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Legitimate Social Purpose and South Korea's support for entrepreneurial finance since the Asian Financial Crisis

Abstract:

There has been a marked rise in the breadth and depth of the South Korean state's support of entrepreneurial finance since the Asian Financial Crisis. This article provides novel conceptual and empirically-grounded understanding of the phenomenon by answering two interconnected research questions: (1) does the government's financial support of high-technology entrepreneurship in the Creative Economy Action Plan constitute continuity or change in the Korean state's encouraging of entrepreneurial finance? and (2) what is motivating these efforts? Making use of interview data and policy document analysis, we argue that Creative Economy efforts represent continuity of entrepreneurial finance support, especially since the Asian Financial Crisis. In answering the second question, we argue that legitimate social purpose has propelled Post-Asian financial crisis South Korean policy-makers to strive to diversify the sources of economic activity and job creation away from *chaebols* while simultaneously embedding the *chaebol* in the growing entrepreneurial ecosystem. The *legitimate social purposes* have input legitimacy via fit with employment and diversification aims and output legitimacy gleaned from the perceived positive performance of the entrepreneurial ecosystem.

Keywords: South Korea, developmental state, social purpose, legitimacy, financial policy, innovation, entrepreneurship.

Introduction

There has been a marked rise in the South Korean¹ state's support of entrepreneurial finance since the Asian Financial Crisis (AFC). This article provides novel conceptual and empirically-grounded understanding of the phenomenon by answering two interconnected research questions: (1) does the government's financial support of high-technology entrepreneurship within the Creative Economy Action Plan, launched in 2013, constitute continuity, or change, in the purposive action implemented as a means of encouraging entrepreneurial finance? and (2) what is motivating these efforts?

¹ Hereafter Korea.

On the first question, we explore whether the Creative Economy interventions represent continuity or change at the policy level. We seek to identify whether and how much government policy has attempted to advance funding available for entrepreneurs since the AFC. In effect, we trace policy efforts from 1997 to see what was done prior to the launch of the Creative Economy initiative. The second question is manifest of our desire to identify change at the level of norms. Within this realm, we focus on what we call the “*legitimate social purpose*” motivating the efforts; referring to the social aim of policy efforts, which is rooted in substantive (input) and performance (output) legitimacy.² Together, answering these questions helps us offer new conceptual and empirical understanding of contemporary finance and industrial policy employed to support entrepreneurship in the developmental state.

The primary findings are as follows. We find that Korea has not merely initiated entrepreneurial finance policies beginning with the 2013 initiative. Rather, its shift towards providing further support for entrepreneurial finance can be conceptualised as a continuation of ongoing industrial restructuring, changes to its financial system, and technological upgrading which increased following the AFC. Thus, on the policy level, there have been purposive actions focused on increasing the breadth and depth of entrepreneurial finance since the 1990s. On the norm level, the social purpose of the state’s entrepreneurial finance policies exhibits a great deal of continuity with the legitimate social purpose established in the AFC: to drive job creation, particularly permanent employment.

The largest single package of entrepreneurial finance support came as part of the Creative Economy Action Plan, launched by the Park Geun-hye government when it came to power in 2013 – hence our interest on this initiative. Though the Creative Economy plan entails a greater extent of governmental support of entrepreneurial finance, we argue that it can best be understood as continuity of efforts in state finance-industry relations, which began following the AFC due to the legitimate social purpose of ensuring adequate job creation, diversifying the economic structure to lessen reliance on the *chaebol* and, simultaneously, ensuring that the

² For Ruggie (1982) “legitimate social purpose” informs the norm-based (social) objectives upon which economic policy is predicated.

chaebol play a central role in the entrepreneurial ecosystem. This legitimate social purpose has persisted throughout the twenty-year period, across political cycles, due to its substantive and output sources of legitimacy.

We use three research techniques to investigate the advance of entrepreneurial finance support by the Korean government. First, we conducted content analysis of international organisation reports, government communiques, industry association documents, and think-tank studies to map out the state's financial support to entrepreneurship over a twenty-year period (1997-2017). Second, we conducted in-depth, semi-structured interviews with policy-makers on three fieldwork trips (August-September 2016, June 2017 and August 2017). Interviewees were based with the Office of the President, the Ministry of SMEs and Start-ups, the Centres for the Creative Economy and Innovation, the National IT Industry Promotion Agency and KVIC. We also interviewed entrepreneurial ecosystem organisers. Finally, in between fieldwork trips, we conducted online, survey-style interviews with Korean entrepreneurs in November 2016 to gain insights into the perceived performance of purposive efforts.

The article is structured as follows. We next identify existing explanations for the rise of entrepreneurial finance support in Korea. We then briefly develop our theoretical approach, which extends historical institutionalist tools (Bell, 2005; Thurbon, 2016) for exploring the drivers of industrial policy choices in East Asia. Our contribution to this literature is a further conceptualisation of the concept of 'legitimate social purpose' as established by Ruggie (1982). We then assess the extent to which this increasing support can best be understood as continuity or change. The analytical framework frames our investigation of the legitimate social purpose underpinning entrepreneurial finance support over the twenty-year period. We conclude with a summary of our findings.

Existing explanations for the rise of entrepreneurial finance support in Korea

Research has revealed that the rise of entrepreneurial finance support in Korea has material and structural roots. Rethel (2010: 498) points to pressure associated with achieving OECD membership as a structural driver of financial liberalisation from 1996. Other scholars such as Legitimate Social Purpose and South Korea's support for entrepreneurial finance

Wan (2008) have pointed to the mismanagement of the 1990s liberalisation process as a main driver of the support for entrepreneurial finance post-AFC.

The AFC and its aftermath are named as structural drivers of financial policy change. At the hand of the IMF, the state reformed its financial sector to be more open to FDI and to relax capital controls (Thurbon and Weiss, 2006). There was a move away from a bank-based dominated system and capital markets could play a greater financing role (Hundt 2014). This has been in line with a shift towards capital market development and a retreat from an emphasis on corporate loans and state guarantees of them (Rethel, 2010 and this issue). The state has not fully abandoned the idea of managed credit allocation and control over the financial sector though. State-directed, bank-based lending still exists, though the development banks increasingly make investments in high-technology non-*chaebol* firms (Thurbon 2016). Through various policy efforts, the Korean government has maintained its strategic role in extending finance to firms.

