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Beyond the *Chaebol*? The social purpose of entrepreneurship promotion in South Korea

Robyn Klingler-Vidra and Ramon Pacheco Pardo¹

Abstract: The global diffusion of entrepreneurship promotion, motivated by policymakers' desire to drive innovation, job creation and economic growth, is increasingly ubiquitous. As part of this trend, South Korea, an archetypal developmental state, has provided growing support to entrepreneurial activities in the twenty years since the Asian Financial Crisis. However, the motivation – and resulting form – of Korea's policies are unique from other states. In this article, we explain why by arguing that Korean entrepreneurship promotion is motivated by tri-partite social purposes: (permanent) job creation, economic diversification and *chaebol* competitiveness through the injection of start-up's innovation capacity. Making use of interview data and policy document analysis, we show that policymakers design entrepreneurship promotion according to these three social purposes. We conclude with a critical analysis of the policy shift, asserting that start-ups offer a distinct set of social risks when conceptualised as a provider of steady jobs.

Keywords: South Korea, developmental state, social purpose, employment, industrial policy, innovation, entrepreneurship.

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Introduction

Family-owned conglomerates – “*chaebol*” – led South Korea's “miracle on the Han river” from the 1960s. In an effort to distinguish her administration from previous ones, including her father Park Chung-hee, in her augural address in 2013 Park Geun-hye called for the initiation of Korea's “second miracle on the Han river”. The contemporary miracle would be led by creative start-ups and entrepreneurs rather than the *chaebol* that propelled the remarkable industrialisation achieved under her father's leadership. Her “Creative Economy Action Plan” was positioned as a marked shift in Korean industrial policy thought; the government would allocate 2% of its budget to emphasise creativity and entrepreneurship coming from fledgling firms in order to create 650,000 jobs within five years. Since the eponymous speech, the government's financial support for the “creation of a start-up ecosystem” and “venture businesses as well as small and medium-sized businesses” advanced precipitously; 2015 alone “showed a 38.6 percent (468 billion won) increase compared to 2014” (KEIA 2015: 41). Moon Jae-in, who replaced Park as South Korean president in May 2017, continued to prioritise

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support for creative start-ups by raising their administration to the Ministerial level. In November 2017, the first-ever Minister of SMEs and Start-ups, Hong Jong-haak, pledged to root out the extortion of start-ups by Korea's *chaebol* (Yonhap 2017).

Park's call for entrepreneurship support, and the Moon administration's promotion of SMEs and challenging of *chaebol* dominance, is not new. Since the onset of the Asian Financial Crisis (AFC) in 1997, archetypal "developmental states" like Korea have deployed policies, established organisations and allocated financial resources toward supporting ecosystems that foster innovation-centric entrepreneurship. More than 45 countries have implemented policies in a bid to become 'venture capital states' akin to Silicon Valley (Klingler-Vidra 2018). But Korea is unique in the motivation propelling its support of start-ups, and as a result, the form of the policies. In this article we argue that rather than start-up promotion being about driving innovativeness and small business growth, Korean start-up policy efforts serves three interrelated social purposes²: to spur job creation, to foster more "balanced growth" away from the *chaebol*, and, concomitantly to support *chaebol* innovation. As a result of this three-part social purpose, Korea's start-up policy has been designed with the *chaebol* as key partners and intended beneficiaries of start-up products and talent. Start-up support is about closing the gap in innovativeness and value-add between historically low-tech SMEs and their *chaebol*. With more 'creative' SMEs, policymakers hope to benefit the *chaebol* innovation capacity and improve the quality of jobs available to the large share of Koreans employed outside the *chaebol*.

To investigate the social purpose of entrepreneurship promotion in Korea we employ two research techniques. We first conducted content analysis of entrepreneurship policies and statements by political leaders and policymakers. This helped us identify the language of motivation and purpose used in the 1997 to 2017 period. These insights aided our formulation of interview questions for in-depth, semi-structured interviews with policymakers on two fieldwork trips (in June and August 2017). Interviewees were based in the Office of the President, the Ministry of SMEs and Start-ups, Centres for the Creative Economy and Innovation (CCEI), the National IT Industry Promotion Agency (NIPA and Korea Venture Investment Corporation (KVIC), the main government funding agency for start-ups. The interviews revealed the tri-partite social purpose motivating the form and extent of entrepreneurship policies.

This article contributes to political economy scholarship by bringing together developmental state scholarship and research into the global diffusion of entrepreneurship promotion. At present, these two strands of research operate in relative separation. This means that the extent to which the "developmental state" persists in Korea has been measured by the extent of the provision of direct support of the *chaebol* (see Pirie 2005, 2008). Scholarship has tended to treat the support of SMEs as distinct or separate from that of the developmental state-*chaebol* nexus (see, for example, Kang and Mah 2015). For us, this misses the broader role of the contemporary developmental state, in which industrial policy is increasingly focused on learning and technology rather than finance for capital-intensive industrial production (see Carroll and Jarvis 2014; Noman and Stiglitz 2016). Second, research on the "entrepreneurial state" and "innovation and the state" offers important insights into the how and why behind the promotion of contemporary technologies and financial market development (see Breznitz 2007; Breznitz and Murphree 2011; Mazzucato 2013; Rethel and Sinclair 2014; Fuller 2016;

² We invoke the term "social purpose" in line with the way John Ruggie conceptualised the term in his seminal 1982 paper on embedded liberalism.

Taylor 2016). However, in the context of innovation and the state in Korea, the motivation propelling start-up promotion is not so straightforward or so sanguine as buy-in to the Schumpeterian innovation via entrepreneurship narrative (see Andreoni 2016 on the policy change as the result of Korea reaching the technological frontier). This article helps address this gap by interrogating the social purposes behind entrepreneurship promotion.

