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BUILDING A CREATIVE ECONOMY IN SOUTH KOREA: ANALYZING THE PLANS AND
POSSIBILITIES FOR NEW ECONOMIC GROWTH

By Sean Connell

Abstract

In her inaugural address on 25 February 2013, Korean President Park Geun-hye announced her vision to create a “Second Miracle on the Han River” through a new policy focus on developing a “creative economy.” Much as economic democratization was a leading theme of Korea’s 2012 presidential election, Park has seized on the concept of “creative economy” during her first months in office as the core of her administration’s economic growth agenda. Though previous Korean governments have taken steps to support Korea’s transition to an advanced innovation-driven economy, the Park administration has significantly heightened the level of priority of these efforts in order to foster the innovation and new engines of economic growth that will drive Korea’s future prosperity. The success of these policies requires a focus by Korean policy stakeholders, including government, businesses, researchers, and consumers, on addressing fundamental challenges within Korea’s innovation ecosystem. These include regulatory, structural, educational, and cultural obstacles that constrain Korea’s ability to fully foster and utilize its innovative capacities. Getting these fundamentals right will support Korea as it seeks to foster new industries that will drive its future growth and competitiveness. This requires a long-term commitment beyond President Park’s five-year term in office, but actions can be taken in the near term to build the foundation for future successes.

Key words: *Innovation Policy, Creative Economy, Park Geun-hye, Regulatory Reform, Korean Economic Policy*

Introduction

What exactly “creative economy” means, from a policy perspective in Korea, remains a topic of discussion.¹ Korean President Park Geun-hye herself defined “creative economy” in her inauguration speech as the idea of creating new engines of growth and employment through “the convergence of science and technology with industry, the fusion of culture and industry, and the blossoming of creativity in the very borders that were once permeated by barriers.”² This focus on new forms of convergence of information and communications technologies (ICT) with traditional industries, as well as culture and content, has been a recurring theme in her statements on the creative economy agenda. What is not ambiguous is the desired outcome: job creation. From the beginning, Park has articulated the creative economy agenda as a means to achieve the goal of economic democratization and creating new employment opportunities she pledged to pursue, including raising Korea’s employment rate to 70 percent.³

This paper examines the Park administration’s creative economy agenda and its potential implications for Korea. It will first review concepts of innovation, and considerations for approaching innovation within public policies aimed at promoting economic growth. It will then examine the broader economic context in Korea in which the Park administration is pursuing these goals, and which shapes and constrains Korea’s innovation ecosystem. Following a review of some of the major actions and policy proposals introduced by the Korean government to implement the creative economy agenda thus far, it assesses these

Sean Connell is a Japan Studies Fellow and former POSCO Visiting Fellow at the East-West Center. His paper is the sixty-second in KEI’s Academic Paper Series. As part of this program, KEI commissions and distributes approximately ten papers per year on original subjects of current interest to over 5,000 Korea watchers, government officials, think tank experts, and scholars around the United States and the world. At the end of the year, these papers are compiled and published in KEI’s On Korea volume.

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proposals and suggests areas for the Korean government and other policy stakeholders to focus attention, in particular getting the fundamentals right and addressing regulatory, structural, and cultural barriers to innovation.

The “Creative Economy” and Role of Innovation Policies

The term “creative economy” is perhaps most appropriately seen in the case of Korea as a guiding theme for economic policies, much like “green growth” was during the previous Lee Myung-bak administration. More significant is the Park administration’s decision to emphasize innovation front and center in Korea’s economic policy agenda, and its recognition of the importance of cultivating the most conducive ecosystem possible to foster the innovation needed to support Korea’s future growth. In examining the creative economy agenda, it is useful to consider ways in which innovation is defined and addressed more broadly within the context of public policy.

The Organization for Economic Cooperation and Development (OECD) has defined innovation as the “implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organization method in business practices, workplace organization or external relations.”⁴ Innovation can also be described as a dynamic, interactive process encompassing a diverse range of interconnected areas, levels of society, and actors.⁵ These include research and development (R&D), education, and physical and regulatory infrastructure, along with intangible assets such as intellectual property (IP), organizational management, tacit knowledge of human capital, workforce training, marketing, and design. Framework policy and economic conditions that shape the innovation ecosystem include, but are not limited to, labor mobility, tax burdens and incentives, trade and investment, IP protections and enforcement, standards-setting processes, regulatory burdens, and societal attitudes. Key actors in innovation include government, researchers, the private sector—ranging from entrepreneurial startup businesses and large firms conducting their own R&D to the scope of financial, legal, and other professionals whose services support these activities—and consumers, who ultimately determine which products, services, and business models succeed.

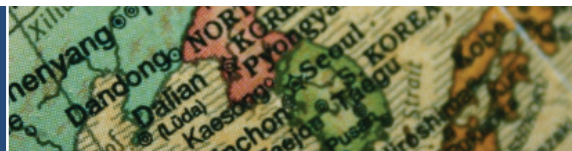
Countries pursue innovation policies to increase growth, competitiveness, and jobs.⁶ The complex range of factors

outlined above, coupled with the dynamic and disruptive nature of innovation, presents policymakers with the question of how to design and manage innovation policy instruments. The most effective role for governments to play in this process is increasingly viewed as shaping the framework conditions within which innovations emerge, and coordinating and facilitating among the broader networks of actors and policies described above, in order to foster the most conducive possible environment for innovation.⁷ This is an important distinction for a country such as Korea in which the government has at times taken a direct, hands-on role in shaping the economy.

