

The Push for Entrepreneurship in Korea and Some Challenges

Yong Suk Lee

Freeman Spogli Institute for International Studies

Stanford University

April 26, 2016

Outline of today's presentation

- South Korea's recent push for innovation and entrepreneurship
- Recent patterns of entrepreneurship
- Fundamental constraints that deter entrepreneurship within the household
- Summary

Industrial policy to entrepreneurship policy?

- South Korea's economic miracle
 - One of the poorest countries in the world in 1960 to the advanced economy of today
 - Two decades of industrial policy under Park Chung Hee
- South Korea today
 - Growth through catch-up has hit its limit
 - Confronted with new challenges, e.g., aging population, global competition, inequality
 - Government looking for new sources of growth
 - The “Creative Economy” under President Park Geun Hye
 - Entrepreneurship policy
- Public efforts to promote innovation and entrepreneurship
 - Not necessarily evil
 - The birth of the internet
 - The birth of Silicon Valley
 - Need to do it right – create the right incentives

South Korea's big push for entrepreneurship

- Top down
 - Job creation and growth through an innovative economy was one of President Park's core campaign pledges
 - Policies and ecosystem that promotes entrepreneurship and SME's
 - Ministry of Science, ICT, and Future Planning created as soon as she came to office in 2013
- Actions
 - Continuous Planning
 - 2013 – Creative Economy Achievement Plan
 - 2014 – Innovative Economy 3 year Plan
 - 2015 – Implementation of the 3 year plan
 - 2015 budget – approximately 8 billion dollar

창조경제 문화 조성 등 1조 1,460억원

- 주요사업**
- 지역창조경제혁신센터 17억원→197억원(미래부)
 - 글로벌 창조 지식경제단지 조성(홍릉) **신규** 55억원(기재부)
 - 무한상상실 구축·운영 20억원→46억원(미래부)
 - 문화콘텐츠 인재양성 **신규** 22억원(문체부)

(단위:억원)



2015년 창조경제 예산안(법부처) 규모
8조 3,302억원

과학기술과 ICT 역량 강화 1조 8,922억원

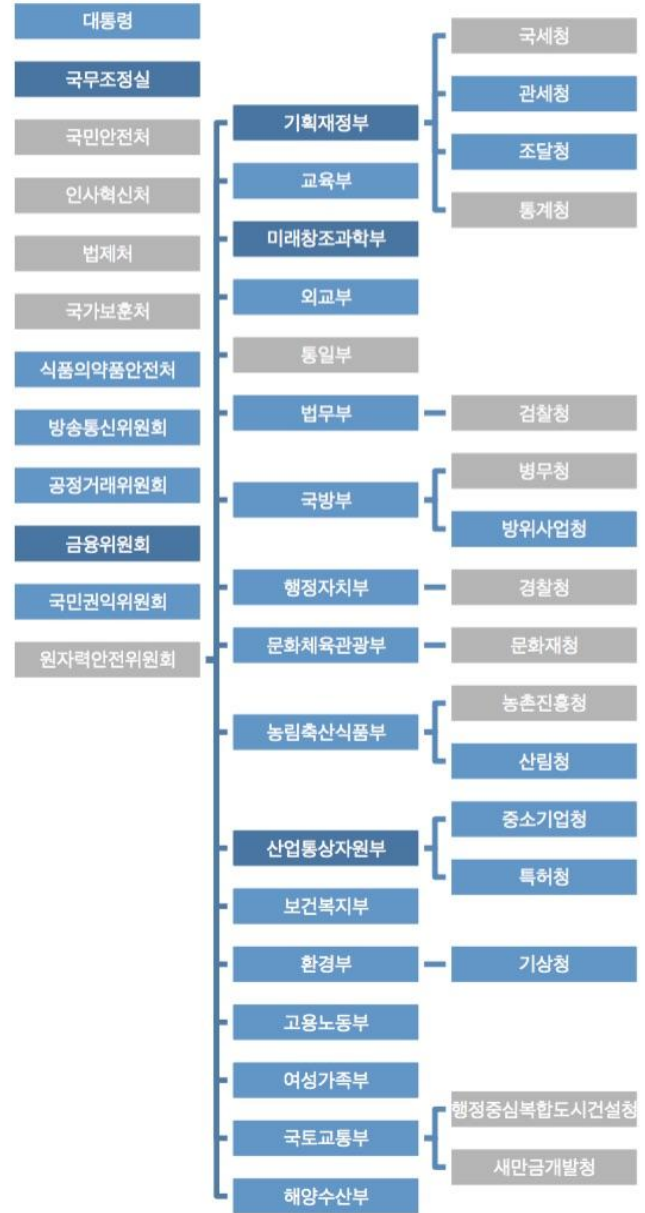
- 주요사업**
- 창조경제밸리 육성 **신규** 308억원(미래부)
 - 산학융합지구 조성 214억원→230억원(산업부)
 - 기업공간 원스톱 서비스 **신규** 80억원(미래부)
 - 법부처 Giga Korea 293억원→410억원(미래부)
 - 국제과학비즈니스벨트 2,100억원→2,140억원(미래부)