The article is structured as follows. The next section outlines what we conceive of as the Korean developmental state in transition, so we have a benchmark to which we can judge the shift towards entrepreneurship. Following this, we develop a framework to guide the study of the social purpose in promoting entrepreneurship. The following section presents our empirical evidence of how social purpose shaped innovation-centric entrepreneurship policy across the 1997 to 2017 period. We then analyse the findings in light of what this means to scholarship on the developmental state and the diffusion of entrepreneurship policies. This includes a critical analysis of the social challenges emanating from conceiving start-ups as a source of permanent employment.

The Korean developmental state: depicting the archetype and its initial transition

In its original conception, the developmental state referred to a late industrialising state in which the state itself directed economic development and growth (Johnson 1982). State-business relations were thus characterised by governmental support to specific sectors or firms with the goal of making them internationally competitive and thus drive growth (Woo-Cummings 1998, 1999). State support to these sectors was driven by the mobilisation of capital (Chalmers 1982; Amsden 1989; Calder and Ye 2010). This took the form of policies such as the provision of grants and loans, exchange rate manipulation, support for high savings rates or wage suppression (Woo-Cummings 1999). The target of this support were large firms, particularly the *chaebol* in Korea as there was a strong emphasis on supporting labour-intensive industries that would make use of relatively cheap and abundant labour. In return for this support, the developmental state had an unspoken social contract with the *chaebol*. The *chaebol* would provide jobs and skills training. This gave social legitimacy to the state-*chaebol* nexus at the core of the Korean development state.

This system was possible thanks to the ‘embedded autonomy’ of the state (Evans 1995). Bureaucratic government elites isolated from daily politics and with the freedom to take a long-term view of the economy were at the core of the developmental state. Recruitment was highly competitive, ensuring a highly capable bureaucracy. At the same time, bureaucratic elites were embedded in the fabric of society. Bureaucracies and private sector elites had strong personal ties thanks to government-industry networks, a similar educational background, and career changes sometimes called a “revolving door” between both sectors. This way, bureaucracies had constant and timely access to information about market developments (Wade 1990). Ties between the state and the *chaebol* were not frictionless, but they worked relatively well for decades and avoided the state capture that stymied growth in other developing regions (Kohli 2004).

These embedded policymakers promoted specific entrepreneurs who eventually grew to become the *chaebol* (Joh 2015; Pacheco Pardo and Klingler-Vidra forthcoming). In an interview with Wonshik Choi, who runs the KSEF survey of Korean start-up activity, he explained that “General Park focused on development via *chaebols* as entrepreneurs”.³ In her

³ Authors’ interview with Wonshik Choi, KSEF Research Manager, 20 June 2017, Seoul.

observation of the evolution of Korean industrial policy, Debanes (2017, 22) asserts that Korea's "developmental agencies emphasise continuity, but, above all, their relevance and the capabilities to adapt to new challenges". Focusing on corporate governance institutions, Kang (2010) asserts that the lack of a mutually-reinforcing complementarity can explain the change in Korea's state-led model in the face of globalisation.

The early period of 1961 (when the Economic Planning Board (EPB) was established) through to the 1980s, is referred to as "growth first" (Thurbon 2016: 8), relied on strategy centred on the *chaebols*' economic achievements. However, even though economic attainment was at the centre, the *chaebol*'s mission was not simply to drive GDP growth. The *chaebol* took on the role of the provider of "permanent employment" and related benefits in light of Korea's "small welfare state" (Kwon 1999; Song 2003; Yang 2017). Without a comprehensive welfare system, high levels of employment have been vital for the viability of politicians and the *chaebol* were long conceptualised as crucial providers of high-quality, stable jobs (Kim 2012b). Pirie (2016: 675) explains that the essence of the developmental citizenship regime can be conceptualised as being based on "high employment and increasing market opportunities".

In this classic developmental period, the *chaebols* were the primary recipients of industrial policy resources (Whitley 1992; Yeung 2016). It was not simply that *chaebol* and small firms had equal support, and *chaebol* outperformed. Kenney *et al* (2002, 67) explain that "in this environment, SMEs were sacrificed in the name of *chaebol* gigantism" as the *chaebol* were able to produce jobs and innovation. The financial support given to the *chaebol* came in the form of preferential access to inexpensive credit; finance for the *chaebol* would drive Korea's economic growth and competitiveness (Amsden 1989). The *chaebol* "developed with considerable state backing, especially in respect of preferential access to cheap loans from the state banks from the state banks, and expanded into heavy industry in the 1970s at the behest of state agencies" (Whitley 1992, 42-3).

The policy emphasis began to be slightly more inclusive of SMEs in the 1980s, as the *chaebol* focused on global value chain upgrading. Yeung (2016) explains that increasingly global production networks affected state-firm relations such that "national champions" no longer had the tight relationship with their home states and were instead embedding in international production networks. *Chaebol*, along with successful firms in Taiwan and Singapore, became "strategically disembedded from developmental state apparatuses and successfully reembedded in global production networks" (Yeung 2016, 15-6). However, only modest credit and R&D subsidies were made available for SMEs (Kang and Mah 2015); "until the early 1990s, Korea had little high technology entrepreneurship as the *chaebol* hired all the best personnel and there was no financial, psychological or social support for entrepreneurship" (Kenney *et al* 2002, 67). This era also established a vision for the relationship between the *chaebol* and small firms. Debanes (2017, 12) explains that SME promotion centred on "exporting SMEs, and subcontracting SMEs, which contributed to the *chaebols*' expansion with a differentiated strategy: vertical integration and sustained subcontractor relations". In effect, the little support that did exist was envisaged as integrated with *chaebol* export capacity.

The *chaebols*' social value was largely unassailable as key employers and propellers of economic output, even though there was increasing public awareness of corruption and of the *chaebols*' increasingly international orientation. The EPB started towards "liberalisation and the containment of the *chaebols*' market power" in the 1980s (Debanes 2017, 11). However still in 1991 when President Roh Tae-woo attempted to "rein in the *chaebol*" in response to "rampant corruption during the Chun regime" the efforts were "ineffective because the state

did not have the political power and institutional capacity to direct or even discipline the *chaebol*” (Yeung 2016, 32). The “crony capitalism”, though distasteful to critics, was still effective in delivering socio-economic objectives.