Entrepreneurship is an increasing area of attention within innovation policies, and there is growing consensus about the important role of entrepreneurs as “carriers of innovation” in introducing innovative products, services, and business models. The Kauffman Foundation, citing U.S. government data, has estimated that entrepreneurial companies generated nearly all net job creation in the United States between 1980 and 2005.⁸ Perhaps significant for Korea, recent research on Japan’s economy found that from 1996 to 2006, virtually all new jobs created in Japan were by new company or foreign invested businesses or new companies, rather than established Japanese companies.⁹ The Park administration has placed strong emphasis within the creative economy agenda on encouraging entrepreneurship and startup businesses, though an important consideration for Korea is what kind of support is most appropriate, and conducive, for entrepreneurs and small and medium enterprises (SMEs).

The Creative Economy Agenda in Context: Measuring Korean Innovation Capabilities

Korea has successfully made the leap to becoming an advanced economy that today rates highly across several internationally recognized indicators and measures of innovation. For example, Korea is now the world’s fourth-largest source of triadic patents, an important indicator of the quality of its innovation capabilities. Korea’s gross domestic expenditure on R&D in 2010 was equivalent to 3.7 percent of its gross domestic product (GDP), one of the highest levels among OECD member economies. Korea is a prolific source of ICT-related patents, and Korean companies including Samsung and LG Electronics are global leaders in this sector. Home to one of the world’s most networked societies in terms of ICT, Korea has one of the strongest internet infrastructures of any country. The ICT sector



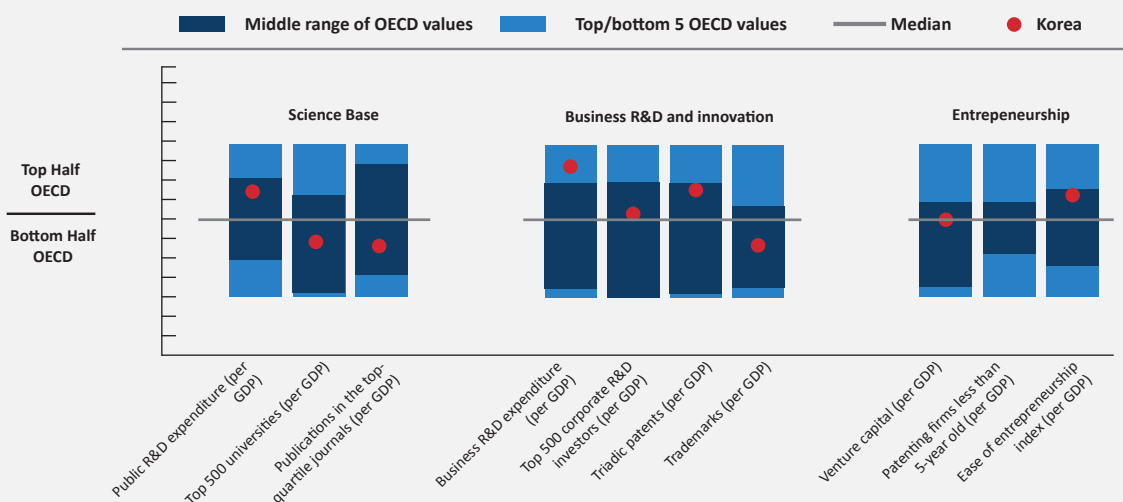
represented 13.2 percent of total value added in Korea’s economy in 2009, and accounted for 6.2 percent of Korea’s business sector employment.¹⁰ Korean students consistently rank at or near the top of international math and science assessments, and Korea has among the highest level of university graduates among OECD member economies.

These impressive statistics, at first glance, may seem to call into question the need for a “creative economy” policy agenda. However, a broader examination of Korea’s national innovation system shows some imbalances, which are illustrated in the graphs below:

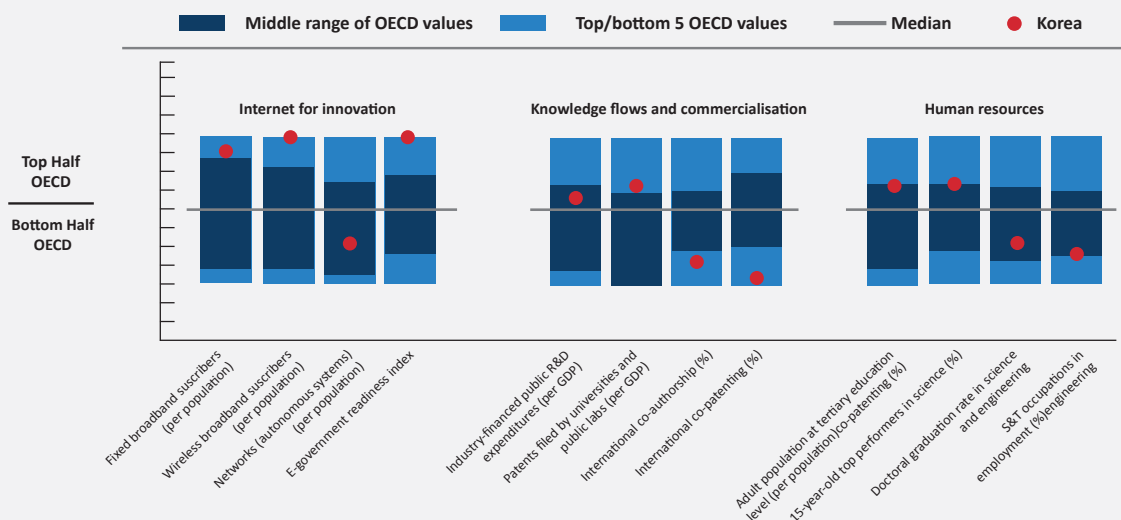
Comparative Performance of National Science and Innovation Systems, 2011

Normalized index of performance relative to the median values in the OECD area (Index median = 100)

a. Competences and capacity to innovate



b. Interactions and human resources for innovation



Notes:

Fixed broadband subscribers data are government supplied estimates.

