



Practical Challenges and Policy Implications of Korea's Delivery Price Indexation System

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ABSTRACT

Purpose: This study examines the implementation challenges and policy implications of Korea's Delivery Price Indexation System, which mandates price adjustments in subcontracting based on fluctuations in raw material prices. The system aims to protect SMEs from unilateral cost burdens in supply chains.

Design/methodology/approach: The research is based on focused group interviews (FGIs) with 37 firms participating in the indexation system, along with a legal review of relevant Korean statutes and comparison with international cases from the U.S., Australia, and FIDIC standards.

Findings: Despite legal enforcement, the system faces four key challenges: (1) informal contracting practices that prevent written indexation agreements, (2) lack of incentives for ordering companies, (3) suppliers' fear of retaliation for requesting price adjustments, and (4) limited effectiveness of the current adjustment mechanisms. These factors hinder the realization of the system's intended benefits.

Research limitations/implications: The study reflects the early-stage implementation and focuses on a relatively small sample of firms. Nonetheless, it provides critical insights for policymakers seeking to improve institutional design and enhance business adoption of the system.

Originality/value: This paper offers one of the first field-based evaluations of the Delivery Price Indexation System in Korea. By identifying practical obstacles and proposing actionable policy recommendations, it contributes to improving fair-trade practices and sustainable partnerships between large companies and SMEs.

Keywords: Delivery Price Indexation, SME, Support for Small-Medium Enterprises

I. Introduction

Ensuring fair and cooperative relationships between large companies and their small and medium-sized

enterprise (SME) suppliers has long been a policy priority in Korea. To this end, statutes such as the *Act on the Promotion of Mutually Beneficial Cooperation between Large Enterprises and SMEs* and the *Fair Transactions in Subcontracting Act* delineate what constitutes a subcontracting transaction. The former defines a subcontracting transaction as a business arrangement in which a company engaged in manufacturing, construction, processing, repair, sales, or services outsources the production of goods, components, or

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materials to an SME. The latter law similarly defines a subcontracting relationship as one where a main contractor entrusts a subcontractor (often an SME) with manufacturing, construction, repair, or service tasks, and the subcontractor delivers the resulting product or service to the main contractor in exchange for a payment (the subcontract price). Although these legal definitions are not identical, both laws share the goal of fostering equitable trading terms and collaborative partnerships between large firms and their SME suppliers.

Within this institutional context, delivery price indexation refers to a mechanism for adjusting the payment for delivered goods in line with significant changes in the cost of key raw materials. Specifically, if the price of a primary raw material rises or falls beyond a threshold agreed upon by the contracting parties (commonly set at or below 10%), the delivery price paid to the supplier is adjusted proportionally to reflect that change. For SME suppliers (subcontractors), such an indexation mechanism is crucial because surges in raw material prices can otherwise erode their profit margins or even force them to operate at a loss under fixed-price supply contracts. In principle, if the ordering company (the large client) raises the payment to reflect higher raw material costs, the subcontractor can maintain a sustainable profit level. However, in practice, the subordinate position of subcontractors in the supply chain often makes it difficult for a smaller supplier to request price increases unilaterally, even when input costs have risen sharply. This imbalance highlighted the need for a formal system to facilitate fair price adjustments.

In response to this issue, the Korean National Assembly and government moved to institutionalize a solution as early as 2009. Specifically, on April 1, 2009, Article 16-2, titled "Adjustment of Subcontract Payment due to Fluctuations in Raw Material Prices," was added to the *Fair Transactions in Subcontracting Act*. This provision grants subcontractors the legal right to request an adjustment of the subcontract price if an unforeseen raw material price surge after the contract's signing makes the original price untenable. Correspondingly, the law obliges the main contractor

(ordering firm) to enter good-faith negotiations and prohibits it from unjustifiably refusing or neglecting such requests; should the parties fail to reach agreement, either side may seek mediation from a Subcontract Dispute Mediation Council.

Building on this legislative foundation, the government launched a pilot program for a delivery price indexation system in 2010 under the lead of the Small and Medium Business Administration. It was after a subsequent surge in global raw material prices in the wake of the COVID-19 pandemic (circa 2020) that discussions about fully implementing the indexation system regained momentum. These deliberations culminated in the National Assembly's passage of a bill on October 4, 2023, mandating the adoption of a delivery price indexation system. After a brief preparatory period, the mandatory indexation system came into force nationwide in January 2024.