Structural changes to the global and domestic economy ushered in changes for the operations of this archetypal developmental state. To begin with, the launch of the WTO in 1995 and – in the case of Korea – membership of the OECD from 1996 made it more difficult to implement some of the interventionist policies that countries across East Asia had been using for decades. Most notably, these and other international organizations forced trade and economic liberalisation upon developmental states (Wade 2003). Also, the universalisation of most-favoured nation status meant that market access conditions offered to any WTO or bilateral free trade agreement partner had to be extended to all other WTO members. This made it more difficult to protect infant industries that had been the bulwark of economic development.⁴

The AFC had a profound effect on the Korean developmental state. The crisis showed that conglomerates such as Korean *chaebols* were not immune to economic upheaval. Indeed, several *chaebols* went bankrupt. From a socio-economic perspective, the AFC showed that jobs in *chaebols* and other world-leading companies elsewhere in East Asia were not permanent. Unemployment grew across the region, and highly-qualified young people found it more difficult to access the job market than previous generations (Wade 1998). The model whereby companies provided high-quality jobs partially helping to address the weak welfare state in most of East Asia was shaken by the AFC. In the years that have followed, Korea has grown its welfare state (Lee 2017; Fleckenstein and Lee 2017). This is reducing the welfare-supporting role that *chaebols* had in the past.

In the wake of the AFC era there has been the growing inequality and a rise of underemployment amongst the youth. Data from the OECD shows that inequality across East Asia – while relatively low – has been growing since the AFC (OECD 2018a). OECD data also shows that underemployment and youth unemployment have also been on the rise since the AFC, with the number of temporary and/or low-paid jobs as a share of total employment growing ever since (OECD 2018b). This has increased disaffection, especially among younger generations who feel that they have less job opportunities than their parents did. In the case of Korea, *chaebols*’ relatively limited job creation has had a negative impact on the way they are perceived by society.

In common with multinational firms elsewhere, Korean firms increased their investment in China following its WTO accession and accelerated the outsourcing of manufacturing jobs (Athukorala 2011). The process first started in the 1980 became irreversible – at least in the short term – as Korean labour could not compete with its much cheaper Chinese counterpart. The ability of *chaebols* to provide jobs was thus further eroded. However, at the same time *chaebols* boosted their assets and retained their dominant position in the Korean economy.

⁴ China’s entry into WTO in 2001 and free trade agreements (FTAs) involving ASEAN also had a profound effect on developmental states. Countries – including Korea – that for a long time had relied on low labour costs for their export-led growth found it more difficult to rely on labour-intensive industries (Wade 2003). Korean *chaebols*, Japanese *keiretsu* and other conglomerates and companies of all sizes quickly shifted production towards China as soon as it joined the WTO. Outsourcing was further compounded by FTAs between China, Japan and Korea on the one hand and ASEAN on the other, as well as by the ASEAN Free Trade Area. By 2008, there was a network of FTAs linking ASEAN and the three leading Northeast Asian economies (Athukorala 2011). In the case of Korea, *chaebols* increased investment in both China and ASEAN while slowing down or even reducing investment at home. Indeed, the share of jobs in the Korean economy directly linked to *chaebols* has steadily declined since China joined the WTO (Ministry of SMEs and Start-ups 2018).

Thus, the state could not simply launch and sustain policies ignoring this central component of the country's socio-economic fabric.

As Yeung (2016) contends in his account of “strategic coupling”, as a result of these structural changes, it simply became too difficult for policymakers to direct their natural champions. In the case of Korea, *chaebols*' total assets are bigger than the country's GDP. Companies such as Samsung or LG evolved from being Korean companies, exporting to the rest of the world, to being international companies headquartered in Korea. Access to international capital markets from the 1990s onwards reduced their reliance on state financing. Their internationalisation made them quicker to react to market signals, eliminating their reliance on government bureaucracies to identify future growth sectors (Kalinowski 2008). Even though the personal links between government and private sector did not disappear, the size and increasingly international character of *chaebols* significantly reduced the power of the state over them.

The continuity in social purpose motivating entrepreneurship-promotion in Korea since the Asian Financial Crisis

There has been a flurry of scholarship that depicts the Korean developmental state's demise in light of the above-delineated structural changes, with researchers claiming that it has been ‘adapted’ (Wong, 2004), is ‘declining’ (Pirie 2008), ‘transformed’ (Lim 2010), ‘degraded’ (Hundt 2014), ‘disembedded’ (Carroll and Jarvis 2017), and in its ‘last stage’ (Kalinowski 2008). Yet others, most prominently Thurbon (2016) rebuke this downward trend in aim and capacity, pointing to the persistence of a “developmental mindset” amongst policymakers and political leaders. Offering a middle empirical ground, Debanes (2017) posits that there is a new “layer” of the developmental state, in which Korean policymakers promote innovation-centric entrepreneurship. Here, we investigate the extent to which the social purpose of entrepreneurship promotion is contiguous with that underpinning *chaebol* support as depicted in the previous section.

Our conceptualisation of social purpose draws on state-of-the-art developmental state scholarship on the role of mindset and rationality. Thurbon (2016) asserts that a focus on the ‘developmental mindset’ in Korea can help explain how and why contemporary [financial activism] policy choices are akin to classic industrial policies (e.g., those utilised from the 1960s to 1990). Thurbon contends that particular policies are expected to change in light of technological and historically-specific production structures, but the motivations propelling the interventions are much stickier. This focus on the mindset is also linked to the way Chibber (2002) depicts developmental states as having policymakers that broadly possess a ‘bureaucratic rationality’, underpinned in part by shared norms and rules. Yeung (2016, 25) explains Chibber's argument that policymakers “must share a common sense of purpose and mission”. Meanwhile, Klingler-Vidra (2018) conceptualises the role of “contextual rationality” in explaining why East Asian policymakers adapt international policy models differently from one another and from the Silicon Valley model that they study. She explains that policy preferences are based in social contexts, particularly norms informing the extent to which policymakers feel the state *should* intervene in the market and *how* (Klingler-Vidra 2015). As these authors contend, policies adapt while the underlying social purpose is sticky. Following this, this section explores whether and how Korea's developmental mindset – characterised by close partnership with the *chaebol* in order to drive innovation, economic growth and job creation – underpins entrepreneurship promotion since 1997.