Wireless broadband subscribers data are government supplied estimates. Terrestrial fixed wireless data are not available.

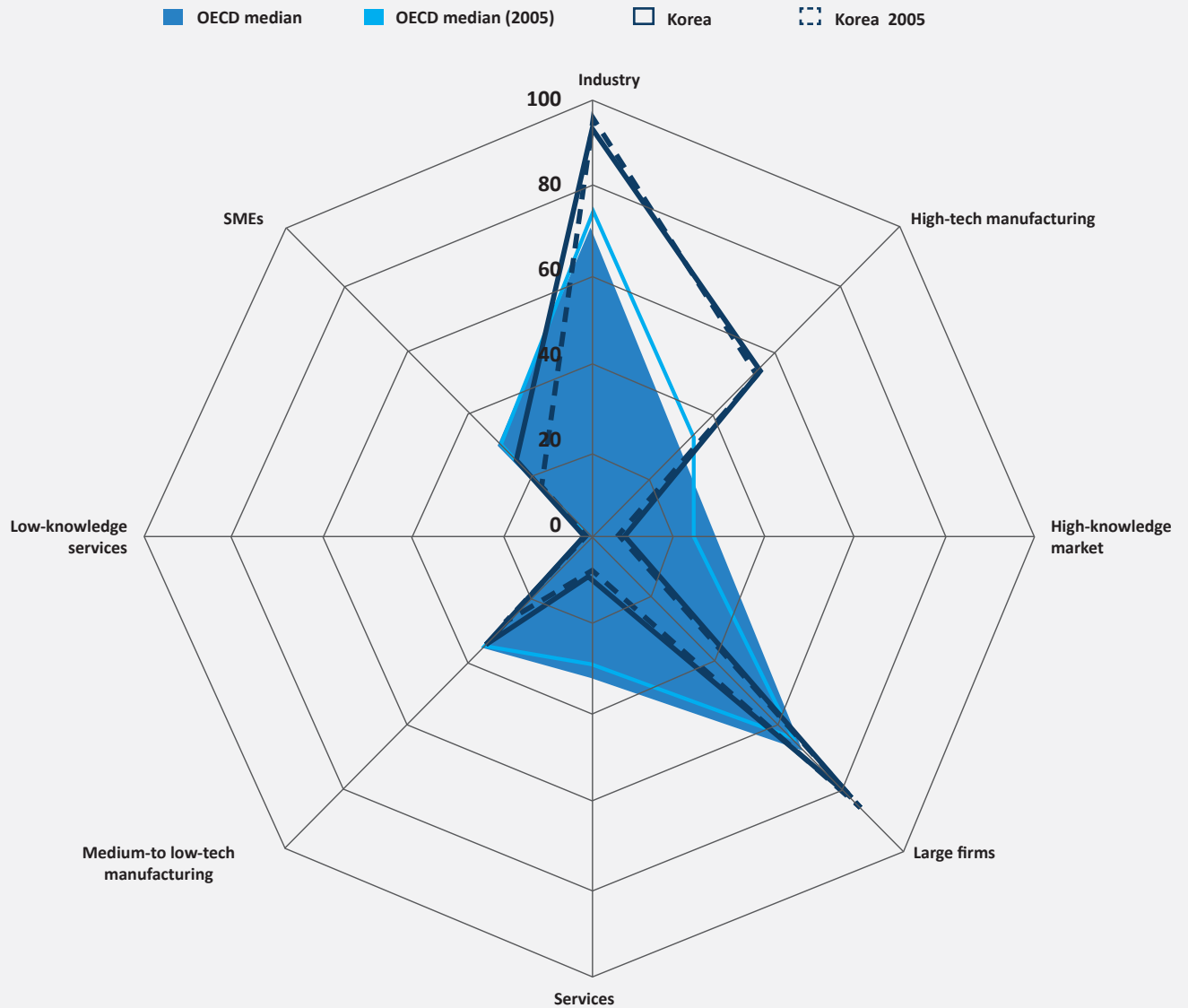
For networks data, population data are for 2010.

Source: See Reader’s guide and methodological annex of the OECD Science, Technology and Industry Outlook 2012 country profiles.