Despite these policy efforts, recent evidence suggests that many firms remain only vaguely aware of the new system's specifics. A 2023 survey by the Ministry of SMEs and Startups found that out of 4,013 respondent companies, only 19.8% were familiar with the system's details, 43.5% recognized the system's name but lacked understanding of its particulars, and 36.7% were not aware of it at all. This stark finding underscores a significant gap in the dissemination of information and guidance about the scheme to its intended stakeholders.

In response, the present study conducted focused group interviews (FGIs) with 37 companies participating in the indexation program between October 2023 and December 2024 by *Promoting Sustainable Growth through Cooperation between Large Companies, SMEs and Rural Communities of Korea*, aiming to pinpoint on-the-ground implementation challenges and to gather suggestions for improvement. The 37 companies were assigned to the researchers as they participated in the consulting project on the supply price linkage system conducted by KOFCA. To achieve these objectives, the study first examines the status of the delivery price indexation system in Korea and reviews relevant prior research and international cases, providing a contextual foundation for understanding the system's

operation. It then analyzes the insights from the FGIs to identify the practical challenges companies have encountered during the system's initial implementation and proposes a set of measures to address these challenges.

Overall, this research offers a perspective distinct from earlier legal-centric discussions of delivery price indexation. Prior studies have predominantly examined theoretical legal questions—for example, debating the system's compatibility with competition law or the allocation of cost burdens between contracting parties—whereas our study centers on empirical evidence from firms that have actual experience with the system. By shifting the focus to real-world implementation issues, the study yields practical, field-based policy recommendations.

Theoretically, this study contributes to the literature on contract governance and institutional economics, particularly the challenges associated with enforcing fair trade practices in markets characterized by asymmetric power relations. It engages with theories of incomplete contracting, showing how legally mandated mechanisms like price indexation may bridge the gap between formal legal rights and informal business practices.

Practically, the study provides concrete guidance for regulators, industry associations, and firms on how to enhance policy uptake, design enforceable contractual tools, and ensure that SME suppliers are protected from unfair cost transfers. The use of FGI data also highlights how field evidence can inform legal refinement and adaptive policymaking in emerging regulatory regimes.

These theoretical and practical contributions position the study as a bridge between legal frameworks and economic realities, reinforcing the delivery price indexation system's role in promoting sustainable, equitable subcontracting relationships.

II. Legal Background and Comparative Perspectives

Korea's delivery price indexation policy was introduced to address long-standing unfair subcontracting practices, where SME suppliers bore the burden of raw material cost fluctuations. Two statutes govern such transactions: the "Win-Win Cooperation Act" and the "Subcontract Act." Although differing slightly in terminology, both aim to foster fair trading relationships between large firms and SMEs.

Recognizing that SMEs found it difficult to initiate price adjustments, the government introduced Article 16-2 to the Subcontract Act in 2009. This allowed subcontractors to request a price increase when raw material costs rose after signing. However, the system was based on voluntary negotiation, limiting its effectiveness.

In 2010, the government launched a pilot program, but adoption stagnated until the COVID-19 pandemic in 2020 highlighted the urgent need for enforceable price adjustment mechanisms. By late 2022, a consensus emerged to mandate delivery price indexation in qualified contracts. The National Assembly amended the Win-Win Cooperation Act in December 2022, and the law took effect on October 4, 2023, with full enforcement from January 1, 2024.

The system requires that supply contracts involving "major raw materials" include indexation clauses. These materials must account for at least 10% of the contract value. The contract must specify the indexation terms, including the adjustment trigger, method, frequency, and caps. Adjustments must apply to both upward and downward price movements.

Exceptions apply to contracts with small ordering firms, short durations (under 90 days), or low value (under ₩100 million). Firms may also mutually agree to waive the clause.

To ensure compliance, the law prohibits circumvention, such as restructuring contracts to avoid thresholds or coercing suppliers. Violations may lead to fines, corrective orders, or criminal penalties. The Ministry of SMEs and Startups supports implementation

through a dedicated support headquarters, offering training and recognizing exemplary firms.

Despite these measures, a 2024 government survey found that over 80% of SMEs lacked full understanding of the system. This highlights the need for broader awareness and support in the system's early implementation phase.

III. Prior Research and International Examples

The concept of mandating cost indexation in supply contracts has been examined from various angles in Korean academic and policy discourse. Early on, Lee (2009) raised questions about the compatibility of a delivery price indexation scheme with market competition principles. Lee argued that forcing price adjustments could be seen as an excessive form of state intervention in private contracts, potentially hindering the formation of competitive market prices. From a competition law perspective, Lee suggested that unless the system can demonstrate significant economic benefits to the national economy (such as correcting a clear market failure), it might be deemed unwarranted. This highlights an initial skepticism that mandatory indexation could distort free market mechanisms if not carefully justified.

