EXECUTIVE SUMMARY

A Study on Establishing a Fair Competition Order in the International Logistics Market

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1. Background and Purpose

1) Background

- Korea's industrial structure is heavily dependent on international trade, making it highly vulnerable to global supply chain disruptions caused by events such as pandemics and wars. This underscores the critical need to establish stable import-export logistics systems.
  - Although South Korea achieved record-high exports last year, recurring global supply chain disruptions, including the pandemic, U.S.-China tensions, and the Red Sea crisis, have adversely affected the manufacturing sector.
  - Such supply chain risks have resulted in production disruptions,

including port closures and shortages of raw materials and intermediate goods, as well as increased logistics costs, underscoring the necessity of establishing a stable logistics supply chain.

- Small and medium-sized manufacturers have been more severely affected by supply chain disruptions, with impacts compounded by their inability to secure adequate freight space and limited bargaining power in shipper negotiations.

  - Small and medium-sized shippers encounter substantial difficulties securing cargo space during global disruptions, experiencing disproportionately severe impacts relative to large corporations. The small and medium-sized logistics providers serving these shippers face structural vulnerabilities stemming from their limited scale and weak negotiating power.
  - The declining competitiveness of small and medium-sized logistics companies directly undermines the export competitiveness of small and medium-sized shippers, ultimately weakening national export competitiveness as well.

- As new risks emerge from U.S. tariff policies and other factors, strengthening South Korea's export competitiveness has become increasingly critical. This requires establishing a fair market environment that enhances the competitiveness of small and medium-sized logistics firms while providing stable business support.

  - Global supply chain disruptions are expected to persist, and amid these challenges, U.S. tariff policies have elevated the enhancement of Korean manufacturers' export competitiveness to a critical priority.

- From a long-term perspective, creating a fair competitive environment for small and medium-sized logistics firms is essential to establishing a policy foundation for building stable global supply chains.

2) Relevance to National Projects

▪ This research is highly relevant to [National Priority Task No. 64] 'Establishing a Fair Market Order', contributing to national goals of strengthening the business foundations of SMEs and economically disadvantaged market participants.

- Among the government's 123 National Priority Tasks, this research specifically aligns with 'Establishing a Fair Market Order.'
- This research focuses on creating a fair trading environment and establishing market order for small and medium-sized logistics firms, thereby strengthening protections for economically vulnerable businesses.

3) Purpose

▪ This study examines the actual contracting behaviors, trading practices, and competitive dynamics of logistics firms in the international logistics market, using transaction data to diagnose anticompetitive practices and structural market failures.

- Korea's import-export logistics market remains dominated by large logistics companies, resulting in structural barriers for SME logistics firms such as freight rate discrimination, weak bargaining power, and difficulties securing freight space, even when they possess competitive operational capabilities.
- This study therefore examines the limitations of existing fair trade policies that focus primarily on large enterprises and proposes measures to institutionalize fair trading environments and market order for small and medium-sized logistics firms.

▪ This study conducts an in-depth analysis of competitive conditions and trading behaviors in the international logistics industry to identify anticompetitive practices and market distortions. Based on these findings, it develops practical legal, institutional, and policy measures to address these issues and establish a sound and transparent trading environment.

- This research develops policy measures to reform transaction structures and address anticompetitive practices in the international logistics market, contributing to the establishment of an equitable competitive environment for SME logistics firms.

2. Methodology

1) Academic Methods

▪ Employing data-driven empirical methods, this study examines in depth the contractual behaviors and transaction structures, analyzing the structural characteristics of logistics firm transactions within the import-export logistics market.

- Using actual transaction data from logistics firms over the past decade, including suppliers and clients, this study conducts an in-depth analysis of the characteristics of transaction structures in the import-export logistics market, such as transaction counterparties, transaction amounts, and transaction proportions.
- Furthermore, by categorizing key actors in import-export logistics transactions, including ocean carriers, shippers, and large-scale logistics companies, this study focuses on identifying the structural characteristics of small and medium-sized logistics enterprises, particularly their transaction counterparties and transaction proportions.

▪ Utilizing transaction types and transaction structures in the international logistics market, this study conducts in-depth analysis through annual market concentration analysis and clustering analysis by transaction type.

- The study conducts market concentration (HHI) analysis using diverse data on transaction types and transaction proportions by logistics firm, and analyzes annual issues and their impacts.
- Based on purchase and sales transaction structures, the study clusters transaction types by logistics firm and focuses on analyzing the transaction characteristics they exhibit.

2) Policy Formulation Methods

- Through input gathering and consultation meetings with policy beneficiaries (small and medium-sized logistics enterprises), government agencies, industry associations, and experts, this study develops policy alternatives and discusses measures to enhance policy effectiveness.
  - By investigating cases of unfair practices and abusive contracts experienced by small and medium-sized logistics enterprises in import-export logistics transactions, the study closely examines key issues and conducts input gathering and meetings to formulate policy measures to address these problems.
  - The study discusses policy feasibility and concrete implementation measures through working-level consultations and input gathering with the competent ministries for international freight forwarding and international logistics policy officials, including the Ministry of Oceans and Fisheries, the Ministry of Land, Infrastructure and Transport, and the Korea International Freight Forwarders Association.