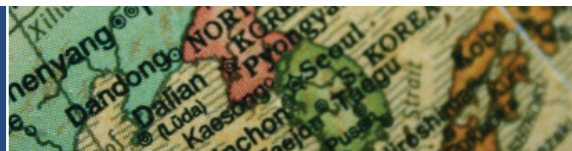
Structural Composition of BERD, 2009 or Latest Year Available

As a % of total BERD



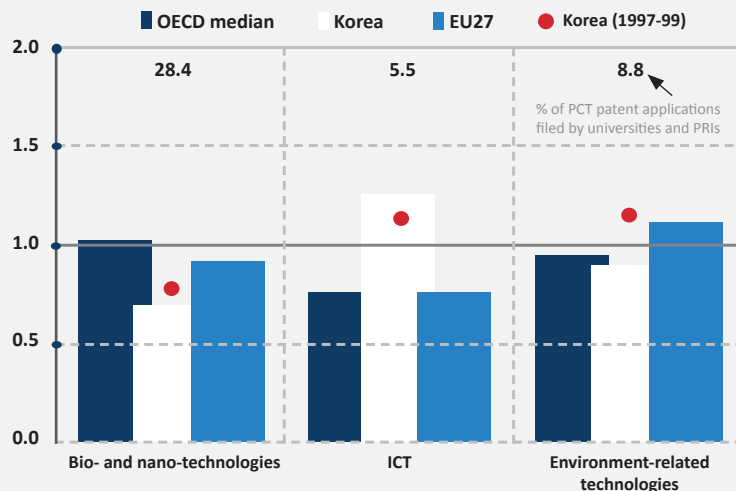
Notes: SMEs data do not include firms with no employee.

Source: OECD, ANBERD Database, April 2012; OECD MSTI Database, June 2012; OECD, RDS Database, June 2012



Revealed Technology Advantage in Selected Fields, 2007-09

Index based on PCT patent applications



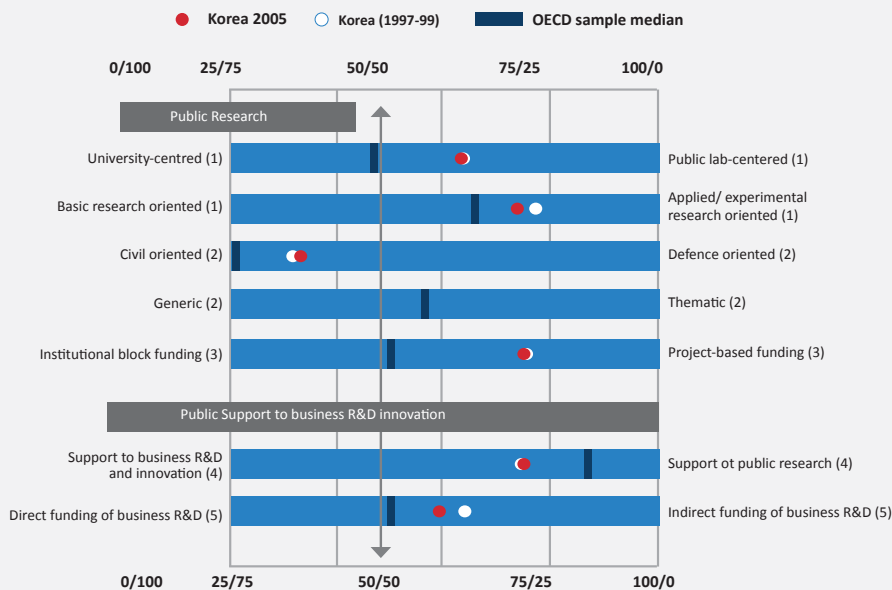
Notes:

Data relate to patent applications filed under the Patent Co-operation Treaty (PCT), at international phase. Patent counts are based on the priority date, the inventor's country of residence and fractional counts.

The revealed technology advantage index is calculated as the share of country in patents filed in a given field relative to the share of country in total patents. Only economies with more than 500 patents over the periods are included in the figure.

Source: OECD, Patent Database, February 2012

Overview of national innovation policy mix, 2010



Notes:

For 2011, public expenditure on civil-oriented research is a national estimate or projection. Estimates of R&D tax concession are drawn from NESTI data collection 2010 on R&D tax incentives. For 2005, public R&D expenditure excludes R&D in the social sciences and humanities.

Source: OECD, MSTI Database, June 2012; OECD RDS Database, June 2012; NESTI data collection 2010 and 2011 on R&D tax incentives; Van Steen, J. (2012), "Modes of Public Funding of Research and Development: Towards Internationally Comparable Indicators", OECD STI Working Papers, June.



As shown in these figures, Korean R&D is heavily weighted towards applied research, rather than basic research. In 2009, 71.1 percent of Korea's R&D was funded by the private sector, primarily large companies, which also conducted 74.3 percent of Korea's R&D.¹¹ Eighty-eight percent of Korean R&D was in the manufacturing sector, 48 percent of which was in the single category of radio, television, and communication equipment. R&D activity by Korean public research institutions and universities, venues where basic research is traditionally weak, is comparatively weak: in 2009, Korean universities accounted for just 0.9 percent of R&D funding and conducted 11.1 percent of R&D. Because basic research is more likely to be conducted at universities and research institutes than by the private sector, this has important implications for Korea's innovation trajectory as the country reaches the technology frontier.¹²

In addition, R&D conducted by Korean SMEs and in the services sector—both of which are important generators of innovative products and services—is comparatively low. It is worth noting that R&D expenditures by SMEs have increased significantly in recent years, growing five-fold from 12 percent to 24 percent of Korean firms' total R&D expenditures in 2006, but still pale in comparison with those of large companies.¹³