창업생태계 조성 및 벤처·중소기업 지원 1조 7,483억원

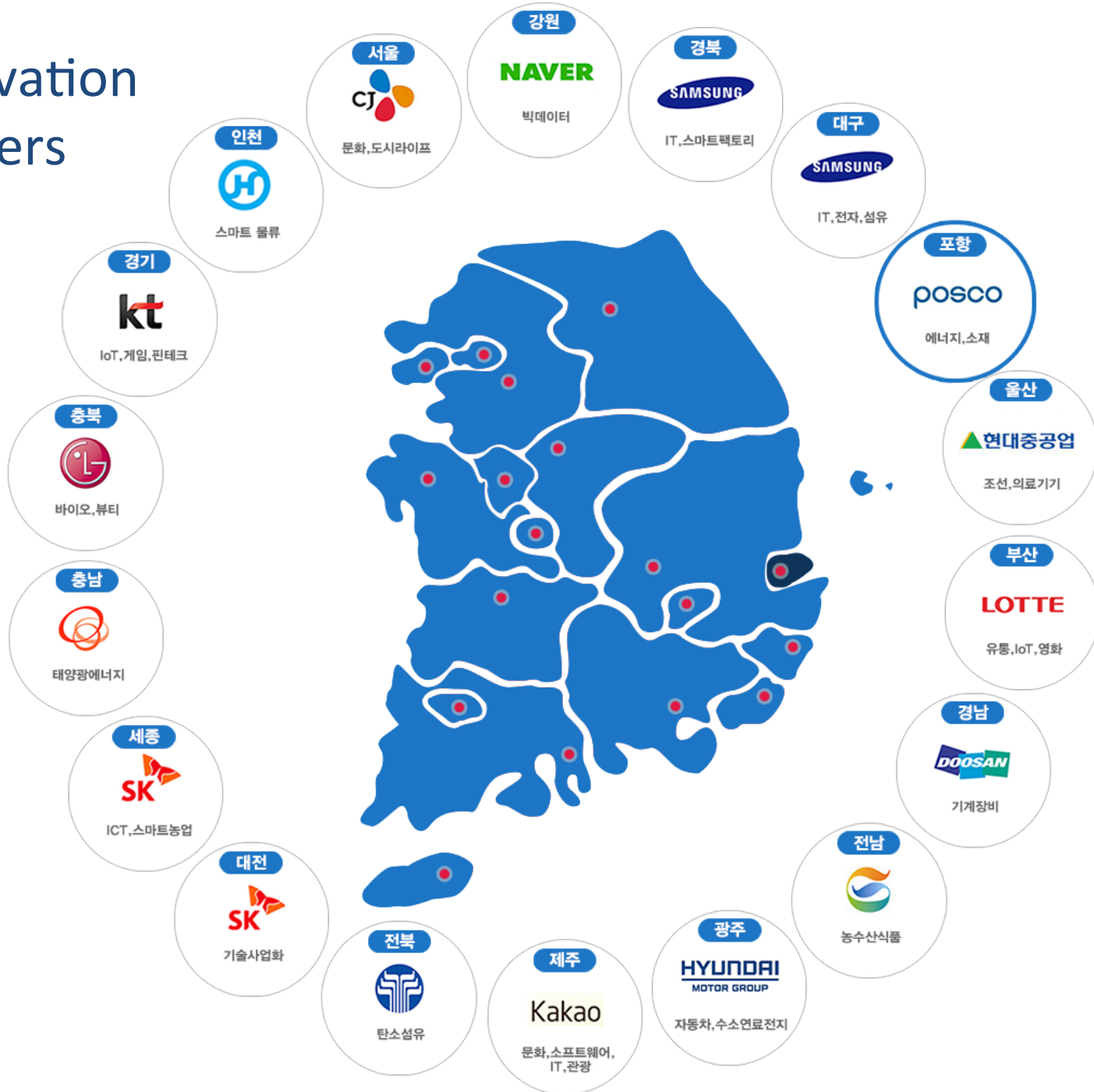
- 주요사업**
- 6개월 챌린지 플랫폼 **신규** 100억원(미래부)
 - 재도약 지원자금 **신규** 200억원(중기청)
 - 중소기업 수출역량 강화 280억원→660억원(중기청)
 - 창업성장기술개발 1,164억원→1,474억원(중기청)
 - 산학연지역 연계 신산업창출 **신규** 150억원(미래부)
 - 지역 아이디어 사업화 생태계 **신규** 103억원(미래부)