Some blamed the *chaebols* for causing the Asian Financial Crisis through their short-term foreign borrowing excesses (Okabe 2015). It did not end there. Many *chaebols* then turned to the Korean government for bailouts, but even still:

“Eleven conglomerates went bankrupt, including Kia, and 10 other *chaebol* in the top 50 teetered. Two years later, the Daewoo group – one of the four largest *chaebol* – was allowed to go bankrupt under \$50-billion (U.S.) of debt, and was sold off” (Marlow 2015).

Both the *chaebols*’ role in ostensibly causing the crisis, and their reliance on the state in the fallout of the crisis, undermined the mutually beneficial state-*chaebol* narrative that had come to depict the developmental era. Okabe (2015, 94) explains that:

“The failure of *chaebol* firms such as Hanbo Steel and Kia Motors triggered the crisis. Fingers point at the Kim Young-sam government for its lack of consistency and speed, which caused a decline in the rollover ratio of short-term foreign capital and brought about capital flight.”

In effect, the *chaebols*’ role in bringing on the crisis did not only reflect poorly on the business leaders, it also implicated Korean politicians and policymakers for not managing the issue because they had succumbed to *chaebol* pressure to maintain permissive macroeconomic and financial policies in the 1990s.

The depth of the AFC was met with a new Korean government, led by Kim Dae-jung, who had “always been in the opposition and had not *chaebol* connections” (Okabe 2015, 96). Already an “outsider”, Kim strived to shore up his political support by reducing the *chaebols*’ ability to take on such substantial financing. He “drew on broad public and legislative support” to push through wide-ranging reforms, including *chaebol* debt-to-equity ratios and business excesses (Haggard 2000, xii). The democratisation process that Korea had initiated in the 1980s can be said to have finished with Kim’s election, since he was the first liberal president in the history of the country. From his election onwards, it became difficult for governments to base policy on the state-*chaebol* nexus.

The AFC served as a critical juncture in the mind-sets of policymakers “to develop New Economy firms” (Kenney *et al* 2002, 68). The *chaebols* were shown, in the context of the crisis, to not be the unwavering provider of high-quality permanent employment. Their business models faltered in the midst of the market upheavals. Suddenly, the impenetrable armour of the *chaebol* exposed skin. Policymakers – along with the public-at-large – saw that employment in the *chaebols* by young, highly-trained Koreans was not necessarily permanent, and that the *chaebols* were not bulwarks against instability. Policymakers came to value efforts to promote alternative forms of employment and economic output. It was in the throes of this crisis that support for high-technology entrepreneurship increased; policymakers adopted new tools (accelerators, funds of funds, building clusters and promoting risk-taking cultures) for encouraging small firms.⁵ It was, thus, “only in the late 1990s that the Korean government

⁵ These policy efforts prompted the “first start-up boom” in the late 1990s. But other than the phenomenal success of firms such as Naver and Daum, the energy of the first start-up boom was abruptly curtailed by the Dotcom Crash in 2000. As a government official from that period recalls, to a large extent there was no clear government strategy underpinning this boom, thus its vulnerability to the Dotcom Crash. Authors’ interview with former central government official, 23 August 2017, Seoul.

started to actively support SMEs with an emphasis on new innovative areas” (Debanes 2017, 12).

The manager of a co-working space in Seoul succinctly summarised the shift that accompanied the fallout of the AFC with respect to the social purpose of entrepreneurship support:

“A job at Samsung, Hyundai, LG had been viewed as a permanent job. That was the aim. But, when the Korean crisis hit in 1997, Samsung and the banks did not keep all the jobs. Jobs were lost, and as a result, people came to see that Samsung-type jobs were not permanent. This insecurity about jobs – and especially their children’s jobs – started to motivate support for entrepreneurship. We needed to diversify employment. The government started turning to start-ups and SMBs to create jobs.”⁶

The promotion of high-technology start-ups was part of what Thurbon (2016: 9) calls the “balanced growth” strategy and what Debanes (2017, 29) refers to as the Dot-com institutional layer. 2000 saw the launch of iParks in Silicon Valley – state-supported hubs for Korean high-technology start-ups building their businesses abroad (Thurbon and Weiss 2006). The developmental mindset survived the AFC and continued to underpin the state’s approach to economic policy-making, but with an increased embrace of start-ups rather than focus on the *chaebols*.

However, shortly after the start-up strategy began, there was a major crisis, in the form of the Dot-com crash, in which many start-ups failed overnight. High-technology start-ups were also susceptible to failure, and limited in their ability to provide permanent employment and economic growth. After the bubble burst in 2001, the Roh Moo-hyun administration in 2003 made another concerted effort to promote the technological capacity and international competitiveness of non-chaebol. Kim (2012: 295) contends that the state reinvigorated its legitimacy to act in a strategic industrial policy capacity by “re-articulating policy goals towards nurturing the innovation capabilities of domestic firms”.

One of the “lessons” of the short-lived “first start-up” boom was that start-up policy would need to be enmeshed in the existing *chaebol*-led economic structure. Speaking to the aim of the “second start-up boom”, the Director General of the Centre for the Creative Economy & Innovation (CCEI) Seoul, explained that the first boom is “considered a failure in light of the Dot-com bubble bursting and the fact that the efforts weren’t linked with existing economic structure, especially the *chaebol*”⁷. The lesson of the Dot-com crash was that start-up support efforts would need to be embedded in *chaebol* production and sales channels in order to be successful.