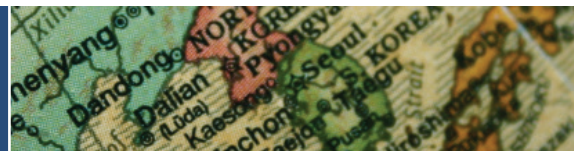
Also noteworthy is Korea's relatively low levels of international collaboration on R&D.¹⁴ For example, in 2010, 26 percent of Korean science articles and 4 percent of Patent Cooperation Treaty (PCT) patent applications were produced with international co-authorship.¹⁵ Although a leader in ICT patents, Korea rates lower among OECD economies in patents for biotechnology, nanotechnology, and environmental technologies, sectors Korean policymakers and industries have targeted as future growth engines.¹⁶

These indicators reflect some of the broader challenges facing Korea as it seeks to foster new innovation-driven economic growth. The emphasis on applied research, comparatively low levels of R&D conducted by Korean universities, SMEs, and the services sector, and low levels of international collaboration, reflects the nature of much of Korea's R&D being conducted in-house by large company conglomerates (*chaebol*).¹⁷ During Korea's period of rapid industrialization in the 1960s and 1970s, when the Korean government focused on rapid export-led growth through developing heavy industry through the *chaebol*, SMEs and the services sector were neglected. While *chaebol*

“In these arrangements, compounded by lack of competition and enforcement of competition rules, SMEs have served mostly as suppliers and subcontractors for large companies, rather than as resources and partners for innovation, and their ability to develop their own innovative capabilities have been limited.”

dominate the Korean economy today, SMEs account for 99 percent of Korean businesses and nearly 90 percent of private sector employment, and services comprise more than 60 percent of Korea's GDP.

SME growth and development has been limited in part by the relatively closed nature of Korea's vertically-integrated corporate structure, in which *chaebol* rely on in-house knowledge and resources, and conduct trade and business within conglomerate families, with fewer propensities for new competitor entry, spin-off businesses, and open innovation.¹⁸ In these arrangements, compounded by lack of competition and enforcement of competition rules,¹⁹ SMEs have served mostly as suppliers and subcontractors for large companies, rather than as resources and partners for innovation, and their ability to develop their own innovative capabilities have been limited. The resulting distortions of this economic structure were recognized by Korean government officials and analysts by the 1980s,²⁰ but successive efforts to create a support infrastructure for SMEs to bolster R&D activities failed to bridge these gaps.²¹ Over time disparities have increased. SMEs are estimated to have only 35 percent of the productivity of large Korean companies—27 percent of the productivity in the case of manufacturing firms—and only 0.07 percent of small companies grow into large companies.²² SME wages are about 62 percent of those of large companies, and service sector wages are 55 percent of those in Korea's manufacturing sector.²³ Additionally, government support programs for SMEs can create disincentives for SMEs to grow,²⁴



and government bailouts of SMEs in the wake of the 1997-1998 and 2008 financial crises may have exacerbated these challenges by increasing SME reliance on public funds.²⁵

Indicators also point to relative weaknesses of Korea's universities in R&D, which reflect some challenges within Korea's education system. Korean experts have long urged improvements in the quality of education, urging less focus on rote learning and more on creativity and research, and have pointed to the emphasis in universities on teaching rather than research as a "bottleneck" for technology learning.²⁶ They have also cautioned the explosive growth of the private education industry, driven in part by the extreme competitiveness among students to pass admissions tests for Korea's most elite universities that are seen as guarantees for high-prestige employment with large corporations and the government. One consequence is that Koreans pay more for education than their counterparts in just about every other OECD nation.²⁷ At the same time, unemployment levels for university graduates have escalated while jobs with *chaebol* have become increasingly competitive, and SMEs—which lack the prestige, salaries, and benefits enjoyed by employees of large companies—face challenges filling jobs. Forty-three percent of SMEs responded in a 2011 Korean government survey that they face or expected to face a labor shortage, in part due to a lack of qualified applicants, low salaries and benefits, and high expectations of job applicants.²⁸

For a country whose entrepreneurs of the 1950s and 1960s built the *chaebol* of today, Korea is perceived as a challenging country for entrepreneurship. People in Korea speak of considerable family and societal pressure on young people to pursue stable careers in government or large companies, versus small businesses or starting their own companies.²⁹ In 2012 the Global Entrepreneurship Monitor (GEM), which conducts the world's largest survey on entrepreneurship, found that 59 percent of Korean respondents viewed entrepreneurship as a good career choice, and 70 percent agreed that entrepreneurs in Korea received a high social status. However, the survey found comparatively negative views among Korean respondents of perceived opportunities, including starting a business where they live (13 percent), having the necessary skills and knowledge to start a business (27 percent), and a relatively high fear of failure (43 percent).³⁰ A recent survey conducted by the Hyundai Research Institute found starkly more negative views: more than 80 percent of respondents saw conditions for starting a new

business in Korea as negative, and respondents in the 20-30 year age range were even less interested in pursuing a high-tech startup than older people were. The survey also found that 92 percent of respondents worried about a failed startup enterprise resulting in debt delinquency or a poor credit rating, and three-quarters said that Korea is a difficult place to recover from bankruptcy—reflecting an important barrier to entrepreneurship and risk taking.³¹ The relatively negative outlook towards risk-taking and entrepreneurship reflects a range of cultural and structural factors that shape and constrain Korea's environment for innovation.