Beyond financial policy, ‘end of developmental state’ proponents argue that a movement away from *chaebol*-focused strategic industrial policy following the crisis stemmed from the state’s inability to direct market activity as it once had. Drivers include structural changes in the global economy, IFI membership rules, and questionable performance associated with the state’s strategic investment strategy (Kim, 2012b). Yeung (2016) asserts that national champions transformed into being integrated in global production networks rather than primarily “coupled” with their home developmental state apparatus. Because of growing and changing linkages with international firms and markets, policymakers shifted their approach to one of “open economy industrial policy” (Haggard and Zheng, 2013: 451). Others point to a confluence of factors that forced alternative development strategies, including Korean labour becoming too expensive following China’s entry into the WTO and increasing interconnectedness thanks to new communication technologies (Jones and Kim, 2014).

Certainly, there are more moderate ‘developmental state declinists’ who take a more nuanced approach and argue that the developmental state has not disappeared. Rather, it has been transformed and now focuses on micro-interventions. Kalinowski (2008) maintains that the strong capacity of the developmental state allowed for a neoliberal turn but also allowed the state

to engage in micro-interventions to support domestic companies. He also asserts that the Korean developmental state “is transforming into a neo-developmental state engaged in fragmented micro-interventions and increased government spending” (Kalinowski, 2015: 246). Kim (2012a), meanwhile, explains that the state continues to use its institutional capacities to support specific innovation-driven sectors through publicly-funded research or credit allocation. While we build on this approach and show that micro-interventions support the competitiveness of companies in the creative economy, we go further and show that the state is trying to build an entrepreneurial ecosystem. This suggests that micro-interventions go together with macro-interventions affecting a sector that, the state hopes, will become more central to the Korean economy, though with the *chaebol* still embedded.

Globally, the rise of entrepreneurial finance has come in parallel to a structural move towards supporting innovation and high-growth start-ups. In Asia, since the 1990s this has manifested as the state taking on “new roles through developing *catalyst* politics for supporting and facilitating economic promotion in general...[including] supporting for small- and medium-sized enterprises financially” (Yeung 2016, 38). By increasing the innovation capabilities of high-technology start-ups and the availability of venture capital markets, states hope to enhance the country’s innovativeness (~~Klingler et al., 2016~~Klingler-Vidra, 2018). A narrative was established in which “financial system development and capacity for innovation and entrepreneurialism” were linked (Jayasuriya, 2005: 501). In Korea, sustainable economic growth, it is hoped, will come from small technology firms when they are re-structured to be more dynamic (Song, 2013).

Legitimate social purpose: conceptualising the policy motivations

We draw upon institutionalist scholarship to frame the investigation of the Korean shift towards supporting entrepreneurial finance. This literature emphasises the central role of institutions, both ideational and organisational, as relatively “sticky”, while change at the policy instrument level is common. Its orientation is on whether policy shifts reflect “continuity – not change – in the states’ nation-building ambitions and their commitment to guiding the market” (Thurbon and Weiss, 2006: 2). It includes work by Thurbon (2016) on the “developmental mindset” guiding Korea’s techno-industrial finance policy and by Bell and Feng (2014) on “agents in context”.

These scholars contend that there is continuity to the aims and orientation of policy, but allow for historically and geographic contingency to “developmental” industrial policymaking. Thurbon (2016 and this issue) allows for contingency at the policy and institutional levels, as her expectation is that configurations at these levels naturally change. Thurbon and Weiss (2006) argue that ideational and institutional context are critical analytical starting points for understanding state-led policy changes. Yeung (2016, 25) points to the cohesiveness of social purpose in developmental policymaking, asserting that they “must share a common sense of purpose and mission” that informs policy formulation.

We continue in this vein, contending that policy aims are rooted in legitimate social purpose, which is shaped by local context. We start by asking, what is the “legitimacy” in legitimate social purpose? Legitimacy is conceptualised as having two main components; that stemming from “input” (the substance or the process) and “output” (the impact or performance) (see George, 1980; Scharpf, 1999). Alagappa (1995) explores input and output determinants of legitimacy in political economy contexts.

Input legitimacy centres on the aim, intention or purpose as being perceived as valid. This “substantive” legitimacy occurs if the ‘normative-moral’ component is “rooted in political values and norms within society” (Park *et al*, 2015: 320). For example, Rethel (2011: 77) explores the construction of legitimacy as a social process imbued in a shared set of beliefs and values, questioning whose values. In the context of Korean entrepreneurship promotion policy, “returnees” have added to the input legitimacy. “The returnees” are both designing policy and getting to work as entrepreneurs in Seoul (Chafkin 2011). In addition, financial returnees are contributing to the growth of domestic private equity and venture capital activity in Korea (Robertson 2013).

Through substantive sources of legitimacy, Korean policy-makers make the case for interventionism in a range of policy areas. Kim (2012a: 295) argues that the state has reinvigorated its legitimacy to act in a strategic industrial policy capacity, by “re-articulating policy goals towards nurturing the innovation capabilities of domestic firms”. Meanwhile, Pirie

(2016: 686) explains that political leadership conceptualised the GFC as an external threat caused by the liberal nature of Western capitalism to “legitimate illiberal statist economic policies”. In development cooperation, Kalinowski and Park (2016) explain how the state works closely with the private sector including *chaebols*. This is seen as legitimate because the moral obligation for development assistance is met with the *chaebol* needing government assistance in emerging markets.

Output legitimacy is conceptualised in one of two ways; in the potential for the policy to be feasible or effectual (Schlarpf, 1999), or in the policy or regime’s performance or output (George, 1980). Output legitimacy is generated, according to Jagers *et al* (2016: 5) by decisions confirming “to the public’s expectations and work for the benefit of the public”. Thus, output legitimacy is context-based. The performance of a policy is judged according to what it is expected to deliver, and for whom. As an illustrative example, Bell and Feng (2014) point to legitimacy stemming from material economic development performance in the People’s Bank of China.

Scholars have explored sources of policy output legitimacy in the Korean context, particularly how strong economic development has served as a foundation for political legitimacy. Park *et al* (2015: 320) argue that historically the regime “tried to secure its legitimacy by ensuring output-oriented effectiveness [...] [strong] economic development was essential for output-oriented legitimacy”. Thurbon and Weiss (2006: 2) assert that the governments’ primary goal in the post-war era was to “promote rapid industrialisation for national security and domestic legitimacy purposes”. Whitley (1992: 112) explains that from 1961 onwards, “state legitimacy rests significantly upon rapid economic development”. Already by the 1980s, Yeung (2016, 29) contends that international competition and pressure from international organisations “started to reduce the state’s institutional legitimacy and developmental capacity”. The reduced legitimacy is linked to the limited policy options available for driving market activities.