In this vein, there has been a convergence in entrepreneurship and *chaebol* promotion across the “second start-up” boom and the Park-led Creative Economy era and beyond.⁸ In the first start-up boom there was a knee-jerk reaction away from directly advocating the *chaebol*-led

⁶ Authors’ interview with Manager of a co-working space in Seoul, 21 June 2017, Seoul.

⁷ Authors’ interview, Director General of the CCEI Seoul, 20 June 2017, Seoul.

⁸ Both the Park and Moon governments have involved *chaebols* in their start-up policy. A case in point are the regular meetings held by the Ministry of SMEs and Start-ups – as well as the agency that preceded it – involving government officials, start-up ecosystem players and chaebols to discuss policies to support entrepreneurs. Authors’ interview with Director at Ministry of SMEs and Startups, 25 August 2017, Daejeon.

strategy where the conglomerates served the social function of employment, stability and economic opportunity, as depicted in Table 1 below. This “Separate *Chaebol* entrepreneur innovation” era was brief but notable for the parallel design of entrepreneurship promotion.

Table 1: Innovation Policy attributes and social purpose

	<i>Chaebol</i>-led innovation (1961-90)	Separate <i>Chaebol</i> entrepreneur innovation (1997-2001)	Embedded <i>chaebol</i>-entrepreneurial innovation (2003-ongoing)
Industrial policy targets	<i>Chaebol</i>	Start-ups and <i>chaebol</i>	Entrepreneurial ecosystems with the <i>chaebols</i> embedded
Finance policy	State-directed credit for export promotion	Equity and credit for R&D and export promotion	Equity and credit for building businesses, developing products
Key (new) institutions	<ul style="list-style-type: none"> • EPB • KODIT • KOTECH • STEPI 	<ul style="list-style-type: none"> • SMBA • KISA • KVIC 	<ul style="list-style-type: none"> • Ministry of SMEs and Start-ups • CCEIs • NIPA
Social purpose	<ol style="list-style-type: none"> 1. Employment: <i>Chaebol</i> as high-quality employers 2. Economic growth: <i>chaebol</i>-led industrialisation as “catch up” strategy 3. Innovation: <i>chaebol</i> as drivers of innovative activity 	<ol style="list-style-type: none"> 1. Employment: <i>Chaebol</i> and start-ups offer high-quality employment 2. Economic growth: Balancing growth and Silicon Valley-style start-up activities 3. Innovation: start-ups and <i>chaebol</i> separately innovating 	<ol style="list-style-type: none"> 1. Employment: <i>Chaebol</i> and start-ups as high-quality, permanent employers 2. Economic growth: Promote specific clusters / verticals (green, biotechnology) 3. Innovation: start-ups injecting <i>chaebol</i> with renewed innovation capacity
Political risk mitigation strategies	Economic opportunities created by the <i>chaebol</i> would validate limited socio-political liberties	Promoting diversified economic activity would reduce public backlash against state- <i>chaebol</i> relations	Minimise exposure to public claims of state- <i>chaebol</i> cronyism through indirect support (under start-up heading) while continuing to promote <i>chaebol</i> prowess

Source: Authors’ analysis, drawing on a number of primary and secondary sources, most specifically Kim and Kim’s (2013) SMBA report that identifies “four historical periods of promoting venture” and Debanes (2017: 29) for delineation of “socio-political compromises”.

Park's Creative Economy Action Plan typifies the ways that recent governments have married the aims of *chaebol* support and entrepreneurship promotion. Entrepreneurial activity support is conceptualised as both an effort to encourage the *chaebols* and to diversify the economy in order to offer alternative employment, stability and opportunity. Debanes (2017, 18) explains that the Creative Economy Action Plan agencies “simultaneously embody the promotion of the ICT sector and the importance of balanced growth, between Seoul and the regions, between the central and local governments, and between *chaebols* and SMEs”. We contend that it is more than “balance”. Policymakers conceptualise entrepreneurship policy as an indirect means of supporting the *chaebol* that continue to serve as the predominant (high-skilled) employers as well as innovation and economic output engines for Korea. The *chaebol* are still the giants, so the social purpose of entrepreneurship policy is to involve and benefit the large firms rather than run on a separate trajectory.

To succeed, Korea's entrepreneurial ecosystem would need to be woven in the fabric of the *chaebol*. While government policies that would explicitly support *chaebol* through direct investment would be met with public hostility, policymakers designed innovation-enabling policies with entrepreneurs and growing start-ups as the designated targets. Coverage of several *chaebol* scandals added further fuel to critical public sentiment of direct support to the *chaebol*. The narrative in Korean media has been of the corrupt practices of *chaebol* leadership, of a lack of accountability for crimes committed (in light of shortened sentences or non-guilty verdicts) and of an irreconcilable distance between *chaebols*' dynastic families and the Korean population. Furthermore, *chaebols* continue to be unable to absorb young Korean university graduates, and are thus seen as contributing to underemployment and inequality (Chiang 2017). Policymakers conceive of start-up support as lower risk, whether they are on the political left or right; the prevailing political factor in entrepreneurship policymaking is denoted in the “political risk mitigation strategies” row in Table 1.

The Park and Moon governments have launched job-creating programmes. These include both supporting and encouraging *chaebols* to hire more university graduates and promoting start-ups that can create sustainable jobs.⁹ This speaks to the dual aims of driving employment through jobs in start-ups and by promoting *chaebol*. According to the Ministry of SMEs and Start-ups, small firms are the primary employer in Korea (as elsewhere): 2016 statistics show they account for eighty-eight percent of total employment. In fact, the share of employment provided by SMEs and start-ups over the period has risen from 80.6% in 2001 to 87.9 percent in 2014. Figure 1 below shows the growth of employment provided by SMEs – as a share of total employment in Korea – over the period.

Figure 1: SMEs as a share of total employment in Korea 2001-2014

⁹ Authors' interview with Manager at KVIC, 25 August 2017, Seoul.