신산업·신시장 개척 3조 5,437억원

- 주요사업**
- 스마트공장 보급·확산 **신규** 50억원(산업부)
 - 제조업 소프트웨어 강화 **신규** 10억원(산업부)
 - 농촌 융복합 산업 활성화 **신규** 127억원(농식품부)
 - Golden Seed 프로젝트 403억원(농식품부·해수부·산림청·농진청)
 - 신시장창조 차세대의료기기 **신규** 116억원(미래부)
 - 첨단 바이오의약품 글로벌진출 **신규** 150억원(미래부·복지부)
 - 공간 빅데이터 기본체계 39억원→57억원(국토부)
 - 문화기술연구개발 241억원→273억원(문체부)



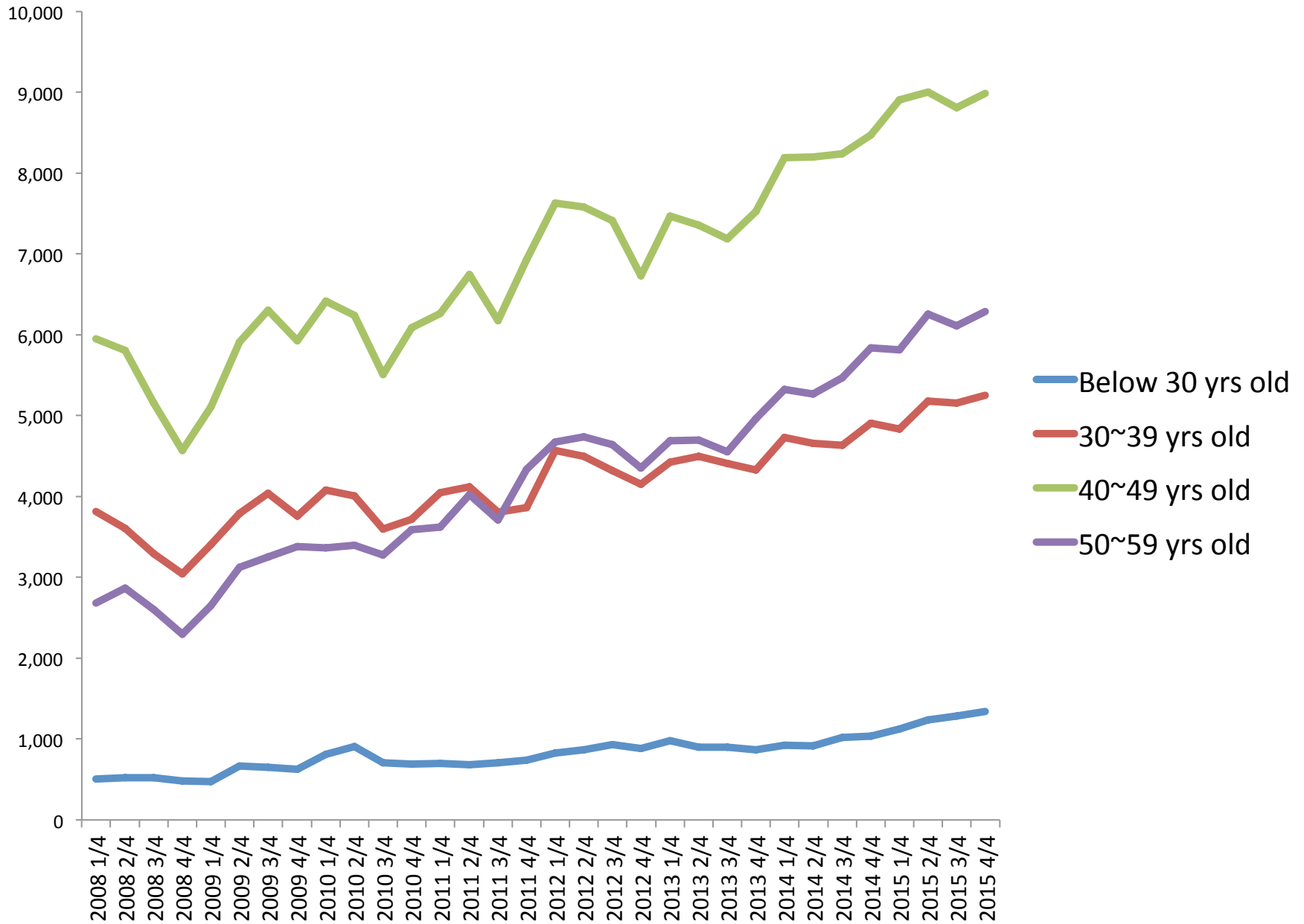
Innovation Centers



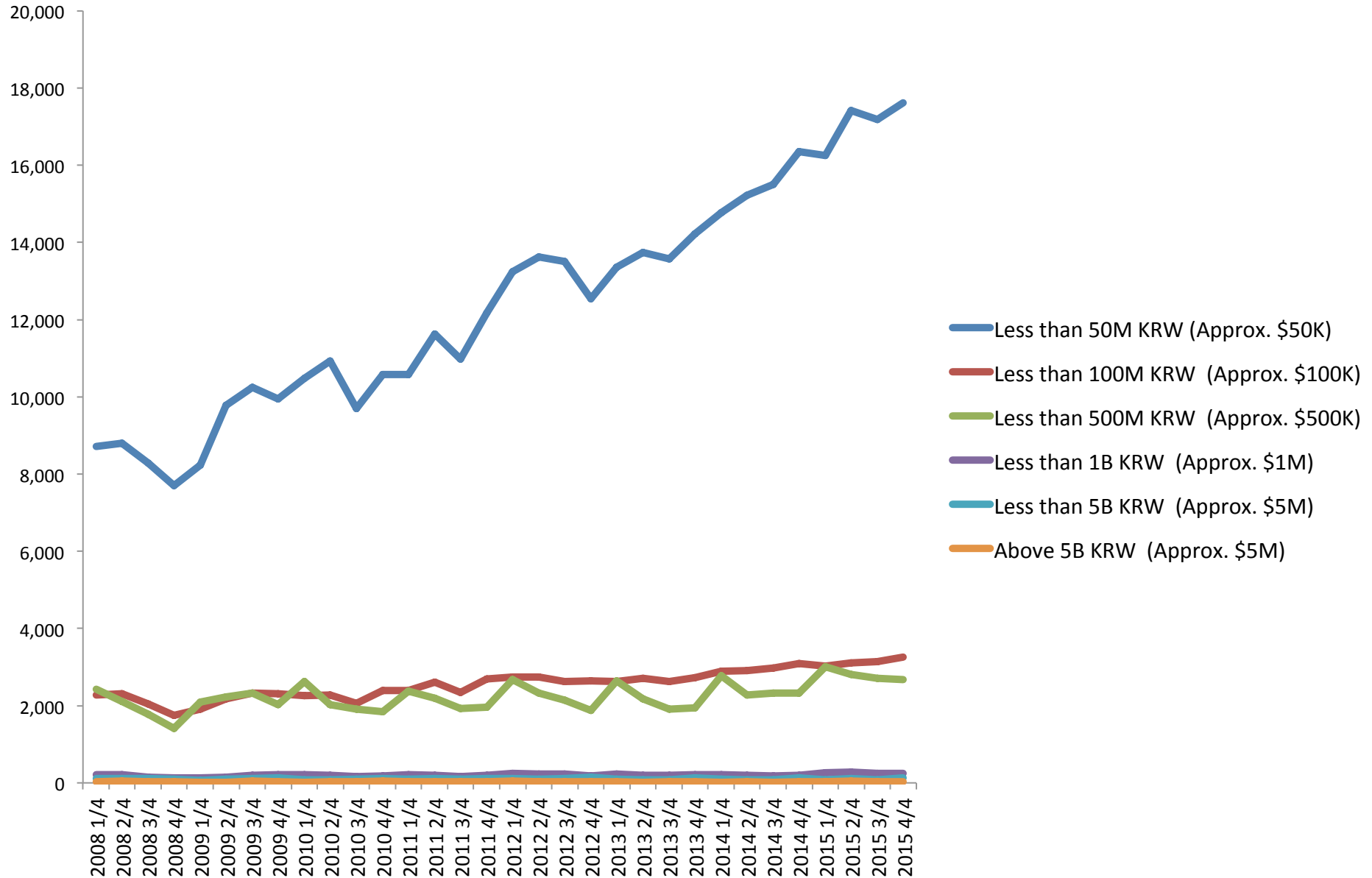
South Korea's big push for entrepreneurship