Our aim in further integrating the conceptualisation of legitimacy with social purpose is to bridge a dynamic notion of policy legitimacy, as legitimate social purpose is (1) essential for understanding the form and extent of entrepreneurial finance support and (2) shaped by

substantive and output sources. In this vein, here we ask: what are the *legitimate social purposes* underpinning the rise of entrepreneurial finance support by Korean policy-makers? We investigate the input, or substantive, legitimacy fitting within the broader context of what is socially appropriate. For this, our interviews with policy-makers and policy document analysis are essential to identifying the norms underpinning policy-making. Second, we investigate the perceived performance of entrepreneurial finance policy as output legitimacy. To evaluate the role of output legitimacy, we interviewed entrepreneurs and ecosystem organisers and reviewed ecosystem studies. In interviews with entrepreneurial finance policy targets, and policy-makers, we asked how they perceive policy performance (and how they measure performance). This informs our exploration of both the extent of continuity and change represented by the rise of entrepreneurial finance promotion as well as our understanding of the legitimate social purpose underscoring the efforts.

More continuity than change: the evolution of entrepreneurial finance policy

Korea is among Asia's developmental states. The developmental state was characterised by strategic governmental intervention in shaping economic growth in close cooperation with businesses (Johnson, 1982). The developmental state provided both an underlying system and directed finance to support economic growth (Woo-Cumings, 1999). Johnson's seminal work on Japan laid out the institutional characteristics of the developmental state (1982). These include a focus on long-term strategic goals driving socio-economic development and the use of institutionalised mechanisms for the public and private sectors to cooperate. Subsequent work by Amsden (1989) showed that a similar system underpinned economic development in Korea from the 1960s. Preferential access to finance was a key component of the classic developmental state. In Korea, this is specifically characterised as heavy intervention in financial markets and the supply of financial *rent to chaebols* (Aoki *et al.*, 1997).

Thurbon (2016) argued that an overarching 'developmental mindset' that motivated these economic policies is a crucial part of the developmental state that is not captured by a delineation of specific policies and institutions – and as a result, the developmental state is not necessarily temporally contingent as proponents of its decline contend. We thus understand the

developmental state as one in which the essential characteristic is state intervention in the economy.

There is a long history of state-supported finance for entrepreneurship in Korea, dating back to at least the 1960s. Governments traditionally supported entrepreneurship in the form of *chaebols* (Kim, 1988). Finance for *chaebol* activities was an essential form of state support (Woo, 1991). Yeung (2016, 7) explains, “the direct control and allocation of *financial resources* became a necessary condition for the developmental state to incentivise private entrepreneurs.” The state’s provision of finance to the *chaebol* was an essential ingredient in the rapid economic expansion that ensued.

By the 1980s, however, a series of domestic and institutional context changes led to the “state’s loosening of its control over finance while allowing the *chaebol* to gain access to credit available on the international market” (Kim, 2012a: 296). The 1980s also saw the state’s efforts to build a domestic venture capital (VC) market, beginning with contributions to the Korean Development Investment Corporation in 1982. The government then initiated policy efforts aimed at supporting technology start-ups in 1986, with the passage of the Small and Medium Size Enterprise Start-up Support Act (SMESS Act) and the New Technology Enterprise Financial Support Act (Kenney *et al*, 2002: 77-78). Furthermore, the government established the Korea Technology Credit Guarantee Fund in 1989 to support SMEs’ technology-based projects (Sung *et al*, 2016: 264).

The 1990s saw further expansion of start-up financing efforts. Adjustments were made to initial 1980s policies such that the *chaebol* could play a role in venture capital. In 1994, the SMESS Act allowed the *chaebol* to launch VC funds; by 1996, 25 per cent of VC money in Korea came from *chaebols* (Kenney *et al*, 2002: 82). Further, the OTC exchange was reorganised in 1996 as KOSDAQ to serve as a stock exchange for high-growth technology SMEs (Kenney *et al*, 2002: 89). Earlier, in 1992, capital markets had been opened to foreign investors (Sung *et al*, 2016: 264). Finally, in July 1997 the government launched the Special Law to Promote the Venture Business Act (Kenney *et al*, 2002: 89).

The AFC hit the foundations of the developmental state, as the same permissive financing allocated to the *chaebol* that propelled Korea's economic growth sowed the seeds of vulnerability to the crisis,. The *chaebol's* contributory role to the crisis accentuated the pace in implementing entrepreneurial finance policies. Broadly speaking, the crisis led to accusations of inefficient state dirigisme, widespread cronyism and inadequacy for economies that had achieved upper middle income and high-income status (Wan 2008).

In this context, policymakers concluded that they needed to further develop local capital markets (Rethel, 2010). Concomitantly, the AFC sparked an interest in industrial restructuring, specifically to “develop New Economy firms” (Kenney *et al*, 2002: 68). Successive governments therefore sought to promote innovative SMEs (Sung *et al*, 2016: 269). Policy-makers' interests reflected a move away from bank-based financing and a heightened interest in equity financing for small, high-technology firms. Policy-makers turned towards supporting an entrepreneurial ecosystem rather than intervening with financing for strategically important firms.

The result was government efforts to promote specific forms of entrepreneurial finance and to help build viable high-technology start-ups. Following the crisis, VC markets received specific support, as the government “launched its own venture capital funds and created a programme to provide matching funds for venture capital limited partnerships” (Kenney *et al*, 2002: 90). VC was part of efforts to provide support to “smaller high-technology ventures that seek to establish Korea as a technology player in foreign markets” (Thurbon and Weiss, 2006: 18). Within this umbrella of initiatives, the Kim government launched the “iPark” initiative, a series of incubators for high-technology start-ups abroad (Thurbon and Weiss, 2006: 11-12).

Korea's “first start-up boom” of 1999-2000 suffered at the hands of the Dotcom crash.³ Despite the setback for high-tech entrepreneurial activity, support continued. Technology start-up promotion efforts were followed with the announcement of Korea BioValley in February 2002, a hub in San Diego to support Korean biotech companies (Thurbon and Weiss, 2006: 12). Then, by

³ Interview with the Manager of CCEI Seoul and Assistant Secretary to the President, responsible for Science and Technology, 20 June 2017, Seoul.

the mid-2000s, the amount and range of financial support mechanisms for entrepreneurship grew, exemplified by the launch of the Korean Venture Investment Corporation (KVIC) in 2005.

