUHAP828.

²¹ Suhyun Han. “Micro enterprises association filed a law suit against the Government to redeem damages amount to 1.3 million USD,” The Law Times, December 1, 2023. (in Korean)

²² Park Han-na. “Distribution of COVID-19 relief funds begins,” The Korea Herald, May 4, 2020.

²³ Article 19 (Eligibility for Subsidies for Employee Retention) of Enforcement Decree of The Employment Insurance Act, available at: <https://elaw.klri.re.kr/kor_service/lawView.do?hseq=63048&lang=ENG>

or paid leave allowance, as applicable, that the company has paid to a given employee, which amount is capped at KRW 66,000 (approximately amount to 51 USD) per day per employee. The support is available for the period February 1 to July 30, 2020, when the suspension allowance or paid leave allowance was paid. (In case of companies subject to priority support, the government further increased the ceiling to up to 90% for between April to June 2020.)

4.1.2. Support Subsidy for Paid Leave

Under the Infectious Disease Control and Prevention Act, the Ministry of Health and Welfare (herein after referred to as “MOHW”) provided a support subsidy for paid leave to an employer that provides paid leave to an employee who is hospitalized or in isolation due to COVID-19 infection. The amount of the daily subsidy, computed according to a formula based on the monthly salary, is capped at KRW 130,000 (approximately amount to 100 USD) per day. However, this subsidy is not available if the affected employee has applied for and receives the living support expenses that the government has made available to employees under the same law who are hospitalized or in isolation due to COVID-19.

4.1.3. General Subsidy for Corporations

The Ministry of Economy and Finance (hereinafter referred to as “MEF”) declared on March 24, 2020 that it would increase the emergency corporate subsidy fund from 50 trillion KRW to 100 trillion KRW (approximately 76.9 billion USD), which will be utilized to provide guarantees or loans for corporations in need of financial support and to stabilize the bond market.²⁴ With this subsidy fund, Ministry of SMEs and Startups provided 35 trillion KRW to SMEs and self-employed business in forms of emergency disaster relief fund, quarantine relief fund, and etc. from September 2020 to April 2022.²⁵ Recently issues related to the SMEs subsidy were raised whether to redeem the SMEs subsidies, which were granted in advance without accurate estimation of prospective loss of the business.²⁶ The government and ruling party, however, decided not to redeem the COVID-19 subsidies granted as emergency relief,

²⁴ Hyongsun Im. “President Moon, determined to put 100 trillion KRW as corporate subsidy,” Yonhap News, March 24, 2020, available at: <<https://www.yna.co.kr/view/AKR20200324096600001>> (in Korean)

²⁵ Sunmi Hong, “Board of Audit and Inspection started to audit COVID-19 relief granted to SMEs from Moon Jae-in Administration,” Asia Today, November 14, 2023, available at: <<https://www.asiatoday.co.kr/view.php?key=20231114010008488>> (in Korean)

²⁶ Minjung Shin, “Government and ruling party decided not to redeem the COVID-19 subsidies granted to micro enterprises,” Hankyoreh, October 29, 2023, available at: <https://www.hani.co.kr/arti/politics/politics_general/1114033.html> (in Korean)

for it was given without estimating the loss without recipients fault.²⁷ Also considering the fact that micro enterprises are still confronting economic hardships from COVID-19 pandemic.²⁸

4.2. Other support

4.2.1. Tax Relief²⁹

Korea’s National Tax Services announced on February 7, 2020, that it would provide national tax relief/support for taxpayers who suffered damages due to COVID-19. Such relief or support is available to SMEs and individual taxpayers engaging in the tourism and hospitality sectors (food and lodging), transportation, concert/performances, medical services (hospitals/medical clinics), and wholesale and retail sales. For example, the following taxpayers engaging in one of the business sectors above would be eligible for tax relief/support: an individual who is a confirmed patient or is subject to quarantine, a business with a confirmed case or a workplace where a confirmed case has visited, a business with a workplace located near facilities occupied by Korean returnees from Hubei Province, in China, and an SME transacting with China. The national tax relief/support includes an extension on the deadline for filing tax returns, a similar extension on payment of corporate taxes, a postponement on issuing notices to pay delinquency fines and on collecting such fines, the prepayment of tax refunds, and suspension of tax audits.

4.2.2. Customs Support

The Customs Service operated a 24-hour customs support system to expedite the import/export process for companies that experienced import/export delays due to COVID-19.³⁰ The Customs Service also (a) conducted minimum inspection and review of imported/exported goods to expedite customs clearance, (b) allowed extensions on payment of customs duties and payment of customs duties in installments, and (c) suspended customs audits to support companies during the COVID-19 outbreak. This aimed to help SMEs trading with foreign companies during COVID-19 pandemic period easier to operate.

4.2.3. Compensation of Damages

Any person or business that has been adversely affected by government measures implemented to prevent the spread of COVID-19 may file a claim for compensation

²⁷ *Ibid.*

²⁸ *Ibid.*

²⁹ Kim and Chang. “COVID-19: Government relief for companies impacted by COVID-19 in Korea,” April 23, 2020.