Subsequent legal analyses have debated the proper scope and implementation of the system. Kim (2022) differentiated between issues inherent to a delivery price indexation mechanism itself and issues arising from making such a mechanism compulsory by law. Kim posited that in an ideal scenario, price indexation would operate on a voluntary basis, driven by the contractual autonomy of the parties - much like the pilot programs attempted, where companies willingly adopt the practice. To encourage voluntary uptake, Kim recommended developing various incentives for companies (especially large ordering firms) to participate, such as recognition programs or economic benefits, rather than relying solely on legal compulsion.

Additionally, Kim critiqued the existing price adjustment negotiation framework (from the 2009 law) and urged improvements to its requirements and procedures, including imposing stronger sanctions for bad-faith refusals to negotiate. The suggestion was that even with a new indexation system, the effectiveness would depend on enforcement details and the willingness of firms, hence the need to align legal obligations with companies' interests.

Yoo (2022) also contributed to this policy discussion by noting that if a raw material cost indexation system is introduced, the older negotiation-based mechanism should remain in place as a safety net. In Yoo's view, the introduction of automatic indexation does not eliminate the need for a system that captures cost changes in cases that might fall outside the strict parameters of indexation. For instance, if certain cost fluctuations do not meet the predefined trigger or involve materials not designated as "major," SMEs should still have recourse to request adjustments under the negotiation system. Yoo also pointed out that the specifics of implementation (such as how to define the list of major raw materials, the threshold rate of increase, and the indexing method) were delegated to lower-level regulations (enforcement decrees), and it would be crucial to flesh out these details in a way that balances practical business realities with the goal of the law. In short, careful calibration of the rules in subordinate legislation was needed so that the system would be fair and workable for both parties.

Another perspective is offered by Shin and Han (2023), who examined the indexation system under the Win-Win Cooperation Act. They highlighted legal uncertainties faced by companies regarding what constitutes compliance versus a possible evasion of the law. For example, many firms were unsure if their internal guidelines for handling indexation requests might themselves be viewed as an illegal "evasionary act." Shin and Han argued that enforcement criteria and sanction conditions should be reviewed and clarified to align with on-the-ground realities. If the law is too stringent or vague, well-intentioned companies might fear inadvertent violations, while

ill-intentioned ones might exploit loopholes. Thus, they called for refining the penalty provisions to ensure they target truly unfair conduct without overreaching into reasonable business decisions.

More recent scholarly work by Kim and Lee (2023) evaluated the necessity and justification of introducing the delivery price indexation system. To firmly establish the system's legitimacy, they proposed several policy measures: (1) integrating the relevant provisions of the Subcontract Act and the Win-Win Cooperation Act (since both laws now have parallel clauses, a unified legislative approach could reduce complexity or inconsistency), (2) proactively addressing the legal and economic limitations of the indexation scheme (for instance, potential conflicts with existing contract law principles or unintended economic side effects), (3) clarifying the range of raw materials to which the system applies (to remove ambiguity about what counts as a "major raw material"), and (4) allowing some degree of negotiation flexibility for the contracting parties even within the regulated scheme (so that the system does not become a one-size-fits-all straitjacket that ignores context - in other words, maintaining room for autonomous adjustments under the general framework). These suggestions reflect an effort to fine-tune the system so that it is both effective in protecting SMEs and considered legitimate and fair by all stakeholders.

From an economic standpoint, Yang (2024) conducted an analysis of the delivery price indexation issue and anticipated certain practical constraints in enforcement. Yang noted that determining whether companies are complying with indexation can be non-trivial - for example, verifying if a cost increase met the trigger and if the corresponding price change was correctly applied requires information and monitoring. Given that regulatory resources are limited, Yang warned of the system's monitoring challenges. He also cautioned against hastily eliminating too many exemptions or alternatives, as doing so might harm legitimate contracting arrangements that allocate cost risks in other ways. For instance, some supply arrangements might handle cost volatility through different contractual clauses or pricing models;

forcing all such cases into the same mold could be counterproductive. Yang recommended a gradual implementation where regulators focus on ensuring compliance in cases that clearly meet the indexation criteria (clear major materials, clear indices) and then build out from those successes. By initially prioritizing scenarios where the indexation obligation is unambiguous and comparatively easier to enforce, the authorities can create a track record and refine their approach before expanding to more complex cases. This pragmatic approach underscores the need for flexibility and learning in the early stages of policy implementation.