KVIC supports the VC market through the Korea Fund of Funds (FoF), which invests in private VC funds (Jones and Kim 2014). The FoF manages 3.4 trillion won (as of August 2017) for a thirty-year duration (i.e., from launch in 2005 until 2035). The goal of the FoF is three-fold: “Provide investment capital for industrial promotion, *job creation*, and support for SMEs and venture companies” (KVIC, 2017a; italics added). Thurbon (2016) notes that beyond these three stated aims, the FoF also contributed to legitimising how the state financed small firms. Through the FoF the government was not directly financing specific winning firms – it was investing in private VC funds who were then responsible for making investments. This structure simultaneously offers what are seemingly two mutually exclusive aims: distance from direct investments and increased equity capital for start-ups and the VC market.

The GFC saw the Korean state’s strengthened “role in the provision of credit and industrial planning” (Pirie, 2016: 672). The enhanced role of the state came as the liberalisation of the financial sector was named as one of the causes of the state’s vulnerability to the GFC (Okabe, 2015). The response was not, however, to merely return to local, state-supported loans for the *chaebol*. Social and economic pressures meant that there was no basis for a reincarnation of a credit-fuelled “*chaebol*-led” growth strategy (Klingler-Vidra and Pacheco Pardo, forthcoming). Thurbon (2016) refers to the strategy pursued by the Kim Dae-jung and then Roh Moo-hyun administrations as “balanced growth” as the state took to both supporting non-*chaebol* firms alongside the *chaebol*. In this vein, the state’s role in providing finance to industry has included an increasing allocation towards local SMEs. According to the OECD (2016: 37), government-guaranteed loans for SMEs grew from 45.4 trillion won in 2005 to 75.5 trillion won in 2013.

Entrepreneurial finance policy has, since the GFC, promoted specific types of entrepreneurs (e.g., young), particular sectors (e.g., green technology) and addressed deficiencies in the innovation model in focused arenas (e.g., R&D spending). The government set up the Young Entrepreneurs Start-up Academy in 2011, offering financial and non-financial assistance to start-ups run by founders under 39 years old (OECD 2015). It also allocated 13.9 billion won “to fund the

development of SMEs in ‘green industries’ as part of the Green New Deal (Pirie, 2016: 677). Half of public R&D spending went to applied research conducted by SMEs (OECD, 2015).

Suffice it to say that, prior to 2013, at the policy level there is evidence that the state invested in increasing the finance available for entrepreneurial firms since the AFC. Table 1 summarises the key entrepreneurial finance policy developments between 1998 and 2017 by presidential regime.

Table 1: Entrepreneurial finance policy development in post-AFC era

President	Kim Dae-jung	Roh Moo-hyun	Lee Myung-bak	Park Geun-hye	Moon Jae-in
Thrust of economic policies	DJnomics / IMF-informed (liberal) reforms and policies	Continuation of previous government's reforms and policies	MBnomics / “Korea 7·4·7” plan	Promotion of the Creative Economy, including start-ups	4 th Industrial Revolution
Year inaugurated	1998	2003	2008	2013	2017
Political party	Liberal	Liberal	Conservative	Conservative	Liberal
Entrepreneurial finance policy and institutional milestones	Launch of three government VC funds (1998-2000), tax incentives and regulatory changes to promote start-up investments, iParks (2000)	Launch of KVIC (2005), Korea Fund of Funds (2005), BioValley (2005)	Increase in SME share of lending activity (by 2009)	Start-up Fund for the Youth; Growth Ladder Fund; Angel Investment Matching Fund; Born 2 Global, 18 CCEIs, K-Start-up Grand Challenge and KISED (Korea's Institute for Start-up and Entrepreneurship Development), KONEX (2013)	Commitment of \$3.7 billion investment in first two years (2017), Promotion of SME agency to ministerial level and specific inclusion of start-ups (2017)

Sources: Authors' analysis based upon various sources, including Connell (2014), Jones and Kim, (2014), Jung and Kim (2016), Kenney *et al* (2002), Mundy (2013), NIPA (2017), OECD (2015), Shu (2016), The Asian Entrepreneur (2016).

Table 1 reveals that whilst entrepreneurial finance policy efforts increased with the Park Administration's Creative Economy Action Plan, there had been significant advances since the AFC. These continued prior to Park's presidency, and area also continuing in the early months of the Moon administration.

The Park government, in any case, supported entrepreneurship as a centrepiece of its policy efforts, from her inauguration in 2013 through to her December 2016 impeachment. Park (2013) talked about a "second miracle on the Han river" in which "even a single individual can raise the value of an entire nation". As part of the initiative, the government designated brokerage firms for start-ups and launched KONEX – a stock market focused on early-stage start-ups. The Creative Economy initiative also included funds, tax incentives, changes to regulatory environment, the creation of Centres for Creative Economy & Innovation (CCEI), clusters of activity (e.g., Pangyo Creative Economy Valley), and attracting foreign talent through the K-Start-up Grand Challenge.⁴ The efforts continue to reform the economy's financing model towards a comprehensive financial system.

We conclude that the Park Government's Creative Economy initiative represents continuity. The initiative is a continuation of industrial restructuring policy including the promotion of SMEs, a changing economy's financing model involving the coexistence of capital markets and bank-based lending, with development banks participating in capital markets activities as well as direct lending. There has concomitantly been a technological upgrading process that has put new technologies at the centre of the economic growth strategy. We argue that a "sticky" legitimate social purpose has underscored the policy efforts aimed at financing entrepreneurs: driving job creation and simultaneously diversifying the economic structure away from a reliance on the *chaebol* while building the *chaebol* into the emerging entrepreneurial ecosystem.

⁴ For a complete detailing of the eight components of the Action Plan, see Pacheco Pardo and Klingler-Vidra forthcoming.

Social purpose of the Korean state financing entrepreneurship

We explore the substantive and output sources of legitimate social purpose motivating policy-makers' entrepreneurial finance efforts. Substantively, the social aims of providing employment and discretely supporting the *chaebol* (while also diversifying the economy away from *chaebol* over-reliance) hold legitimacy. The positive (negative) perception of policy performance offers a dynamic feedback that reinforces (undermines) the substantive legitimacy of the policies.

Job provision is a crucial social purpose for Korean policy-makers, across the President's Office and a range of ministries.⁵ Our research shows that this is the case across policy-makers with significant input on policy: presidents and ministers from both conservative and liberal governments as well as technocrats. As we show below, the social purpose of job creation through start-ups has been constant since the AFC. As an official from the Ministry of SMEs and Start-ups, created by the Moon government in 2017, explained: job creation is the unifying theme that brings together all government agencies working to develop a start-up ecosystem.⁶ Without a comprehensive welfare system, high levels of employment are vital for the political viability of politicians (Kim, 2012b).