- Is the “*Developmental State*” the right model for entrepreneurship and innovation?
 - *Do the incentives align?*
 - *Government*
 - *Conglomerates*
 - *Small firms*
 - *Potential entrepreneurs*
- What about the culture/institution of entrepreneurship?
 - First understand the patterns of entrepreneurship in Korea

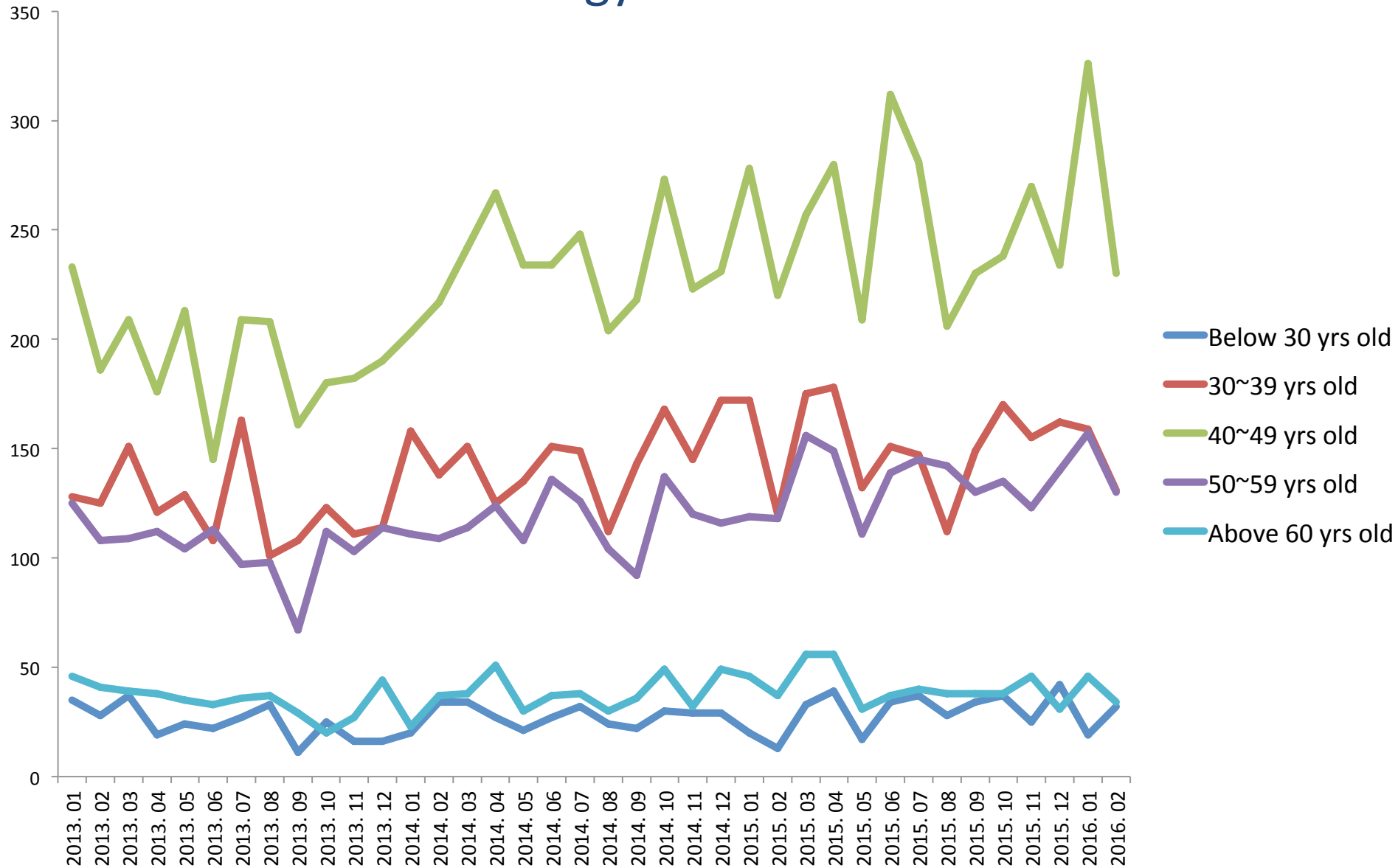
Newly incorporated businesses by age groups