In summary, prior research reveals a spectrum of opinions: from skepticism about government intervention in pricing, to cautious support with conditions (voluntary incentives, clarity in rules), to technical suggestions for legal refinement and enforcement strategy. These analyses provide a backdrop against which the new system has been rolled out and help frame the issues one might expect to encounter in practice.

Turning to international perspectives, it is noteworthy that no other country has mandated a price indexation clause in private sector contracts across the board in the way Korea has. However, many countries have mechanisms to handle price changes in long-term contracts, which can offer useful comparisons. Generally, in private commercial contracts worldwide, parties are free to negotiate escalation clauses or indexation provisions if they wish. Such clauses, often termed "cost escalation clauses" or "economic price adjustment" clauses, are common in certain industries (construction, procurement of commodities, etc.) especially for long-term arrangements. But these are typically voluntary and depend on the bargaining power and foresight of the contracting parties.

One relevant example comes from the United States, particularly in the context of government procurement. U.S. federal and state governments frequently include price adjustment clauses in long-term supply contracts to account for changes in costs of materials, labor, or fuel. The U.S. Federal

Acquisition Regulation (FAR), which governs federal government contracts, allows the use of Economic Price Adjustment (EPA) clauses under specified conditions. These conditions include: (1) the contract is a fixed-price contract of a duration generally exceeding one year or involving multiple deliveries over time; (2) the items or costs subject to adjustment (e.g., certain raw materials, commodities like steel or oil, or labor indices) have significant volatility; (3) there exists a reliable, independent price index or indicator (such as a government-published commodity price index or Producer Price Index) that can be used as a benchmark for adjustments; (4) the contract explicitly defines the adjustment formula, the frequency of adjustments (e.g. quarterly or annually), any cap on price increases, and equally allows downward adjustments if prices fall; (5) the clause is structured fairly so that no bidder gains an undue advantage - for instance, if an EPA clause is included in a solicitation, it must apply uniformly to all bidders to keep competition fair. Notably, in U.S. practice, EPA clauses are not used in cost-plus or cost-reimbursement contracts (since those already account for actual costs automatically) but are mainly for fixed-price contracts where without such a clause the contractor would bear all risk of cost inflation. The overarching principle is to strike a balance between protecting suppliers from extraordinary cost increases and protecting the buyer (in this case, the government) from overpaying if costs decrease. The FAR does not force private companies to use such clauses in their own contracts; it merely provides a framework for government contracts. In private contracts, parties may freely include escalation clauses, but it remains a matter of negotiation and mutual agreement.

Another illustrative case is Australia. Australia does not have a law compelling private contracts to include indexation, but the use of Price Variation Clauses (PVC) is well-recognized in commercial practice. The Australian government and several state governments encourage or provide guidance on using such clauses in public procurement to ensure fairness and flexibility. For example, the federal government's procurement guidelines acknowledge that for long-term

contracts, especially those longer than a year and involving volatile cost components, it may be prudent to include a clause allowing price adjustments. The state government of New South Wales similarly recommends including PVCs in contracts that are long-term or contain significant raw material or labor cost components. These clauses are generally negotiated and agreed upon by the contracting parties and are not imposed by statute. They typically allow the contract price to be adjusted if certain input costs change beyond an agreed threshold, using a predetermined formula or reference to official indices (like consumer price indices, commodity price indices, wage indices, etc.). The aim, much like in the U.S., is to allocate risk of price changes in a fair manner so that suppliers are not forced to absorb crippling cost increases, which could lead to project failure or quality issues, and buyers do not end up paying a risk premium upfront. In the private sector in Australia, including between companies, the inclusion of a PVC is entirely a contractual choice, often depending on the nature of the goods and the stability of input prices. The key takeaway from the Australian context is that while indexation clauses are permissible and commonly used, especially in construction and infrastructure contracts, there is no blanket legal requirement for them in all supply contracts. The government's role is more about providing guidelines and model clause templates rather than enforcement. However, when it comes to government contracts, especially long-term ones, Australia shows a strong precedent of adopting indexation to protect suppliers from inflation and ensure continuity of supply.