Input legitimacy: employment and the Asian Financial Crisis

Through the 1990s, the *chaebol* effectively provided this necessary employment. *Chaebol* offered jobs that were well-paid and, in the case of technology sector, frontier skill-based. Kenney *et al* (2002: 67) explain that "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". Working for the *chaebol* was the aim for the highly-skilled Korean graduate.

⁵ We make this point considering two inputs; first, our interviews with policymakers across a range of ministries and second, based upon our reviews of official documents and communiques from these various entities. Given the length of this article we refer to policymakers broadly, but cite specific interviews where possible to indicate the source of a particular expression.

⁶ Interview with Ministry of SMEs and Start-ups department manager, 25 August 2017, Daejeon.

Further to the prestige that came with *chaebol* positions, there was the expectation for job security and high pay as managers could “reasonably expect long-term employment with regular promotions and increases in salary” (Kenney *et al*, 2002: 85). The *chaebol* workforce came to epitomise the concept of the “permanent workforce” (Whitley, 1992: 74). Wages paid by leading *chaebol* were much higher than those paid by SMEs.⁷ For these reasons, until the AFC policy-makers conceptualised the *chaebol* as ideal providers of employment.

This reality of the *chaebol* providing high-quality, permanent jobs was undermined in the fall-out of the AFC, as the *chaebol* suddenly reduced their staff. Some 1.8 million employees – 8.6 per cent of all workers – were laid off in the throes of the AFC (Lee, 2000: 11). The unemployment rate skyrocketed, from its average of 3-4 per cent throughout the 1990s to 7.1 per cent in June 1999 (Statistics Korea, 2017). This heightened the awareness of the inability of the *chaebol* to provide high-quality, permanent employment.⁸

The effect of the AFC on social order, and accordingly, the legitimate social purpose of policy-makers was deep. Job losses instigated policy-makers’ openness to government efforts to diversify the economic structure, particularly to finance a new form of job creation, centred on (high-technology) SMEs. In the years that followed, the limited upward mobility of Korean jobs from temporary to permanent employment continued to lag the mobility available elsewhere; the permanent employment conversion rate was lower than in fifteen other OECD countries during the Lee Myung-bak presidency (Yang 2017, 193).

Moreover, it was not a problem with a quick recovery. Youth unemployment reached an unprecedented 13.4 per cent in February 1999 (Statistics Korea, 2017). Policy-makers urgently sought ways of supporting the creation of jobs for the young generation. Entrepreneurial finance policy was designed so that “the largest possible number of start-ups receive financial support” (Kenney *et al*, 2002: 67-68). Rather than entrepreneurial finance striving to invest in winning

⁷ Interview with Policy advocate and team leader for Korea Startup Ecosystem Forum, 20 June 2017, Seoul.

⁸ Interview with the Head of an accelerator and entrepreneurial policy advisor, 21 June 2017, Seoul.

companies, it strived to invest a small amount of money in many companies. Policy-makers wanted start-ups to continue, as they promised jobs.

Since spiking in the fall-out of the AFC, youth unemployment (those aged 25-29) figures have remained relatively high throughout the twenty-year period. As illustrated in Figure 1, it hovered around 8-9 per cent for much of the 2000s, and reached 11.3 per cent in April 2017 (Statistics Korea, 2017). As such, they have persisted as a priority for successive governments since the AFC.

Figure 1: Youth Unemployment Rate (January 1987-May 2018)

Source: KOSTAT – Statistics Korea (data as of July 2018)

Considering the high youth unemployment figures, policy-makers increasingly turned to supporting entrepreneurship as a means to drive job creation amongst the young generation. In 2010, KVIC launched a nine-year Job Creation FoF with the specific goal of investing in SMEs “with high job-creation potential” (KVIC, 2017b). In NIPA’s K-Start-up Grand Challenge 2017 brochure, the object of the programme is as follows: “The Korean government is working to transform the country’s economy for another century of success, *ultimately raising employment*, Legitimate Social Purpose and South Korea’s support for entrepreneurial finance

the GDP and Korea's place in the world" (NIPA, 2017: 7, emphasis added); the aim of supporting start-ups as a means of driving job creation is the first aim. In evaluating the performance of the K-Start-up Grand Challenge in 2016, a programme manager said that the "number one KPI is job creation; 80 per cent of the companies hired at least one Korean employee. That is the most important thing".⁹

Input legitimacy and the Chaebol: corruption and diversification

Through the 1990s, there was a degree of reverence for the *chaebol* in Korean society. In his depiction of the environment through the early 1990s, Whitley (1992: 189) asserts that there was "strong support for the large *chaebol* and public recognition of their achievements". Even in 1991, President Roh Tae-woo attempted to "rein in the *chaebol*" in response to "rampant corruption during the Chun regime", but 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). Though there was growing awareness of corrupt practices, by the 1990s, the *chaebols'* position was largely unassailable. Thurbon (2016) and Yeung (2016) point to a confluence of factors that coalesced to reduce the legitimacy of financial support for the conglomerates, including the diminished perception of the *chaebol* as a steady, high-quality employer, as an economic engine and as firms needing state support.

In the throes of the AFC, the *chaebol* had to reduce staff numbers (Lee, 2000). Rising claims of corrupt practices between the state and *chaebol* leadership reinforced the conception that entrepreneurial firms are the legitimate target for state financial support. The spike in the public's perception of the state's corrupt practices in the fallout of the AFC are illustrated by movements in the Transparency International's Corruption Index score. As shown in Figure 2, the lowest-ever rating (the Corruption Index score is on a scale of 0 to 100, with 0 being highly corrupt and 100 being very clean) came in 1999.

Figure 2: Corruption Index Score (1996-2017)

⁹ Interview with National IT Promotion Agency manager, 22 June 2017, Pangyo.

Source: Transparency International

The AFC heralded a concern about the corruption of state-*chaebol* relations. Already during the Roh administration in the early 2000s the “economic instabilities and social inequities” associated with the *chaebol*-dominated industrial structure “undermined support for active investment policy among the public and segments of the government itself” (Thurbon and Weiss, 2006: 5). Politicians thus strived to project a measure of autonomy from the *chaebol*, and away from the public scrutiny associated with financial support for large firms. Entrepreneurship finance policy, in this view, suits policymakers’ desire to diversify away from reliance on, and direct support for, the *chaebol*, and in so doing, to reduce perceived corruption.