Newly incorporated businesses by capital – all sectors



Newly incorporated businesses by age groups - Science and technology sector



Current patterns in entrepreneurship

- Examination of all new firms indicates that
 - New business creation has been increasing over time
 - cf., entrepreneurship in the US has been steadily declining
 - However, predominantly small capital firms
 - And by the older population
 - Consistent with anecdotal evidence that many older people enter into entrepreneurship post-retirement
- Focusing on the science and technology sector
 - Reveals an uptick starting in 2014
 - However, below 30 entrepreneurship remains flat

Youth entrepreneurship

- Why is youth entrepreneurship so low?
- Among Stanford University alumni, the intergenerational correlation of entrepreneurship is substantially greater among Asians than Asian Americans.
 - One of the most robust findings in entrepreneurship research is that *parental entrepreneurship is one of the strongest predictors of one's entrepreneurship status*
 - In Korea this is substantially higher than in the US
- *Why is there such stickiness in the intergenerational transmission of entrepreneurship in Korea?*
 - General risk aversion against entrepreneurship within the household
 - Cultural, historical argument?
 - Institutional setting, legal setting?

One institutional constraint that affects risk taking

- Pre-existing notion among Koreans:
 - “When a family member’s business fails the whole family sinks”
 - “Don’t marry someone who just started a business”
 - Most popular grooms in the marriage market: “Samsung-man” and the likes
- Cross-guarantees
 - General practice when getting business loans is to provide cross guarantees
 - Not just your own
 - But your families and friends
 - Has been a common practice in Korea and Japan
 - If business fails, lenders go after your families and friends
 - Fundamentally deters entrepreneurship within the household
- Government has started to prohibit certain financial institutions from requesting cross-guarantees
 - Gradual implementation across different institutions
 - Effectiveness remains to be seen

Summary

- Widespread government efforts to promote entrepreneurship
- Top down approach akin to industrial policy
 - Unlike well established industrial upgrading patterns, innovation by definition has no set path
 - Policy should foster the environment for entrepreneurship not direct entrepreneurship
 - Political cycle likely to deter previous efforts
- More fundamental changes in society are required
 - Change in risk taking
 - Openness to new ideas
 - Education that allows one to experiment