Source: Office of National Statistics and the Ministry of SMEs and Start-ups

In our fieldwork in summer 2017 we heard of the overarching social purpose of start-ups as job creators multiple times. A particularly salient example is a comment from the manager of a co-working space in Seoul who said the following about the Moon administration, which came to power in 2017, in relation to the purpose of supporting entrepreneurship: “It’s all about job creation. Start-ups are about jobs, not exits or changing the world like in Silicon Valley.”¹⁰

Beyond employment the other social purpose is propping up *chaebol* innovation capacity. Several interviewees felt that entrepreneurship promotion is about injecting innovation capacity into the *chaebol*, rather than supporting innovative start-ups per se. The manager of a Co-working Space in Seoul explained that:

“*Chaebol* and government are leading the start-ups. Start-ups should help to grow the *chaebol*. The attitudes of Korean companies and foreign companies towards start-ups are completely different. Foreign companies admire start-ups and want to partner with them. *Chaebol* look at start-ups as suppliers and they want to kill their business.”

The *chaebol* would, some interviewees felt, “kill the business” of a start-up either by acquiring them for an artificially cheap price or using their market power to bury their fledgling business. Others level a broader critique of the *chaebols*’ ability to foster world-leading innovation. As Mundy (2015) explained, “critics of the scheme question whether the business culture of the *chaebols* — which emerged as state-fostered, largely heavy industrial concerns — makes them best placed to nurture the sort of creative, dynamic start-ups able to compete with those emerging from Silicon Valley”. This sentiment was expressed at a high-profile level, when the newly appointed Minister of SMEs and Start-ups said, on 23 November 2017, that he aimed to wipe out the “extortion” that large firms subject Korean start-ups to (Yonhap 2017). This suggests that public contestation of *chaebol* power has become entrenched in Korean society. More than twenty years after the AFC, the perception of *chaebols* remains negative.

¹⁰ Authors’ interview with Manager of Co-working space in Seoul, 20 June 2017, Seoul.

Having said that, interviewees working in promoting partnerships between *chaebols* and start-up believed that a symbiotic relationship between both could develop. Start-ups could develop technologies faster than conglomerates, since they are less hierarchical. In turn, *chaebols* can offer support to scale up the business and/or an exit strategy through an M&A.¹¹ This is logical when considering the social purposes motivating policymakers. If the government supports entrepreneurship to create jobs rather than to “change the world”, then innovative start-ups and internationally competitive *chaebols* can cooperate and increase the number of highly-skilled jobs that cannot be outsourced to China.

The hub-spoke relationship that policymakers envisage when designing entrepreneurship policy is clearly illustrated in the structure of the CCEIs. To give a sense of the financial spend allocated to the CCEIs, as of 2016 the centres secured a budget worth 43.7 billion won (\$36 million) from the central government and 11.9 billion won from municipal governments (Park 2016). The Director General of the CCEI Seoul explained that:

“The government wants the conglomerate to gain innovative DNA by working with start-ups and the young generation. In the relationship, *chaebol* get start-ups’ DNA. Government wanted to involve *chaebol* as they are dinosaurs. As they can become like Motorola or Nokia. It’s a win-win for *chaebol* and start-ups.¹²

As a manifestation of this desire to inject start-up DNA into the *chaebol*, each of the CCEIs are structured such that one *chaebol* is an anchor partner. The centres have different *chaebol* partners and distinct vertical/sectoral focus according to the *chaebol*’s strength, as summarised in Table 2 below.

Table 2: CCEI *chaebol* partner and sectoral focus (by date of opening)

City/region	<i>Chaebol</i> / Large corporate partner	Sectoral focus	Date opened
Daegu City	Samsung	Electronics-textile	Sep-14
Daejeon	SK	ICT	Oct-14
North Jeolla Province	Hyosung	Carbon Fiber	Nov-14
North Gyeongsang Province	Samsung	Smart factory	Dec-14
Pohang City	Posco	Energy	
Gwangju City	Hyundai Motors	Automobile	Jan-15
North Chungcheong Province	LG	Bio-beauty	Feb-15
Ulsan City	Hyundai Heavy Industries	Shipbuilding / Medical industry	Feb-15

¹¹ Authors’ interviews with Manager at Seoul Start-up Hub, 23 August 2017, Seoul, and Director at Ministry of SMEs and Startups, 25 August 2017, Daejeon.

¹² Authors’ interview, Director General of the CCEI Seoul, 20 June 2017, Seoul.

Gyeonggi Province	KT (Korea Telecom)	Games / Fintech	Mar-15
Busan City	LOTTE	Distribution-movies	Mar-15
South Gyeongsang Province	Doosan	Smart Machinery	Apr-15
Cheonan, South Chungcheong Province	Hanwha	Solar Energy	May-15
Gangwon Province	Naver	Big Data	May-15
South Jeolla Province	GS	Agricultural and fisheries products	Jun-15
Sejong City	SK	ICT for agriculture / Smart Farm	Jun-15
Jeju Island	Daumkakao	IT-tourism	Jun-15
Seoul City	CJ Group	Culture	Jul-15
Incheon City	Hanjin	Aviation / Logistics	Jul-15
Ulsan City	Hyundai Heavy Industries	Shipbuilding	Jul-15

Source: ‘CCEI Centre Search’, available at <https://ccei.creativekorea.or.kr/info/info.do>, accessed 19 December 2017 (in Korean).

The central government pays for half of the operating costs of each of the CCEIs, and also contributes a third of the funding for a start-up investment fund. Local governments (either provincial or city governments) pay for the other half of the operating costs. They also provide a third of the funding for the investment fund. The *chaebols* do not contribute financially to the operating costs. Instead, they provide the remaining third of money for the start-up fund and they provide mentoring to the entrepreneurs.¹³ In effect, the *chaebol*’s monetary contribution is limited and gives them potential upside to come from the success of the start-ups. For the CCEI, performance is measured through several “key performance indicators” (KPIs), including number of companies started, funding raised, teams taken overseas and “good M&A between *chaebol* and start-ups”. This model mitigates criticism of the *chaebols* and their role in stifling competition from smaller firms, since they provide expertise and some financing leading to start-up growth and job creation. In other words, they help the government to fulfil its social purpose. The model also attests to the continuing presence of a developmental mindset, insofar the government provides direct financial support to capital-starved start-ups while also working with the private sector to identify future growth engines.