3. Result

1) Summary

- Analysis of transaction concentration in the international logistics market shows high concentration on a small number of top firms in both suppliers and clients.

- Transactions are predominantly concentrated around a few large ocean carriers and major enterprises (logistics companies and shippers), resulting in a structure that limits market access for small and medium-sized logistics enterprises.
- The market concentration index (HHI) also demonstrates high concentration and substantial volatility for both suppliers and clients, which weakens the bargaining power of small and medium-sized firms.

▪ Analysis of transaction structure characteristics and differences by logistics firm size demonstrates that large logistics companies and small and medium-sized logistics enterprises are distinguished in terms of transaction proportions and behaviors.

- Large logistics companies, leveraging stable cargo volumes and networks, exhibit high transaction proportions in direct transactions with ocean carriers and internal transactions.
- Small and medium-sized logistics firms exhibit transaction structure characteristics distinct from those of large logistics companies, including low transaction proportions, diverse transaction counterparties, and widespread practices of re-delegation and multi-tier structures.

▪ Clustering logistics firms' transaction types based on transaction structures reveals diverse cluster patterns, including ocean carrier-focused, forwarder-carrier hybrid, manufacturing-concentrated, and large enterprise-dependent types. A common feature across all clusters is the significant influence of large enterprises.

- Korea's import-export logistics market exhibits transaction concentration among top-tier firms and dependency in cooperative relationships, with large enterprises exerting substantial influence.
- Small and medium-sized logistics firms exhibit low proportions of direct transactions with ocean carriers, with numerous cases identified where these firms receive vessel space allocations from larger logistics companies.
- The market structure shows that small and medium-sized logistics firms form networks centered on large logistics companies.

▪ Analysis of problems in transaction structures and trading behaviors in the international logistics market identifies and categorizes six types of issues, conducting case studies for each.

- (Transaction structure problems) The study identifies vessel space monopolization and transaction imbalances centered on large logistics companies, market disruption due to low entry barriers in international freight forwarding, and deteriorating profitability of logistics enterprises resulting from blurred industry boundaries between distribution and logistics.
- (Trading behavior problems) The study identifies persistent low-price bidding practices by large firms, unequal bargaining positions and liability transfers, closed bidding processes, and opaque contractual terms.

2) Policy Recommendations

- Based on analysis of transaction structure problems in the international logistics market, this study proposes three policy measures: restrictions and monitoring of vessel space trading, improvement of international freight forwarding registration requirements, and establishment of fair competition standards for the logistics-distribution industry.
  - To address difficulties in securing vessel space faced by small and medium-sized logistics firms and prevent abuse of vessel space resale, this study proposes monitoring vessel space transactions by large logistics companies and establishing a fair allocation system.
  - To ensure competitiveness and self-sustainability of the international logistics market, the study proposes strengthening registration standards and introducing a performance verification system.
  - The study proposes establishing fair competition standards to prevent ambiguous boundaries and market disorder in the logistics-distribution industry.
- Based on behavioral analysis and identified problems of transaction participants in the international logistics market, this study proposes three policy measures: introduction of international standard transportation contracts, establishment of a fair trade certification system for the international logistics market, and reform of the competitive bidding operational system.

- This study proposes creating a transparent and sound import-export logistics market through the introduction of international standard transportation contracts to ensure fair trading environments among ocean carriers, shippers, and logistics enterprises.
- The study proposes establishing a fair trade certification system for the international logistics market to ensure market order in international freight forwarding.
- The study proposes reforming the competitive bidding operational system and strengthening requirements to address opaque bidding practices by large logistics companies.

4. Expected Outcomes

1) Policy Effects

▪ Establishment of a fair competition-based market order in international freight forwarding

- Addressing the various unfair factors identified in transaction structures and contracting behaviors in the international logistics market will create a fair trading environment characterized by transparency and normative standards.
- This will mitigate the closed and concentrated structure centered on large enterprises and establish an institutional foundation enabling participation in bidding, contracting, and transactions on equal terms.

- Enhancement of support systems for small and medium-sized logistics firms and improvement of international logistics policy regulations

- The position of economically disadvantaged participants in the market will be strengthened through policy safety nets and fair trade support measures that compensate for the weak bargaining power and resource constraints of small and medium-sized logistics firms.
- National logistics governance will be enhanced and international logistics policy coordination will be strengthened through inter-ministerial cooperation and role-sharing among ministries responsible for international logistics policy, including the Ministry of Land, Infrastructure and Transport, the Ministry of Oceans and Fisheries, and the Korea Customs Service.

2) Social and Economic Effects

- Enhancement of national export competitiveness and improvement of logistics service quality

- Fair vessel space allocation and freight rate stabilization are expected to reduce risks in import-export logistics and enhance responsiveness.
- Improved logistics accessibility for small and medium-sized shippers can create a virtuous cycle leading to export stability and expansion.

- Reinforcement of growth foundations for small and medium-sized logistics companies and enhancement of transparency and reliability of the industry ecosystem
  - Fair bidding opportunities and stable vessel space allocation for small and medium-sized logistics enterprises will improve their profitability and sustainability, contributing to enhanced national logistics competitiveness.
  - Reducing non-transparent and unfair factors will enhance the reliability of the international logistics industry and foster a sound industry ecosystem for the overall national logistics sector from a long-term perspective.