These aspects of Korea's national innovation system and economic structure have become more pressing challenges as Korea has reached the limits of its previous economic development approach predicated on catching up with other advanced economies. Korea's potential growth rate per capita, which slowed from about 7 percent in 1995 to a present level near 4 percent, is projected to further decrease to almost 2 percent during the 2030s. This decline reflects a decrease in productivity and labor inputs. Important contributing factors include Korea's inflexible labor market, which reduces employment mobility and has created an increasingly dualistic system of regular employees and non-regular workers lacking the same levels of salaries, benefits, protections, and training opportunities. Korea has one of the world's lowest fertility rates, coupled with low levels of women in the workforce. Wage growth has failed to keep up with GDP growth, contributing to rising economic inequalities, and addressing these challenges is an important priority for Korea to regain growth momentum.³²

The Creative Economy Policy Agenda

The above challenges have long been recognized by Korean policymakers, and Park is not the first Korean president to talk about the importance of innovation or introduce initiatives to enhance Korea's science, technology, and innovation capabilities to support new growth. What distinguishes the Park administration from its predecessors is its heavy emphasis on innovation, in the form of the "creative economy" concept, as the centerpiece of its economic policy agenda.

During Park's first months in office, the Korean government has moved swiftly to develop and implement this agenda, including through three broad policy actions. These include,



first, the establishment of a new Ministry of Science, ICT and Future Planning (MSIP), which was created by combining three previously separate government agencies and tasked with leading the development, coordination, and implementation of creative economy policies within the Korean government. MSIP's policy objectives include creating an ecosystem conducive to facilitating startups, including through strengthening IP protections; strengthening Korea's R&D and innovation capabilities; making software and content core industries of the Korean economy; promoting international cooperation and globalization of Korean businesses and technologies; and developing science, technology, and ICT to support social needs and improve people's livelihoods.³³

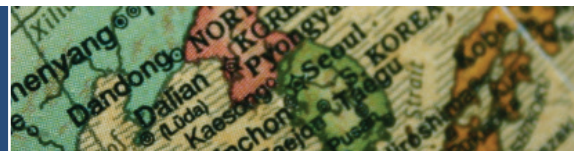
MSIP's objectives reflect the "creative economy action plan" introduced by the Korean government on 4 June 2013, the second major action by the Park administration to advance the creative economy agenda. This plan targets creating new employment and industries based on creativity and innovation; strengthening Korea's global innovation leadership; and establishing a society "where creativity is respected and manifested." The plan incorporates six strategies to achieve these goals: establishing an ecosystem that promotes the creation of startups; strengthening the role of startups and SMEs within Korea's economy and enhancing their ability to enter global markets; generating new industries as growth engines; fostering world-class creative talent; strengthening Korea's science, technology, and ICT to increase innovation capabilities; and promoting a creative economic culture within Korean society.³⁴

The creative economy action plan incorporates a set of "Measures to Develop a Venture-Startup Funding Ecosystem" announced by the Korean government on 15 May 2013 that focus on eliminating financial and regulatory barriers to entrepreneurs and SMEs. These target the goal of creating a "free-flowing virtuous cycle of enterprise creation, growth, investment withdrawal, and reinvestment" along the lines of Silicon Valley's venture ecosystem, including by improving the environment for financing and increasing the availability of investment capital available to entrepreneurs. Specific proposals to achieve this include tax incentives and deregulation to stimulate angel investment and reinvestment by successful entrepreneurs in new startups; establishing new funds to support startups and mergers and acquisitions (M&As); introducing a crowdfunding scheme; and regulatory reforms to remove barriers to M&As related to technology. The proposals also include incentives for

Koreans working overseas to invest in and provide mentorship to domestic entrepreneurs, and creating an "entrepreneur visa" to encourage highly-skilled foreigners to start businesses in Korea.³⁵

Other tasks outlined in the creative economy blueprint tackle several issues long identified as challenges to Korea's innovation environment and broader economy. For example, to boost Korea's innovation capabilities, the plan calls for increasing funding for basic research by 40 percent by 2017, along with improving the relatively weak linkages between universities, research labs, industry, and government, and support for researchers to commercialize innovative technologies. It pledges improvements in the infrastructure for generating, protecting, and using IP. To bolster the content and services industries, it targets improving industry productivity through ICT and software convergence and strengthening the software sector, including through measures to develop cloud computing, promote big data analysis and utilization, and expand education and training of Internet security professionals. The plan calls for increasing government procurement opportunities for new convergence technologies, reflecting the important role government procurement can play in bringing innovations to market, and localization support to startups with promising products to enter global markets. In education, it calls among other things for extracurricular activities to expose students to successful entrepreneurs and startup competitions in order to build their interest in entrepreneurship opportunities.

In tandem with these plans, the Korean government announced on 12 June 2013 a set of measures intended to enhance the productivity of SMEs more broadly.³⁶ These include initiatives to strengthen SME technology development capabilities, enhance their ability to train and retain skilled workers, and expand markets including through successful commercialization of new technologies. They aim to increase synergies between SMEs and large companies, and to improve the support infrastructure available for SMEs including through more effective collaboration among government agencies to monitor policy efficacy and eliminate burdensome regulations. As part of these measures, the Korean government pledged to increase public funding for technology development by SMEs to 18 percent of the national R&D budget by 2017, and to prioritize SMEs in transferring publicly-funded technologies from universities and institutes. To address chronic SME labor shortages, the plan includes scholarships for university students that commit to SME employment.