Entrepreneurial finance policy serves the dual purpose of boosting *chaebol* innovation.¹⁰ But it does so indirectly, which helps to minimise the negative public perception that would come with direct financing for *chaebol* innovation. The Creative Economy plan’s efforts to embed the *chaebol* is evidenced in the design of several prominent programmes in which *chaebol* are included as ‘facilitators’ (Jung and Kim 2016). The K-Start-up Grand Challenge, first launched in 2016 to attract international start-ups to Korea for an accelerator programme, offer the *chaebol*

¹⁰ The aim of supporting *chaebol* innovation, which we heard throughout our fieldwork in 2017, lies in contrast to some scholars’ findings that state support of start-ups was meant to achieve the ‘balanced growth’ aims, without *chaebol* interference (see Thurbon, 2016, for example).

preferential access to partnerships and investment opportunities in the start-ups. Those start-ups selected for the accelerator will receive “seminars, workshops and 1-on-1 mentoring” from Korea’s largest technology companies (NIPA, 2017). An interviewee succinctly explained that the “*chaebol* and government are leading the start-ups; the start-ups are expected to grow the *chaebol*”.¹¹ Indeed, the Ministry of SMEs and Start-ups convenes regular meetings – to which *chaebol* are invited – to discuss state support for the burgeoning entrepreneurial ecosystem.¹²

The Centres for Creative Economy and Innovation (CCEI) offer an illustrative example of start-up support with *chaebols* as designed beneficiaries. Each of the 18 CCEI have a partner *chaebol*, which contributes mentorship aimed at idea testing, product development and sales (Ministry of Science, ICT and Future Planning, 2014: 41) and provides capital for one third of a fund that will invest in the centre’s most promising start-ups.¹³ Speaking to the objective of the CCEIs, an interviewee explained that the *chaebol* “can become dinosaurs like Motorola or Nokia, the start-ups bring new DNA that they need to innovate”.¹⁴ The CCEI are therefore motivated by a dual legitimate social purpose: to afford government finance to entrepreneurs who can provide jobs and bring new, innovative life to the *chaebol* (without having to publicly support them).

Job creation has remained a central aim of entrepreneurial finance policy in the post-GFC era. An interviewee remarked that the “number one issue is young generation job creation, for both the Park and Moon governments”.¹⁵ According to another interviewee, the government has sought to adapt economic policy to a changing global economy. This includes industrial policy to support start-ups to find new growth engines that create jobs.¹⁶ Another interviewee explained that this post-GFC adaptation involves attracting inward FDI to support start-ups and jobs.¹⁷

Output legitimacy: performance of Korea’s entrepreneurial ecosystem

¹¹ Interview with Startup co-working space and accelerator manager, 21 June, 2017, Seoul.

¹² Interview with Ministry of SMEs and Start-ups department manager, 25 August 2017, Daejeon.

¹³ Interview with Startup co-working space and accelerator manager, 21 June 2017, Seoul; interview with Ministry of SMEs and Start-ups department manager, 25 August 2017, Daejeon.

¹⁴ Interview with Centre for Creative Economy & Innovation manager, 20 June 2017, Seoul.

¹⁵ Interview with Assistant Secretary to the President for Science and Technology Policy, 20 June 2017, Seoul.

¹⁶ Interview with Ministry of SMEs and Start-ups department manager, 25 August 2017, Daejeon.

¹⁷ Interview with KVIC manager, 25 August 2017, Seoul.

Entrepreneurial finance support has garnered output legitimacy, both for job creation and the simultaneous *chaebol* inclusion and diversification strategy, over the period. This is essential to the persistence of the legitimate social purpose of the efforts as performance contingency has, in areas identified by Amsden (1989), been instrumentalised as part of the policy-making process.

The failure of government policy efforts aimed at the “first start-up boom” in 1999-2000 legitimised the inclusion of the *chaebol* in contemporary entrepreneurial finance policy. In that era, the state supported start-ups directly, without overtly linking their support of *chaebol* with their promotion of start-ups. To a large extent, this was the result of the government lacking a clear strategy to build a start-up ecosystem.¹⁸ This divergent nature of *chaebol* and start-up activities has been blamed as one cause of the previous start-up promotion failure.¹⁹ In the second start-up boom, which began after the GFC, the Ministry of Science, ICT and Future Planning (2014: 20) went so far as to say that “Korea must encourage the participation of its conglomerates to minimise failure cases” of start-ups.

Performance of the second start-up boom policy efforts have been perceived as positive due to several aspects of the contemporary landscape. For one, foreign investors, including Softbank, 500 Start-ups and Yozma have all launched Korea-focused investment funds. Multi-national technology companies’ investment, such as Google’s establishing its first Asian start-up campus in Seoul in 2015, in addition to Apple, Supercell and WeWork setting up local offices, also lend credibility to government efforts.

Another key means whereby government support is legitimised is through start-ups achieving significant growth in international markets and/or large injections of capital from top-tier foreign investors. Coupang, an e-commerce start-up founded in 2008, is an example; it raised \$100 million from Sequoia Capital in 2014 and then \$1.1 billion from Softbank in 2015, giving it a valuation over \$5.5 billion (Korea Start-up Ecosystem Forum, 2016: 7). Coupang achieved a “unicorn” valuation – a company valued at more than \$1 billion – and in so doing, contributed to

¹⁸ Interview with Seoul Business Agency investment manager, 23 August 2017, Seoul.

¹⁹ Interview with Centre for Creative Economy & Innovation manager, 20 June 2017, Seoul.

the sense that purposive action is working; then in November 2018, Coupang raised a further \$2 billion from Vision Fund, giving it a world headline-grabbing \$9 billion post-money valuation.

Other start-ups, including Wemakeprice, Ticket Monster, Yello Mobile and 4:33 Creative Lab, have also achieved unicorn status (ibid: 7). In Table 2 we detail the Korean start-ups that have raised the most venture capital, and are accordingly often referred to as proof of the performance of entrepreneurial support. Though most of these companies were founded before the Creative Economy Action Plan, their ascent has occurred while the Plan was implemented.

