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## Korea's Creative Economy Agenda

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President Park Geun-hye put forward a vision of creating a “Second Miracle on the Han River” through the development of a “creative economy” in her February inaugural address to the Korean people. This goal encompasses one of the most important challenges Korea faces: how to foster domestic innovation that will drive the country’s future prosperity. Korea’s economic policy approach could resonate beyond its borders, presenting important opportunities in its economic relationship with the United States.

Park has described the term “creative economy” as creating new growth engines and jobs 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.” It is useful to consider the broader theme of innovation at the heart of this concept, and elements that comprise innovation-focused growth strategies. Innovation is defined by the OECD as the “implementation of a new or significantly improved product, or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations.” It involves not only government, businesses, universities and research laboratories, but also entrepreneurs, non-governmental organizations and consumers, and the interactions among them. Innovation frameworks incorporate a complex array of policies covering research and development (R&D), education, physical and regulatory infrastructure, tax, labor and financial policies, intellectual property (IP) protections and cultural attitudes. Growing consensus holds that successful policies require a holistic approach encompassing all of these elements and the most effective role for governments is to serve as a facilitator and coordinator.

Korea is today a high-tech, innovation-driven economy. Korean manufacturers are global leaders in industries from semiconductors and mobile phones to shipbuilding and autos. Korea ranks top across a number of internationally recognized innovation indicators. Its R&D as a percentage of GDP is amongst the highest in the world. Sustaining this trajectory requires capabilities for pioneering and commercializing innovation. Korea’s once-torrid economic growth has slowed in recent years, and widening economic and social imbalances—resulting in part from huge productivity gaps between *chaebol* and small and medium enterprises (SMEs)—increasingly dominate political discourse. Korea’s education system ranks near the top with international peers, yet Korean university graduates encounter increasing difficulty finding jobs, raising questions of skill deficiencies in Korea’s inflexible labor market.

Entrepreneurs have been described as “carriers of innovation,” and while most surveys find positive attitudes in Korea towards entrepreneurship, new ventures amongst young people are low and fear of failure is high. This reflects societal and family pressures for young people in which *chaebol* employment and job security are valued. Ahn Cheol-soo, a successful entrepreneur who ran for Korea’s presidency last year, said that Bill Gates could not have succeeded in Korea because of constraints in the country’s social system.

**Sean Connell, Japan Studies Visiting Fellow at the East-West Center in Washington, explains that “Park has described the term ‘creative economy’ as creating new growth engines and jobs 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.’”**

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First on the Park administration’s list of 140 overarching policy tasks is to “establish an ecosystem for a creative economy”—reflecting the importance of getting the innovation framework right. Related tasks include encouraging start-up firms; upgrading key industries through information and communications technologies (ICT) and software convergence; improving linkages among industry, researchers, and government; and promoting the service sector. Other goals address education, the social safety net and labor policy issues core to the innovation ecosystem.

Since taking office the Park administration has launched a new Ministry of Science, ICT, and Future Planning, created out of three previously separate government agencies, to lead in developing, coordinating and implementing related policies. It has pledged to ease regulations, develop the underperforming services sector, and eliminate bureaucratic silos in order to boost innovation. Park has visited Korean start-up companies and held highly-publicized meetings with internationally famous entrepreneurs, including Microsoft founder Bill Gates and Google co-founder and CEO Larry Page. In June, the Korean Government introduced its “Creative Economy Action Plan.” Strategies include a comprehensive set of tax incentives, new funds and regulatory reforms intended to address financing challenges for start-up firms, with the goal of fostering a “virtuous cycle” of funding and investment for start-ups akin to that in Silicon Valley. Other measures include increasing public investment in basic research by 40 percent by 2017, expanding government procurement opportunities for start-ups, supporting promising new sectors and initiatives to promote entrepreneurship through education and public outreach.

This focus on improving Korea’s innovation ecosystem, along with recognition of the structural challenges involved, is very encouraging. Implementing this agenda will be a long-term process extending beyond Park’s five-year presidential term. However, her government can build a solid foundation now. Success depends in great part upon changing societal attitudes and perceptions, particularly towards the value of creativity in education and entrepreneurship. Education reforms that increase focus on creative problem-solving and enhance vocational training will contribute to supporting these goals. Likewise, it will be important for the government to consistently remind the public of the importance of this objective.

Park has linked the creative economy agenda closely with her push for economic democratization. Bolstering SMEs, start-ups and the services sector, and improving their productivity is essential to encouraging new innovation and jobs. The *chaebol*, which conduct much of Korea’s R&D and have vast economies of scale, also have a key role to play in enhancing Korea’s innovation capacity and generating new growth engines. Improving the regulatory environment for business will be beneficial to all. Continued trade and investment liberalization efforts will expand the global networks that Korean start-ups need to succeed and will attract new technologies, ideas and competition from overseas to further spur Korea’s creative economy.

Korea’s creative economy agenda presents new opportunities for cooperation with the United States, which has long emphasized innovation in its economic policies. With their extensive trade and investment interconnections, the two countries would benefit from exploring areas for collaboration and sharing best practices for fostering innovation and entrepreneurship. Existing government, business and research channels offer valuable platforms for engagement. The rapidly-growing linkages among people and institutions across both countries also offer fertile, dynamic networks from which innovation could emerge. The recently enacted US-Korea Free Trade Agreement (KORUS) intersects integral parts of Korea’s innovation framework. These include provisions strengthening IP protections, ensuring technology and telecommunication standards are market and consumer-driven, cutting red tape and increasing regulatory transparency. Fully implementing these and other market-opening provisions included in KORUS could generate new innovation and business cooperation in both countries.

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