A third perspective can be drawn from international construction contracts and standards, particularly those developed by the International Federation of Consulting Engineers (FIDIC). FIDIC contract templates are widely used globally for large engineering and construction projects, including by international development banks (World Bank, ADB, EBRD, etc.). In FIDIC's standard forms, especially the Red Book (Conditions of Contract for Construction) which is used for building and engineering works designed by the employer, there is usually a clause allowing

for price adjustment due to changes in cost indices over the project duration. Given that many construction projects last for multiple years, FIDIC's approach is to include an automatic price adjustment formula (often in the form of an index-based formula with coefficients for various inputs like labor, materials, equipment usage, etc.). This formula adjusts the amounts paid to the contractor to reflect changes in price indices for those inputs, mitigated by weights assigned to each input category. For example, if the price of steel or cement increases by 10% according to an agreed index, and steel is determined to constitute, say, 20% of the construction cost, then the payment for the work items involving steel might be adjusted accordingly. These adjustments are calculated at interim periods as specified in the contract (e.g. every few months) and help ensure the contractor is not unfairly disadvantaged by inflation, nor is the client unduly enriched if prices drop. The presence of such clauses in international standard contracts underscores a general acceptance in many industries that price indexation is a useful tool for risk management in long-term agreements. However, again, these are part of voluntarily adopted standards or guidelines; they become contractually binding only when parties incorporate those standard terms into their agreement. There is still no overriding law in most jurisdictions that force companies to include such terms outside of specific regulated contexts (like government procurement).

In summary, international cases show a contrast to the Korean mandate. In the U.S., Japan, Australia, and under international contract standards, price adjustment clauses are well-established concepts but operate on a recommended or negotiated basis. They tend to apply in either public sector contracts or specific industries, rather than as a universal requirement across all private commercial transactions. In fact, Korea appears to be the first country to legally require private firms to adopt delivery price indexation in their contracts for the general case of subcontracting. While this highlights Korea's policy innovation in protecting SMEs, it also means there is little direct precedent to guide Korean companies. This uniqueness

likely contributes to confusion and hesitation in implementation, as firms cannot simply copy the best international practices but must develop new routines domestically. The international comparisons therefore serve to illuminate both the similarity of Korea's goals to those elsewhere (fair risk-sharing in contracts) and the greater ambition and scope of Korea's approach. With this context in mind, we now turn to the current state of implementation of the delivery price indexation system in Korea and the concrete challenges that have surfaced in its early stages.

IV. Practical Challenges in the Early Implementation Phase

To capture the on-site realities of the delivery price indexation system's rollout, we conducted Focused Group Interviews (FGI) with 37 companies that had participated in the system by late 2023. All these firms have engaged with the Delivery Price Indexation Support Headquarters for consulting, meaning they represent early adopters or those attempting compliance. The interviews revealed a series of practical obstacles that were recurring across different industries and transactions by Promoting Sustainable Growth through Cooperation between Large Companies, SMEs and Rural Communities of Korea. We categorize the key challenges into four main issues.

A. Prevalence of Informal Contracting Practices (Lack of Written Contracts)

The first and perhaps most fundamental challenge is that many SME-large firm transactions in Korea historically operate without formal written contracts, relying instead on purchase orders or even verbal agreements. Our interviews confirmed that in numerous cases, suppliers deliver goods based on oral orders or simple invoices, without a detailed contract that spells out terms like delivery schedules or unit prices

for a long-term period. This poses an immediate problem for the indexation system, which presupposes a written agreement with a specific clause. Without a written contract, there is no vehicle to incorporate an indexation clause, nor a clear baseline of what the original price and terms were. One interviewee described that the only documentation of the transaction was the tax invoice, which shows the total amount charged for a delivery but does not contain information on raw material cost breakdowns, delivery frequency, or other details that an indexation mechanism would reference. In such a scenario, even if raw material prices change, there is no contractual process to trigger an adjustment - effectively, the indexation system cannot operate.

This lack of formal contracting is partly a legacy of trust-based or convenience-based dealings in certain industries, where long-standing relationships led to bypassing paperwork. However, under the new law, it becomes a critical compliance gap. Many SMEs indicated that formalizing contracts is arduous and that their buyers had never initiated creating one either. Some suppliers even appeared reluctant to push for a formal contract, fearing it might signal distrust or simply disrupt the customary way of doing business. As a result, there are a considerable number of supply relationships where the indexation system is inapplicable by default, not due to a deliberate decision to opt out, but due to the absence of any written contract to amend. This challenge means that, paradoxically, some suppliers themselves have been lukewarm about implementing the system - not out of opposition to fair pricing, but because adopting it would first require changing the basic contracting practices (something that can be resource-intensive and may require the buyer's cooperation). In summary, the culture of informal contracts stands as a barrier, implying that policy efforts might need to start with promoting standard written contracts as a norm, even before indexation details come into play.