Table 2: Top-funded Korean start-ups (listed by Total Funding, smallest to largest)

Company	Year founded	Industry	Total Funding	Investors
Yogiyo	2012	Restaurant, Food Delivery	\$54.6M	Delivery Hero, Insight Venture Partners
Socar	2011	Travel, Car Sharing	\$74M	Bain Capital, Brookside Capital, SK Ventures
ZigBang	2010	Real Estate, Search Engine, Property Management	\$75.2M	Altos Ventures, Goldman Sachs, Stone Bridge Management, Company K Partners
Viva Republica	2013	FinTech, Software, Transaction Processing	\$77.2M	Altos Ventures, Bessemer Venture Partners, Goodwater Capital, PayPal, Qualcomm Ventures, KTB Network, Partech Ventures
WeMakePrice	2010	E-Commerce	\$85M	Nexon
Baedal Minjok (Woowa Bros.)	2011	Restaurant, Food delivery, Location Based Services	\$98M	Altos Ventures, Goldman Sachs, Hillhouse Capital Group, IMM Investment
Yanolja	2005	O2O Accommodation Platform	\$105M	SkyLake Investment, Aju IB Investment
4:33 Creative Lab	2009	Digital Entertainment, Gaming, Mobile	\$110M	Line, Tencent
Memebox	2012	E-Commerce, Beauty	\$156.67M	Goodwater Capital, Formation Group, Altos Ventures, Fenox Venture Capital, Accelerate Fund,

				Funders Club
Yello Mobile	2012	Internet, Marketing, Travel, E-commerce	\$187.2M	SBI Holdings, Formation 8, Macquarie Capital
Coupang	2010	E-Commerce	\$1.42B	Altos Ventures, SoftBank Capital, Sequoia Capital, BlackRock PE

Sources: Authors' analysis, Choi (2017), Jung (2018)

These start-ups have succeeded in raising significant amounts of venture capital, and in many cases, from leading international VC firms, top financial institutions and emerging global technology giants. The Korean start-up ecosystem is booming beyond these ten start-ups; in 2017, over 54 Korean start-ups raised at least \$3 million in venture capital funding (Jung, 2018).

To help VC-backed start-ups achieve growth in international markets and attract inward investment, KVIC started to set up offices overseas in 2013.²⁰ Meanwhile, Born2Global, a central government agency set up in 2013 under the Ministry of Science, ICT and Future Planning, supports international capital injections by sending entrepreneurs overseas to meet foreign investors.²¹

The performance of start-ups, in terms of fundraising, international exposure and jobs creation, has provided output legitimacy for the government's approach. Government interest in supporting start-ups as a broad driver of job creation persists through 2018 with the Moon government because start-ups have proved to be reliable sources of employment. An interviewee explained that "the government started turning to start-ups and SMEs to create jobs because the *chaebol* were not growing that much and because the job turnover is low. Now, they [policy-makers] see that successful start-ups like Coupang have created 6,000 jobs for young people".²²

The Korea Start-up Ecosystem Forum's 2016 survey asked local entrepreneurs if they were positive on the role of the government. In Seoul, 28 per cent of respondents rated local

²⁰ Interview with KVIC investment manager, 25 August 2017, Seoul.

²¹ Interview with Seoul Metropolitan Government agency director, 23 August 2017, Seoul.

²² Interview with general manager of a start-up accelerator and co-working space, 21 June 2017, Seoul.

government [support] positive while 37 per cent of respondents were positive on national policy efforts (ibid: 31). This support outpaces that of other world ecosystems. Winshok Choi, responsible for the commissioning and production of the survey, explained that this positive rating stems from “the significant amount of money given by the Korean [municipal and national] government”.²³ Members of the Seoul ecosystem are positive on the role of the state since they see significant direct financial support.

The results of our interviews yield similar findings; there is overwhelming support to the proposition that the government's action, particularly the financing components of the Creative Economy Action Plan, has had a positive impact on the target demographic (see Pacheco Pardo and Klingler-Vidra, forthcoming, for further details on perceived performance of the Plan). According to the head of a facilitator:

In the West the system is bottom-up, but in Asia government plays a big role. Government sets up the boundaries and gives billions of dollars in funding. [...] Government funding has created a greater supply of start-ups.²⁴

Over two thirds of ecosystem and entrepreneur interviewees referred to access to funding as the area in which the plan and previous government support has been effective. As the head of the Korean branch of an international facilitator explained: “historically start-ups were funded by government [through the KVIC Fund of Funds]” or faced problems accessing funding.²⁵ The general partner of an accelerator in Seoul stated that:

Government plays a major role in the start-up ecosystem, especially through the KVIC Fund of Funds and other funding initiatives. This way the government is funding most start-ups in Korea.²⁶

And as the director of a facilitator puts it: “Without [the KVIC Fund of Funds], the start-up ecosystem would not exist”.²⁷ The strong impact of the KVIC FoF comes as start-ups struggled

²³ Interview with Winshok Choi, Policy advocate and team leader for Korea Startup Ecosystem Forum, 20 June 2017, Seoul.

²⁴ Interview with the Head of the Korean branch of an international facilitator, 23 August 2016, Seoul.

²⁵ Interview with the Head of the Korean branch of an international facilitator, 23 August 2016, Seoul.

²⁶ Interview with the General partner of a Seoul-based accelerator, 23 August 2016, Seoul.

²⁷ Interview with the Director of a Korean facilitator, 9 September 2016, Seoul.

to access financing because banks exhibited a strong preference for lending to *chaebol* (Mundy and Song 2012).

The larger amount of funding available through initiatives such as KVIC and the development of public equities markets has encouraged would-be entrepreneurs to launch their start-ups. As one entrepreneur explains:

I had been thinking myself to start a business, and then decided to take this idea in earnest. But the government's policy [of offering funding] was a big influence.²⁸ [translated from Korean]

The programme manager of a local connector explains: “giving them an early exit option [through KONEX] is very important. [...] Before, start-ups would find it difficult to find exit strategies”.²⁹ Increasingly, as the entrepreneurial ecosystem matures, now large Korean technology companies such as Naver and Kakao are also active in acquiring growing start-ups; in 2016 the CEO of Naver, Sung Suk Han, said they will pick up the pace of investments and acquisitions (Jung, 2018).

In light of the confluence of international technology companies establishing (oftentimes their first or only Asian presence) in Seoul, start-ups achieving “unicorn” valuations and our interviewees pointing overwhelmingly to the positive role of the state in increasing the entrepreneurial finance available, we conclude that entrepreneurial finance policy has gleaned output-based legitimacy.

There is a question regarding whether the corruption scandal involving the Park government could have affected the output legitimacy of Park’s policies, including the Creative Economy Action Plan. This has led some analysts to claim that there has been a ““failure” of the Creative Economy project” (Jung, 2018). Our research suggests that the Plan is not broadly viewed as a failure. For one, fieldwork in June 2017 and August 2017, and our interview-style online survey of November 2016, took place while the scandal was unfolding – including after the removal of

²⁸ Online interview with Seoul-based entrepreneur, 19 November 2016.