The K-Start-up Grand Challenge, run by NIPA since 2016, serves as another cogent example of the social purpose of embedding the *chaebol* in start-up support efforts. The K-Start-up Grant Challenge attracts high-potential international entrepreneurs to come to Korea to start a business. Like the CCEIs, it also measures *chaebol* interaction as one of its primary KPIs. A researcher within the National IT Promotion Agency that is responsible for running K-Start-up Grand Challenge said that KPIs include job creation (that the foreign entrepreneurs would

¹³ Distribution of central government, local government and chaebol contributions based upon authors’ interviews with Director General of the CCEI Seoul, 20 June 2017, Seoul, and Director at Ministry of SMEs and Startups, 25 August 2017, Daejeon.

create businesses in Korea that employed Koreans) and the number of “meetings between the start-ups and the *chaebol*”. He went on to explain that this *chaebol* matchmaking role reflected the aims of the programme participants as “the main goal of the start-ups in the programme last year was to work with the large companies in Korea”¹⁴. This relates to the developmental mindset that has the state still playing a significant role in the economy. Importantly, it also reflects the prevailing social purpose: foreign entrepreneurs setting up a firm in Korea are attracted to its *chaebols*, which therefore confer a comparative advantage to Korea that countries without similar big, international firms lack.

The contemporary entrepreneurship promotion, epitomised by the CCEI and K-Start-up Grand Challenge, whereby the *chaebol* is positioned both as a partner and a beneficiary, is illustrated in Figure 2 below.

Figure 2: Structure and benefactors of Korean entrepreneurship promotion policy

Analysis

In Korea, the social purpose of supporting entrepreneurship is three part. To diversify away from the heavy reliance on *chaebol* for economic performance and related ability to provide “permanent” and high-quality jobs, but also, concomitantly, to prop up the innovation capacity of the *chaebol* who are undeniably central to the Korean economy. The *chaebols* remain “too big to let fail” in the minds of policymakers, so entrepreneurship promotion simultaneously strives to diversify away from, and prop up, the *chaebol* in order to achieve the social aims of providing jobs and economic opportunities. Thus the *chaebols* are inextricably embedded in the fabric of start-up support in Korea, and in the mindsets of industrial policymakers. As Debanes (2017, 23) says “developmental state type of logic [is] embedded in past practices, such as a large-scale approach to policy support and a socioeconomic goal of job creation”. This conceptualisation of entrepreneurship promotion is unique to Korea, and is instructive to explaining the central role of the *chaebols* in start-up policy.

In this Analysis section we answer three questions emanating from the findings presented thus far. One, to what extent is this embedded-but-not-direct-support depiction of the *chaebol* in

¹⁴ Authors’ interview with Researcher, in the National IT Promotion Agency, 22 June 2017, Pangyo.

entrepreneurship contested? Two, does this embedded formulation reflect how central *chaebol* are in contemporary Korean socio-economy? Third, what are the problems with the contemporary formulation of entrepreneurship-promotion as industrial policy? We answer by interrogating challenges stemming from conceptualising a symbiotic *chaebol*-start-ups relationship and in conceptualising start-ups as providers of permanent employment?

In answer to the first question, we acknowledge that some analysts have gone so far as to say that the Creative Economy Action Plan, in particular, aims to “foster start-ups and erase the country’s economic reliance” on *chaebol* (Mundy 2015). Based upon our analysis of primary interview data and entrepreneurship policy content, we contend that this is going too far. The Korean state has not tried to “erase” its reliance on the *chaebol*. We find that policymakers have instead designed start-up support as a means of “injecting new DNA” into the *chaebol* as a means of supporting the still economically central firms. Even as structural economic and socio-political changes have affected the relationship between the state and *chaebols*, the latter remain central to Korea’s socio-economic fabric.

The rationale for embedding the *chaebol* in entrepreneurship promotion stems in large part from political ambitions to mitigate the risk of state-*chaebol* corruption. The logic goes that it has been increasingly unattractive for industrial policymakers to direct support to the *chaebol*. However, it should be noted that *chaebol* leaders, particularly of SK Group and CJ Group, did receive pardons that got them out of prison for bribery and tax evasion, in 2015 and 2016, respectively, by Park Geun-hye (The Economist 2018a). More recently, in February 2018 Jay Y. Lee, the heir to the Samsung dynasty, was released after serving only half of his five-year sentence. Whilst there are headlines about crackdowns on corruption and ministers’ efforts to avoid even the perception of cronyism with the *chaebol* (the Fair Trade Commissioner, Kim Sang-jo, will not even meet with a *chaebol* leader), pardons and early-releases of *chaebol* royalty continue. For us, this persistence of pardoning reinforces our contention that policymakers still value the “ends” of *chaebol* support, and that extending indirect support by way of embedding the *chaebol* in the growing entrepreneurial ecosystem is a tool for reducing political risk, but not reducing *chaebol* support.

For us, the embedded nature of the *chaebol* in Korea’s entrepreneurship policy is best exemplified by two efforts: the CCEI and K-Start-up Grand Challenge, which both explicitly involve the *chaebol* as partners (each of the CCEI have a *chaebol* attached as an anchor partner, in which the *chaebol* contributes little) and judge the success of the programmes according to involvement with the *chaebol* (e.g. for the K-Start-up Grand Challenge, a contract with a *chaebol* is a crucial KPI). In light of the continued social purpose of employment and economic opportunity, we find path dependence, rather than “erasing”, of the normative basis underpinning Korean policy vis-à-vis the *chaebol*. It is designed through start-ups rather than direct to the *chaebol*.