A third set of actions by President Park and her government has been active public outreach efforts to promote the creative economy agenda, and to champion the value of innovation and entrepreneurship. Park and senior government officials have made frequent site visits to promising Korean startups, and have held highly-publicized meetings with internationally renowned entrepreneurs such as Bill Gates, Larry Page of Google, and Mark Zuckerberg of Facebook to seek their ideas for actions Korea should take to foster the creative economy.

The Creative Economy Agenda in Historical Perspective

Several aspects of the creative economy policy proposals have precedents in Korea. For example, in 1997 the Korean government enacted the Special Law on Science and Technology Innovation, with the goal of improving Korea's science and technology capabilities to the level of advanced economies. A related five-year plan that entered into effect in 1998 called for increasing the R&D budget to 5 percent of the total government budget by 2002, improving science and technology policy coordination, and increasing investment in basic research. It also included provisions to increase technology promotion funding, expand technology assistance programs for SMEs, introduce financing options allowing the use of technology and IP as collateral, and strengthen tax incentives for R&D and human resource development. At the time these laws were enacted, observers commented that they did not go far enough to address challenges with Korea's national innovation system, including removing institutional barriers and silo tendencies between institutions, which limit the diffusion of innovation and interactive learning; limited labor mobility; limited incentives to increase university-industry collaboration; and stricter protections for IP—criticisms that still echo today.³⁷

Economic and other reforms implemented by the Kim Dae-jung administration following the 1997-1998 financial crisis included emphasis on boosting Korea's science and technology capabilities and R&D activities, and provided significant financial support for startup businesses. At a time when *chaebol* were restructuring and downsizing, Korea experienced a boom of high-tech startups, which grew from 100 to 5,000 companies just within 1999, but which collapsed in tandem with the U.S. dot-com crash.³⁸ The Park administration has pointed to a heavy reliance on loans as the primary form of government financial support for these startups

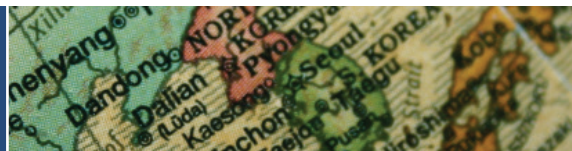
as a contributing factor to their failure, which underlies its policy focus on improving the overall environment for investment in startup firms so that they do not need to be as reliant on loans. The Kim Dae-jung administration also established the Ministry of Science and Technology as a separate entity, though it lacked the power to effectively coordinate science and technology policies across other government ministries.³⁹ The Roh Moo-hyun and Lee Myung-bak administrations also emphasized the need to upgrade Korea's science, research and education capabilities and made similar efforts to increase R&D funding and enhance policy coordination within the government on science, technology, and innovation.⁴⁰

Assessing the Creative Economy Agenda

Park has described the creative economy agenda as a “paradigm shift” for Korea. The ultimate success of these policies requires such a shift, for it will involve changing the ways in which the Korean government and broader public measure and perceive success, and the steps for getting there. The desired outcomes of the creative economy agenda are long term in nature, for which a commitment and time horizon beyond Park's five-year term as president are essential. To succeed, they will also necessitate tackling reforms that will be politically sensitive. Pragmatism and flexibility are required, for many successful examples of the “creative economy” that Park and her administration have highlighted were not preordained. Ensuring an enabling environment for innovation that does not hold back unanticipated surprises, even if they do not align with government or other expectations, is important.

Although implementation of the creative economy agenda is still at an initial stage and it is too early to assess its performance, below are three areas where leadership by the Park administration will be valuable in building momentum for this initiative and in enhancing Korea's environment for innovation.

Regulatory Reform and Getting the Fundamentals Right: It is important that the Korean government not lose focus on creating the most conducive environment possible for innovation. Regulatory, tax, labor mobility, and other reforms that will encourage businesses both small and large to enhance their innovative activities and capabilities, improve their productivity, and create new jobs will be beneficial.⁴¹ As it proceeds with implementing its policy initiatives, it is important for the Park



administration to recognize the limitations of the government's role and ability to shape the creative economy, and avoid market interventions that could inhibit Korea's economy to meet the challenge of rapidly changing technologies.⁴² John Howkins, who is credited with coining the term "creative economy," has pointed out that governments "cannot enforce creativity."⁴³

Park and her administration have stated that deregulation is the key to fostering the entrepreneurship that will drive the creative economy, and they have pledged to eliminate unnecessary regulations. At the same time, more than 500 regulatory measures have reportedly been introduced by the Park administration since taking office, after increasing significantly during the previous four years.⁴⁴ It is important for the Park administration not only to identify and eliminate regulations that constrain the broader innovation framework, but also be mindful of their potential to do so. One example of such kind of unexpected consequences are long-standing Korean cyber security laws mandating use of the ActiveX security software, which over time and in practice has constrained Korean consumers' ability to make online payments by *de facto* limiting them only to use of Microsoft's Internet Explorer web browser.⁴⁵ Additionally, proposed cloud computing legislation under discussion in Korea has generated concern within the global IT industry as attempts to regulate the cloud that could create new market barriers for both Korean and global cloud services providers.⁴⁶