²⁹ Interview with the Programme Manager of a Korean connector, 9 September 2016, Seoul.

Park from power. Yet, none of our interviewees – whether from government or from start-ups – linked the scandal to the output legitimacy of the action plan. In addition, Global Entrepreneurship Monitor 2017/18 data, compiled towards the end of Park’s tenure and when she was undergoing the impeachment and prosecution process, shows that Korean entrepreneurs gave their government policies the fourth highest score out of 54 countries surveyed. Entrepreneurs were positive about the Plan even as Park’s government was discredited due to the corruption scandal. We had numerous interviewees remark that the Creative Economy support is now “beyond partisan politics”, because of the cultural change in favour of start-ups that the Park administration fomented.

Furthermore, the Moon government has maintained most key components of the Creative Economy Action Plan such as the CCEIs, Born 2 Global, KISED, KONEX and several funds. He also elevated the government body responsible for supporting SMEs and Start-ups to ministerial level shortly after taking office in 2017, which corroborates the sentiment that government support of creative economy actors is embedded in legitimate social purpose. Indeed, a member of Moon’s office confirmed this in an interview.³⁰ The OECD (2018) also notes that Moon’s ‘Plan to Create and Ecosystem to Nurture Innovate Start-ups’ is similar to Park’s action plan, which further reinforces this point about the continuity of the legitimate social purpose underpinning the government’s support for entrepreneurial finance.

In Table 3 we delineate the continuity and change in the Korean state’s use of finance to support innovation and industrial growth across the classic developmental state period and since the AFC to underscore our argument that the rise of the public provision of entrepreneurial financial is ultimately a matter of continuity. In keeping with Thurbon’s (2016) assertion, there has been continuity at the level of policy aims and legitimate social purpose, but change at the policy instrument level.

Table 3: Continuity and change in financial policy instruments and legitimate social purpose

	Classic developmental state	Post-AFC developmental state
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³⁰ Interview with Assistant Secretary to the President, responsible for Science and Technology, 20 June 2017, Seoul.

Financing instrument	Credit	Credit and equity investments
Beneficiaries	<i>Chaebol</i>	Start-ups and <i>chaebol</i>
Input legitimacy	<ul style="list-style-type: none"> • Employment • Diversification (from 1990s) • <i>Chaebol</i> support 	<ul style="list-style-type: none"> • Employment • Diversification • (indirect) <i>Chaebol</i> support
Output legitimacy	<ul style="list-style-type: none"> • Remarkable economic growth • The provision of high-quality • Permanent employment 	<ul style="list-style-type: none"> • Entrance of foreign investors and technology giants • Successful fundraising by Korean start-ups (e.g. achieving “unicorn” status) • Job creation

Source: Authors’ analysis

The state’s increased support for entrepreneurial finance over the past two decades derives from the same sources of input legitimacy as *chaebol* finance did in the era of the classic developmental state: employment (given the small Korean welfare state), economic diversification and *chaebol* support. Finance for the entrepreneurial ecosystem has a new direct beneficiary in that it goes to start-ups, but through the state’s support of start-ups, *chaebol* gain new access to innovative products, ideas and talent. The metrics that provide output legitimacy have shifted, from *chaebol*-led growth, to news of foreign investors and leading technology companies setting up in Korea, to start-ups achieving “unicorn” valuations and to start-ups as providers of innovation-centric jobs.

Conclusion

Existing literature suggests that developmental states in Asia have not disappeared as countries have graduated to developed status. Rather than wither, scholars contend that they have adapted their policies to a different temporal and structural environment while maintaining the objectives of the underlying developmental state system. We agree with this literature on the myth of the disappearance of the developmental state; despite a growing emphasis on financial support for entrepreneurial ecosystems rather than *chaebol*, financial policy remains strategic in its aims to lead specific forms of entrepreneurial activity. The continuity of developmental aims persists as

its legitimate social purpose remains to provide for innovation capabilities and stable employment. It has done that in the post-AFC era by increasing the size and range of entrepreneurial finance available for start-ups, and integrating the *chaebol* as partners in, and beneficiaries of, entrepreneurship promotion.

Indirectly, support for start-ups is beneficial to *chaebols*. While this support for start-ups could be characterised as a form of micro-intervention, we argue that they go beyond them insofar as the state is trying to develop a *chaebol*-embedded start-up ecosystem. What is clear is that the developmental state – understood as one characterised by socially-motivated state intervention in the provision of finance for the private sector – continues.

Through an empirically-grounded analysis using government documents and original interviews, we show both the multiple ways in which rising entrepreneurial finance support has emanated from a legitimate social purpose, rooted in the input legitimacy associated with supporting start-ups in the name of job creation and a more discrete means of *chaebol* support, and whose output legitimacy has been reinforced through the perceived performance of the policy efforts. Entrepreneurial activity, and early-stage finance, had been on the rise since the first start-up boom in the early 2000s. The Creative Economy Action Plan is not novel. It is, in many ways, a continuation of the industrial restructuring, shifting financial model and technological upgrading that has long characterised Korean industrial policy. In fact, the government is involving the *chaebols*, such as Samsung and LG, in this brand of industrial policy.

We conclude with a similar notion to that with which Rethel (2010: 512) portends; financial development – even this brand of entrepreneurial finance – needs to be understood considering the socio-economic environment that it conditions, and by which it is conditioned. The socio-economic environment underscoring the rise of entrepreneurial finance policy since the AFC has been one of a legitimate social purpose emanating from high youth unemployment rates, trepidation about too much publicly-visible *chaebol* support and a broader acknowledgement of the need to restructure local industry.

The developmental state has experienced continuity and change. The change comes in the actors that are directly receiving state support (from the *chaebol* to start-ups) whilst the continuity stems from the persistent social purpose (of job creation and economic growth) motivating interventions. We note, though, that legitimate social purpose also extends from the fact that start-up support benefits the innovation capacity of the *chaebol*. Responding to new global production formations, new means of product development and employment structures, Asian states such as Korea have not adopted neoliberal strategies that simply enable market forces to drive Silicon Valley-like outcomes. In this contemporary setting, the late industrialisers strategically intervene in a way that fits their local norms and industrial structures. In the case of Korea, this means financing entrepreneurship alongside and in collaboration with the *chaebol*. The Creative Economy Action Plan is not a balance away from the *chaebol*. The support of entrepreneurial finance is embedded in the distinct local context – in which the *chaebol* remains still dominant.

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