B. Low Incentives and Administrative Burden for Ordering Companies

The second challenge arises from the perspective of the large ordering companies (buyers), who generally have more power in the relationship. Many of these firms view the new indexation requirement as an administrative inconvenience that offers little direct benefit to them. Through our FGI, we found that ordering companies frequently questioned "what's in it for us?" when asked to implement delivery price indexation. The system requires them to break from established contracting routines, engage in potentially lengthy discussions to set up the clause, continuously monitor raw material indices, and possibly pay higher prices if costs rise - all of which are seen as increasing their workload or costs. From a purely self-interested stance, a buyer firm may not perceive an immediate advantage: the benefits (protecting SME suppliers, ensuring long-term stability of the supply chain) are somewhat indirect or collective in nature, whereas the effort and potential cost increases are direct and individual.

Some ordering firms even expressed philosophical resistance, viewing the mandate as undue government intrusion into private contracts - essentially a challenge to the freedom of contract principle. This sentiment can translate into minimal compliance: doing the bare minimum to avoid legal trouble, but not actively embracing the system's intent. For instance, an ordering company might include an indexation clause because the law says so but set the trigger threshold very high or insist on terms that make actual adjustments unlikely, thus formally complying but rendering the clause toothless. We also encountered cases of buyers simply dragging their feet - suppliers reported that their clients often delayed or ignored discussions about setting up indexation, asking many questions about incentives or complaining about paperwork, signaling that they were not enthusiastic.

This lack of incentive for buyers suggests a need for positive inducements. The current law does include the possibility of recognition and rewards (such as the exemplary company certifications and awards).

However, these may not yet be widely known or significant enough to change behavior. The interviews revealed a generally skeptical view: many buyer representatives said that unless there are tangible benefits (tax breaks, preferential treatment in public procurement, reputational advantages, etc.), they don't see a compelling reason to actively support the system beyond mere compliance. This challenge highlights that the policy's success hinges on aligning it with the interests of powerful stakeholders. In the absence of market-based incentives, compliance might rely solely on enforcement and pressure, which can be inefficient or breed resentment. Thus, finding ways to make the indexation system advantageous or at least palatable to ordering firms is crucial for broader adoption.

C. Suppliers' Fear of Disadvantage and Retaliation

On the other side of the equation, many SME suppliers are apprehensive about the potential repercussions of invoking the indexation system, even though it is ostensibly for their benefit. The FGIs uncovered a common worry among suppliers that pushing for a price adjustment (or even insisting on an indexation clause in the contract) could lead to negative consequences. These fears include the possibility of reduced future orders, strained relationships, or being labeled as a "troublesome supplier." In industries where competition for contracts is fierce, SMEs dread being seen as too demanding; they often prefer to absorb cost increases rather than risk losing a client. Some interviewees mentioned past experiences where simply attempting to negotiate prices led to colder relationships or hints that the buyer might look for other suppliers.

Such a climate of fear means that even though the law is on the suppliers' side, they might self-censor their use of it. This is a classic case of the weaker party not exercising rights due to power imbalance - a phenomenon the law was meant to correct, but which in practice can persist if enforcement is not

visible or if cultural change is slow. We observed that suppliers are more likely to bring up the idea of indexation if they believe the buyer is generally supportive or at least neutral about it. If they sense strong buyer resistance, they may choose not to rock the boat. This results in a paradox: the very group the policy is intended to help may sometimes shy away from using it, especially in transactions that are crucial for their business.

This challenge suggests that confidence and trust need to be built for suppliers to utilize the system. Part of that could come from clear signals from the government and large firms that retaliation will not be tolerated. If suppliers see enforcement actions taken against buyers who unfairly penalize those requesting adjustments, it could embolden them. Additionally, industry associations or consortiums could play a role in normalizing the practice so that an individual supplier doesn't feel alone in asking for fair adjustments. For now, the reality is that many SMEs still perceive using the indexation clause as a risk. Overcoming this hesitancy is key to the system's practical impact; otherwise, the clause may remain ink on paper that is rarely activated in the situations it is needed most.

D. Questionable Effectiveness of Price Adjustment Negotiations under the Current Design

The fourth major challenge relates to how the indexation process plays out even when clauses are in place. Several companies pointed out that even with an indexation agreement signed, achieving a real price adjustment can be difficult due to how the system is structured and interpreted. One issue is that the law requires parties to negotiate in good faith but does not guarantee an outcome - some buyers interpret the obligation as merely to "consider" adjustments, not necessarily to grant them. In practice, this can reduce the indexation clause to a requirement to have a meeting or exchange letters, after which a determined buyer might still refuse any increase, claiming business difficulties or disputing the data.

In other words, if a buyer is not genuinely convinced, the "negotiation" might become a perfunctory exercise. Suppliers expressed concern that the enforceability of getting the price change is weak - unless they pursue dispute resolution or legal action, which is burdensome, the clause by itself doesn't automatically change the price; it triggers a process that can be stalled.