Park's creation of MSIP is a well-intended effort to increase policy coordination within the Korean government and overcome bureaucratic silos. However, it represents the third major reorganization of the Korean government's science, technology and innovation governance system within the past decade. These frequent changes, coupled with public expectations for quick outcomes, present the risk of adverse effects resulting from lack of continuity and merging together different institutions and their respective organizational cultures.⁴⁷

The Park administration's focus on supporting SMEs and entrepreneurs and boosting the services sector, both in facilitating new opportunities and by strengthening IP and other protections, addresses important components of Korea's national innovation system that have not achieved their full growth potential. Implementing these provisions should be coupled with broader actions beyond the creative economy agenda to foster a more level playing field for SMEs in the domestic market. These include tackling unfair business practices, but also

eliminating disincentives for SMEs to grow and by ensuring they do not become dependent on public funding. *Chaebol* have a vital role to play in advancing the creative economy agenda, and deregulation and incentives that enable them to expand their R&D activities are important. The Park administration has pushed *chaebol* to explore "win-win" opportunities to partner with SMEs in bringing innovative technologies to market, including as part of its economic democratization goals to reduce the gaps between large and small companies. Some large companies have announced plans to partner with and open new business opportunities for SMEs,⁴⁸ and moving forward it will be useful to monitor successful incentives and cases that could present models for best and effective practices.

Fear of failure represents a significant constraint to entrepreneurship in Korea, and the creative economy agenda. The Park administration has taken an early focus and emphasis in its plans to tackle this, particularly in regards to financing for SMEs and entrepreneurs. However, it is also important to consider other regulatory, legal, and institutional factors that increase the cost of failure and contribute to the risk aversion beyond cultural attitudes. For example, Korea's strict bankruptcy laws have been identified as a challenge,⁴⁹ and changing these laws in ways that would encourage more entrepreneurs to try launching a new business could be beneficial. Studies on the effects of reforms to Japan's bankruptcy laws in the 1990s found an uptick in entrepreneurial behavior in the following years.⁵⁰

Trade, Foreign Direct Investment, and Global Markets: The Park administration has discussed within the creative economy agenda supporting promising Korean startups entering global networks, attracting funding and mentorship from overseas Koreans, and offering an entrepreneurship visa to attract foreign entrepreneurs to set up business in Korea. However, somewhat missing from the Park administration's creative economy discourse has been trade and foreign direct investment (FDI), and the important role these can play in facilitating innovation, both through introducing new knowledge and technology spillovers and generating increased market competition.

Korea's free trade agreements with the United States and European Union represent important opportunities to advance the creative economy agenda in this regard.⁵¹ Full implementation of these agreements and the regulatory reforms they incorporate will benefit Korean businesses by reducing burdens, fostering a more competitive market, and bringing Korea in closer alignment



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with global standards. The agreements provide Korean SMEs and entrepreneurial startups new opportunities to introduce their innovative products and services in these important international markets. They also open the door to new FDI that could help foster the new creative industries sought by the Park administration. Several elements of these agreements, including eliminating barriers to market entry and FDI, increased transparency, and enhanced competition policies, among others, have been identified as keys for strengthening Korea's underperforming services sector.⁵² The Korean government should be looking how most effectively to leverage these agreements, along with other trade agreements Korea is currently negotiating or may join in the future, to create synergies with its creative economy initiatives and help innovative Korean businesses enter global markets.

Communicating the Importance of Innovation: The Park administration has an important role to play in building public consensus around the creative economy agenda, including through communicating the value of innovation and entrepreneurship. It will need to clearly articulate how related policy actions and reforms, including some that may be politically sensitive, will advance the creative economy agenda, as well as manage public expectations about outcomes that could take years to manifest. While it is prudent not to define "creative economy" in the public consciousness as narrowly as the Park administration has sometimes risked doing with its emphasis on ICT convergence, overuse of the term for unrelated and counterintuitive projects could risk generating public perceptions of the term as an empty slogan.

Because many barriers to innovation in Korea are cultural in nature, the education sector should be a primary area of focus

of the creative economy agenda. Efforts to overcome these constraints, create more tolerance for failure, and broaden perceptions and public definitions of what success means, would benefit through infusing these principles in to the education system early. Groups like the Korea Entrepreneurship Foundation are taking an active role in Korea to encourage this. To support change, sustained and consistent messaging from the president and other senior government and business leaders will be paramount.

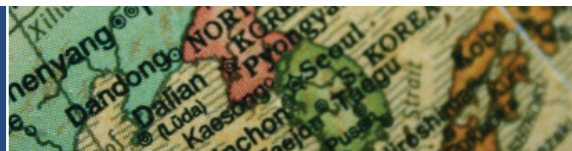
Conclusion

The Park administration's creative economy agenda represents an important and needed effort by the Korean government to build the foundation for Korea's future sustained growth and prosperity. It additionally presents new approaches and opportunities to tackle pressing social and demographic challenges increasingly confronting Korea. Moving forward, it is important that the Park administration not lose focus of its goal of ensuring the best potential ecosystem in Korea for innovation, entrepreneurship, and fostering creative new industries. Addressing regulatory, structural, and cultural barriers require a long-term approach and commitment, and may not yield short-term results. This will require patience in implementing this agenda, and in demonstrating and communicating to the broader Korean public positive outcomes and new ways of measuring success more appropriate to Korea's future growth trajectory. While this would be challenging for any government, Korea has demonstrated time and time again a remarkable capability and dynamism to adapt to new paradigms, and the creative economy agenda will hopefully be no exception.



Endnotes

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