³⁰ “The chief of Customs Service promised 24-hour customs support system to micro enterprises,” The Korea Industry Daily, February 13, 2020.

with the Ministry of Health and Welfare (MOHW) or the municipal government. The MOHW and the municipal government will compensate the loss in accordance with the decision by the Loss Compensation Review Committee. Examples of government measures include a mandatory order to close a workplace due to COVID-19 that results in the inability to use relevant facilities, equipment or personnel, and workplace disinfection in accordance with the Infectious Disease Control and Prevention Act. The MOHW is expected to provide more detailed guidelines on compensation criteria. However, as stated earlier in section 3 above, there are a lot of dispute going on for the compensation amount set by the micro enterprises are not met with the one set by the government. Although Ministry of SMES and Start-ups started to provide compensation of damages caused from government’s restriction of business hours from the third quarter of 2021 amount to 8.4 trillion KRW (approximately amount to 6,400 million USD) to 3,221,000 micro enterprises, each received about 300 million KRW (approximately amount to 2,300 USD), it was not enough for each entities.³¹ In this regards, the lawsuits seeking full compensation for damages brought by micro entities who were directly affected by government’s business hour restriction according to the social distancing order are still pending.

4.2.4. Provision of Low Interest Loans³²

In the course of responding to the COVID-19 crisis, Korean government increased SME loans significantly. From 2015 to 2019, the average annual increase in new SME loans was about KRW 46.5 trillion, but from 2019 to 2020, SME loans increased by about KRW 89.6 trillion. During the same period, loans to large corporations also showed a steep increase; thus, the share of SME outstanding loans decreased slightly. Looking at direct government loans, figures from 2020 also show a steep increase. From 2015 to 2019, the growth rate of direct government loans was only about KRW 0.1 trillion per year on average, while it was about KRW 1.9 trillion from 2019 to 2020. This is more than 10 times the average annual increase in the past. Many of micro entities were able to access low interest loans from the government or government related bank or financial institutions in order to recover from

³¹ Sangdon Park, “Should 7,600 micro enterprises refund the compensation received from the government,” Yonhap News, October 12, 2023, available at: <<https://www.yna.co.kr/view/AKR20231011161800030>> (in Korean)

³² OECD Report, *KEY FACTS ON KOREA’S SME FINANCING*, available at: <<https://www.oecd-ilibrary.org/sites/5abcd059-en/index.html?itemId=/content/component/5abcd059-en>>

COVID-19 financial difficulties, and most of them are suspended to pay back until 2028 for now.³³

4.2.5. Provision of Legal Advisory and Legal Support through Legislation.

Other than financial subsidies, SMEs in Korea were able to ask for free legal advisory and legal consultation services related to their business from Korea Federation of SMEs³⁴ and Korean Bar Association regarding the COVID-19 crisis.³⁵ Law makers in Korea kept working on providing systematical and institutional support through the legislation that is to support and help micro enterprises in need of assistance for COVID-19 crisis. Legislative support for micro enterprises can be divided into three: taxation, commercial building lease contract related issue, and fund raising for financial support.

5. Assessment of the Policy

When it comes to financial support, one time provision of money is not a fundamental solution. Due to massive numbers of micro enterprises, Korean government spent trillions of money to boost up the depression caused by COVID-19. However, it comes to individual entities the amount given wasn’t enough to overcome the difficulties, according to the people owning micro enterprises and receiving the grant.³⁶ The survey took place in November 2020, 57.6% of micro enterprise owners were contented with the COVID-19 subsidies, but 53.5% of them answered the amount was not sufficient enough, and therefore the subsidy was not helpful as it is. Financial support and governmental subsidies can be useful for the level of surviving, however, it wasn’t enough for maintaining the business as it was prior to COVID-19.

Low interest loan as well is another burden for the people in need of financial support. Other than temporary money giving, government should provide long-term and sustainable support that can boost up the micro enterprise owner’s cycle of business. It can be provision of legal support to mitigate the loss from the difficulties or provision of business consulting to convert the way of business for different situation given after the COVID-19, and so on.

6. Conclusion

³³ Sewon Min, “Micro enterprise loans ... suspended until 2028,” Seoul Economy News TV, June 9, 2023.

³⁴ Mikyung Shin, “Korea Federation of SMEs providing legal advisory,” S Biz Today, May 6, 2020.

³⁵ Korean Bar Association News Feed, available at:

<<https://www.koreanbar.or.kr/pages/news/view.asp?teamcode=&page=19&seq=10778&types=3&category=&searchtype=&searchstr=>>

³⁶ This was the second survey aimed to assess the impact of COVID-19 towards the micro business owners. It was processed by Korea Federation of Micro Enterprise, an official association of micro enterprises pursuant to Framework Act on Micro Enterprises.

Although it is recognized that Korean government is one of the responsive administration that tried to sort a way out for SMEs during the pandemic by providing financial subsidies and taxation relief and etc. Not many of those attempts led to long term sustainability to boost up the COVID-19 depression. With the financial support and institutional support provided, now it is time to consider the sustainable support that can make the micro business thrive themselves as they were prior to COVID-19.