Another practical issue concerns the timing and frequency of adjustments. Some contracts set the review period or adjustment frequency so infrequently (say, only once towards the end of a year-long contract) that in a rapidly changing market the supplier suffers for months with no relief. If the contract period is shorter than the adjustment cycle, the clause could never come into play before the contract ends. In other instances, the index used, or the baseline chosen might be such that it fails to capture the true cost increase experienced by the supplier. For example, if the agreed price index is too broad or not perfectly correlated with the supplier's actual raw material purchase price, a significant cost rise might not register as a large change in the index, resulting in no adjustment despite the supplier's costs going up. We also encountered confusion about adjusting the contract midway: some buyers treated the indexation clause as something they might re-negotiate when the trigger is hit, rather than an automatic formula. This opens room for further haggling at the adjustment stage, which was not the intention of the system (the intention was that the formula pre-defines the outcome to avoid fresh negotiation each time).

These issues indicate that some loopholes or gray areas in the implementation need to be tightened. If parties can interpret "negotiate an adjustment" as optional or can design the terms to seldom activate, the effectiveness is undermined. The concern about negotiation being only a "best efforts" obligation rather than a binding result suggests that perhaps more concrete enforcement (like a default formula or arbitration if disagreement continues) might be needed. Additionally, if the indexation table's parameters (index choice, formula, etc.) are not well standardized or overseen, parties might fill them in ways that look compliant but do not function well.

For instance, as one firm reported, using a spot price quote from alternative suppliers as the "index" every quarter led to a situation where the measured "price" jumped, but the buyer argued it was not the actual index or that their own cost hadn't changed, leading to a stalemate. This kind of arrangement increased complexity and raised the supplier's burden (seeking quotes) without guaranteeing an adjustment.

In summary, the fourth challenge is about ensuring the mechanism has teeth and clarity. Right now, there appear to be multiple scenarios in which the process does not yield a fair outcome: either because the obligation to adjust can be evaded through formalistic compliance, or because the specific terms agreed are not sufficiently precise or fair. This calls for refining the contractual and legal framework to close those gaps, so that when an indexation clause is in place, it truly serves its purpose of delivering a timely and proportionate price adjustment.

Having identified these four major issues - (1) lack of written contracts, (2) low incentives for buyers, (3) supplier fears, and (4) limited effectiveness of adjustments - we proceed to suggest a set of improvement measures. Each proposed solution is aimed at directly addressing one or more of the challenges above, with the overall goal of enhancing the system's practicality and acceptance in the business community.

V. Policy Recommendations for Strengthening the Indexation System

Based on the challenges outlined, we propose the following four policy measures to improve the delivery price indexation system. These recommendations are grounded in the insights from companies as well as the legal/policy context discussed earlier. By implementing these improvements, policymakers can facilitate smoother adoption and greater efficacy of the system.

A. Develop Industry-Specific Guidelines and Best Practices

A one-size-fits-all approach to delivery price indexation may not suit the diverse industrial landscape. Each industry has unique characteristics in terms of raw material volatility, supply chain structure, and contracting norms. We recommend the creation of industry-specific "indexation guides" or casebooks that provide tailored guidance on how to implement the system effectively in different sectors (e.g., electronics manufacturing, automotive parts, construction materials, food processing, etc.). Currently, the available reference materials on indexation are generic and provide only broad examples, which many firms found insufficient for their circumstances. By collaborating with industry associations and the existing Indexation Support Headquarters, the government can compile the best practice examples and sample clauses that consider typical scenarios of that industry. For instance, in an industry where input prices fluctuate weekly, the guide might suggest a monthly adjustment frequency and point to relevant commodity price indices, whereas in an industry with quarterly pricing cycles, a different approach might be advised.

There is evidence of demand for such sector-specific advice. We observed that the support center was already organizing some training targeted at certain industries, indicating that needs vary by sector. Formalizing this into published guidelines or manuals would help scale up knowledge dissemination. An industry-specific guide could include identification of common major raw materials in that sector, recommended reliable price indices (domestic or international) for those materials, typical cost structures to help determine trigger thresholds, and model language for indexation clauses that fit the sector's contracting style. Additionally, these guides can address sector-specific concerns - for example, in tech manufacturing where product life cycles are short, how to integrate indexation without disrupting innovation cycles; or in construction, how to align with existing price adjustment practices in public contracts.