Second, we note that the continued social purpose of supporting the *chaebol* fits with the reality of the contemporary structure of the Korean economy. The *chaebol*, in 2017, represents a vast majority of investment in Korea and sales/revenue equivalent to large share of Korean GDP. Samsung Group alone is said to account for approximately 20 percent of Korean GDP and sales/revenue generated by the top five *chaebols* was equivalent to 58 percent of GDP in 2015 (Chiang 2016). As *Chaebols* are central to the fabric of the Korean economy and no government seeks to hurt them, even if there are policies to tame their behaviour.¹⁵ Thus, a

¹⁵ Authors’ interview with Manager at KVIC, 25 August 2017, Seoul.

“hidden developmental state” (Block 2008) arises, where Korean politicians and policymakers use entrepreneurship promotion to reduce their political exposure to *chaebol* support while helping to inject new innovative blood and capacity into the giant firms. The social purpose under which government officials and bureaucracies operate prevent them from seeking an overhaul of the economy that would significantly hurt *chaebols* and, as a result, the Korean economy as a whole.

In answering the third question we first focus on the potential for *chaebol* and start-ups to coexist in a symbiotic relationship. As Rowley and Warner (2014) explain, some policymakers and other groups within the general population believe that *chaebols* are stifling SME competitiveness and squeezing domestic suppliers. An interviewee said that the *chaebol* are killing start-ups. This narrative is employed to support the move towards supporting SMEs that employ 90 per cent of South Korean workers. But the mechanisms by which the *chaebol* are exerting their power need greater analysis. The two primary mechanisms by which Korea’s *chaebol* “kill” local start-ups are akin to that by which large technology companies in the United States have been accused of exerting their power over start-ups. They either try to “squash start-ups by copying them, or they pay to scoop them up early to eliminate a threat” (The Economist 2018b). The existence of a similar phenomenon in the U.S. is at once reassuring and disturbing. It means that the *chaebol* are not necessarily asserting their market power in a way that is different than what exists for start-ups elsewhere. Moreover, for many entrepreneurs, one of these “kill” mechanisms is a desired aim: many if not most entrepreneurs strive to build businesses that are ripe for acquisition within a handful of years. So having large local firms who are poised to buy high-growth start-ups could be an advantage for Korea’s entrepreneurial ecosystem. The devil is in the details though, as start-ups hope to sell at a level which helps them to realise a significant profit, rather than being forced to sell at too embryonic of a point and/or too low of a price. Based upon the emotion with which our Korean interviewees spoke, it seems that acquisitions are being made too early, at valuations that are lower than what founders would want to achieve. In this way, the *chaebol* seem to be stunting the potential of Korean start-ups, rather than co-existing in a mutually beneficial manner.

The second part of our answer to the third question focuses on the problems arising from conceptualising start-ups as harbingers of permanent employment. Start-ups are high-risk, high-failure businesses that are unlikely to be in existence long enough to provide long-term employment and extensive social benefits. The start-ups targeted by Korea’s policy are epitomised by venture capital-backed companies. These companies raise early-stage equity investment due to their potential to disrupt existing markets, but they often face binary ‘fail’ or ‘succeed’ outcomes. Based upon a study of 2000 VC-backed companies in the US between 2004 and 2010, who had each received at least \$1 million in funding, Shikhar Ghosh, a senior lecturer at Harvard Business School, found that 75% failed completely, never returning cash to their investors (Gage 2012). Zider (1998) similarly attested to the high potential for failure, with only 1 out of 10 companies in a venture capital portfolio likely to succeed, with half failing and the others simply returning capital to their investors. These failure rates hardly instil confidence that high-risk, high-growth potential entrepreneurship are capable of providing employment for life. Job creation through start-ups cannot simply be presumed to be the same “job for life” that the *chaebols* were said to offer (prior to the AFC).

Conclusion

Elsewhere, two central social purposes are said to motivate the thrust of entrepreneurship promotion: innovation and job creation. In Korea, job creation is meant to be both new jobs

and jobs that are permanent. Plus, there's the third social purpose of propping up the *chaebols'* ability to innovate in the contemporary global economy. This third social purpose helps explain the distinct form of entrepreneurship policy in Korea, one that is embedded in the economy's *chaebol*. Thus we conclude that entrepreneurship promotion is not "beyond the *chaebol*"; instead, efforts since Korea's second start-up boom strives to enhance the innovation capabilities of the *chaebol*.

The *chaebols* remain critical to Korean society in terms of economic output and the availing of high-quality permanent employment. However, since the *chaebols'* role in the AFC and the subsequent string of high-profile corruption scandals, policymakers are reticent to direct promoting policies to the *chaebol*. This is where entrepreneurship promotion comes in. Through purposive action targeting start-ups and entrepreneurial ecosystems more broadly, policymakers are able to design schemes to prop up the *chaebol* without drawing the (same level of) public scrutiny that may accompany policies clearly designated for the *chaebol*.

The implication of our findings is that the Korean and East Asian developmental state is not about to disappear. Instead, policymakers are delivering on their social purpose by emphasising job creation, innovation and economic diversification. These goals include the participation of SMEs and entrepreneurs in growth-enabling policies. But they do not involve neglect of *chaebols*. Instead, they are seeking to foster a partnership between SMEs and *chaebols* for the benefit of *chaebol* innovation capacity. The latter thus remain central to the social purpose of the Korean developmental state.

Bloomberg ranked Korea as the world's most innovative economy in 2016; total research and development spending and the runaway innovation capacity of the *chaebol* drives this outperformance. The rising support for entrepreneurial start-ups reflects policymakers' efforts to continue their innovation capacity. In this article, we have argued that policymakers conceive of innovative SMEs as central to the future competitiveness of the country's economy. But in the sense that they further the innovativeness of the *chaebol*, rather than advance innovation in their own right. In this respect, the developmental state might have changed its policies, but the goals and role of big conglomerates therein remain unchanged.

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