The benefit of this approach is two-fold: it provides

clarity and confidence to businesses on how to apply the system, and it helps standardize practices within industries, which can reduce friction between trading partners. If most players in an industry coalesce around certain indexation norms, it becomes easier for any given firm to adopt them without fear of standing out. These guides should be living documents, updated as more experience accumulates. By empowering industries with tailored knowledge, this measure addresses primarily the implementation difficulty and confusion aspects (related to Challenges 1 and 4) and indirectly helps with buyer resistance, since having clear standards could reduce the perceived arbitrariness or burden of the system.

B. Increase Incentives and Recognition for Exemplary Implementation

To tackle the issue of low motivation among ordering companies, stronger positive incentives are needed. While the current law allows the government to reward exemplary companies, this needs to be made more concrete, attractive, and widely promoted. We propose an expanded certification and incentive program for companies that proactively embrace delivery price indexation. This could take inspiration from existing programs like the "Venture-certified" firms or "Innovative SME" certifications in Korea, which confer prestige and material benefits. For example, a company that consistently uses indexation clauses and is supportive in adjusting prices could be designated as a "Fair Supply Pricing Partner" or similar, and this recognition could come with perks such as public commendations, priority in government procurement opportunities, or tax incentives.

One idea is to integrate such recognition with annual business awards or CSR (Corporate Social Responsibility) indexes. If large conglomerates knew that actively supporting SME-friendly practices like price indexation would boost their evaluation in, say, sustainability or shared growth metrics, they would have a reputational incentive to participate. The MSS could also coordinate with other agencies so that

certified companies enjoy regulatory conveniences - for instance, reduced frequency of subcontracting audits or faster processing of certain approvals. In fact, under Article 22-3 of the amended Win-Win Cooperation Act, the MSS can exempt exemplary companies from parts of the regular transaction surveys and give them advantages like expedited immigration checks (for business travel, via something akin to a Trusted Traveler card). Building on that, introducing a well-publicized indexation excellence label could motivate companies to compete in showing they are good actors in this domain.

Importantly, these incentives should be paired with tangible benefits for line managers and procurement officers in those companies. Large firms often follow internal KPIs; if a procurement department is judged solely on cost savings, they have a disincentive to allow price increases. But if the company leadership signals that maintaining a certification or recognition for fair pricing is also a goal, managers may be encouraged to balance those factors. The government could encourage this by liaising with industry leaders to demonstrate how supporting indexation can be part of a broader ESG (environmental, social, governance) agenda or "win-win growth" strategy that many Korean conglomerates publicly endorse (Kim and Yang, 2022, Han and Ding, 2024, Noh et al., 2024).

By elevating the status of compliance from a legal chore to a badge of honor, this measure addresses Challenge 2 (lack of buyer incentive) head-on. It attempts to change the calculus for ordering firms: instead of "no benefit to me," the narrative becomes "this can actually benefit me (or at least my company's image and relations)". Combined with moral suasion, these incentives could significantly improve voluntary compliance. Over time, if being an "indexation-friendly" company becomes a norm of good corporate citizenship, peer pressure might further encourage laggards to join in.

C. Refine the Indexation Table and Reference Indices for Accuracy and Fairness.

To ensure the indexation mechanism works as intended when triggered, we recommend a technical refinement of the "indexation table" and the guidelines for choosing reference indicators. The current standard indexation table requires parties to fill in up to ten items (such as the specific material, baseline price, comparison timeframe, formula for adjustment, etc.). Some interview feedback indicated confusion or inconsistency in how these were filled. For example, not all materials have a readily available public price index. In cases where an official index doesn't exist, some contracts resorted to using periodic quotations from suppliers or commodity traders as a proxy - but this approach can be problematic, as it may not truly reflect the cost changes relevant to the actual supplier and could inflate costs (when external quoted prices rise) without automatically translating into a contract adjustment if the buyer disputes the validity of those quotes.

To improve this, the government (perhaps via the support center or an expert task force) should develop a more precise set of reference indices and formulas for common raw materials and scenarios. Where an index is not available, the government could consider creating or designating one. For instance, if a particular chemical has no local index, perhaps an international index could be used with currency adjustments, or a composite index could be devised. Another approach is to specify default adjustment formulas. The enforcement decree or guidelines could include a model formula (e.g., if material X's price increases by Y% beyond threshold, the delivery price increases by Z% accordingly, where Z maybe equals Y times a pass-through factor if not full 100%). Standardizing these to some extent would reduce the negotiation burden and ensure baseline fairness. Parties would still be free to tweak the parameters by agreement, but having a well-considered default can anchor the expectations.

Conflicts of Interest

No potential conflict of interest was reported by the author(s).

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