DOI:
10.1080/10357823.2019.1589418

An Evolving Developmental State:
What is the perceived impact of South Korea's Creative Economy Action Plan on Entrepreneurial Activity?[1]

In Asian Studies Review, 2017

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Abstract

State support for start-ups and entrepreneurship is increasingly common, with governments worldwide experimenting with different initiatives to support innovative businesses. In this article, we conceptualise and assess the South Korean government's turn towards supporting entrepreneurship as manifest of what we label the entrepreneurial developmental state. Using the case of the Park Geun-hye's government Creative Economy Action Plan, we assess the effectiveness of the efforts on South Korea's entrepreneurial ecosystem from 2013 to 2017; we find that the Plan is associated with an increase in both the quantity and quality of entrepreneurial activity. To test for causality, we analysed the perceived effects of the Plan based upon primary research, and found that the private sector considers the Plan's impact to be mostly positive. This way, we provide new empirical evidence about the performance of the contemporary Korean developmental state, showing that modern industrial policy can be effective in promoting entrepreneurial ecosystems.

Keywords

Creative Economy Action Plan, developmental state, entrepreneurship, innovation, Park Geun-hye, South Korea, start-up, venture capital

Introduction

State support for start-ups and entrepreneurship is increasingly common, with governments worldwide experimenting with initiatives to support innovative businesses (Lerner, 2009). At the same time, there is acknowledgement of the role that the "entrepreneurial state" has had in fostering the cutting-edge innovation underpinning the information and communications technology (ICT) sector (Mazzucato, 2013). The goal of entrepreneurial policy is to replicate a Silicon Valley-like entrepreneurial ecosystem that can bring the creation of highly-skilled jobs, industry leading companies and world-changing technology (Klingler-Vidra et al., 2016). The existence of a substantial quantity – and quality – of innovation-centric start-up companies (start-ups) is seen as a sign of a modern economy.

South Korea (hereafter Korea) is no exception. The Park Geun-hye government, in particular, actively supported start-ups and entrepreneurship, from her inauguration in 2013 through to her December 2016 impeachment. Park (2013) talked about a "second miracle on the Han river" in her inaugural speech, based on a "creative economy" where "even a single individual can raise the value of an entire nation." This suggests that innovative start-ups are seen as key to the future of the Korean economy. It also constitutes a departure from the early developmental state mentality based on support for *chaebols* driving economic growth and employment. The strategic shift was positioned as necessary for the contemporary era, as "the Korean economy has reached the limits of the catch-up strategy which has driven economic growth for the last 40 years" (Ministry of Science, ICT and Future Planning, 2013).

Start-ups propel activity at the technology frontier and innovation in services in many advanced countries such as Israel or Taiwan. In contrast, in Korea *chaebols* have been the source of innovation and the destination for talented and ambitious workers (OECD, 2015). But the *chaebols'* innovation is not enough to maintain Korea's desired economic growth rates and economic competitiveness in the contemporary era. In 2013 the Korean leadership asserted that its *chaebol*-centric model, which excelled in catch-up manufacturing, needed to be updated in favour of dynamic small-and-medium-sized enterprises (SMEs) and creative industries.

The Korean state's promotion of entrepreneurship, which we refer to as its bid to be an entrepreneurial developmental state, was amplified through the Creative Economy Action Plan (the Plan), since 2013. The onset of deliberate targeting and prioritization of 'creative' industries including science and technology and cultural industries is indicative of an ongoing broader move into technology-intensive and services industries (Lim, 2010). The promotion of start-ups and entrepreneurship are central to the transformation of developmental Korea.

Korea has a history of state-supported entrepreneurship, dating back to the 1960s. However, governments traditionally supported entrepreneurship to foster the *chaebols* that today dominate the country's economy (Shim, 2010). As Joh (2015) puts it, *chaebols* came to epitomise Korean entrepreneurship. Large conglomerates and the government developed a symbiotic relationship, with the latter affecting the sectors and level of investment of the former (Amsden, 1989). However, the type of entrepreneurship that we seek to analyse is different in that it consists of promoting an ecosystem that can support the establishment of small to medium-sized start-up companies that will grow and take business decisions independently from government. Said simply, the aim of the Plan was to support an ecosystem of individual entrepreneurs and fledgling firms, not to foster the growth and international competitiveness of specific national champions.

This article provides an empirically grounded analysis of two interconnected research questions: (1) *how has Korea's entrepreneurial ecosystem evolved since the initiation of the Creative Economy Action Plan*? and (2) *what are the perceived effects of the Plan on the evolution of the ecosystem?* The first question is manifest of our desire to begin to assess changes in whether the developmental state – in this case, Korea – can be as successful in supporting entrepreneurial ecosystems as it was effective in advancing the competitiveness of large firms. As for the second question, we want to assess the perception of the impact of the Plan on its target recipients (members of the entrepreneurial ecosystem). We are particularly interested in whether the private sector thinks that the Plan was responsible, at least partially, for the changes observed in the ecosystem during its implementation and, if so, how. This helps us offer new empirical evidence into the performance of the East Asian developmental state in the contemporary era. We thus make an important contribution to the literature on the evolution of the developmental East Asian state: conceptualising how industrial policy focused on large firms (*chaebol)* has adapted toward promoting small firms and budding entrepreneurial ecosystems.

The article is structured as follows. Next we briefly identify our research methodology, particularly how our findings were derived from semi-structured interviews in Seoul and from policy content analysis. We analyse commonly used metrics to assess the quality and quantity of entrepreneurial activity to inform our assessment of the changes in Korea's entrepreneurial ecosystem before and during the years in which the Plan was implemented (beginning with its first mention in 2013 through to the summer of 2017). We then map out Korea's evolution as a developmental state. Afterwards, we explore the support for entrepreneurship by the government, with a particular focus on the Park Government's Plan. We present the results of our interviews to answer the second research question regarding the extent to which there is a perception that the Plan was responsible – or not – for the changes observed during this time. The concluding section summarises our findings.

Methodology

We draw upon two domains of scholarship. The first is the developmental state literature (e.g., Amsden, 1989; Wade, 1990; Evans, 1995) and the second is entrepreneurship and finance literature, which assesses the performance of entrepreneurship policy (e.g., Black and Gilson, 1998; Lerner, 2009). Research that measures entrepreneurship policy performance (i.e., the impact of the government's support) strives to assess two arenas: changes in the *quantity* of entrepreneurship (e.g., are there more entrepreneurs because of the policies) and changes in the *quality* (e.g., are there more, or bigger, successes as a result of the policies). Quantity is analysed by tracking changes in the levels of entrepreneurial and venture capital (VC) activity and the number of start-up successes – measured by equity fundraising and/or global market growth. Quality can also be determined, to some extent, by changes in the amount of fundraising, revenues and exit values; higher-quality start-ups raise more money, produce sales and often then go on to sell ownership in an initial public offering (IPO) or trade sale. Quality is also measured through studies of the technical, operational and management skills of entrepreneurs and early-stage investors. We merge the two tracts of scholarship as this quantity and quality framework brings a performance focus to the developmental state literature, as the business school literature on entrepreneurship support offers tools for evaluating policy efforts. Furthermore, the developmental state approach brings the rich political economy view of the role of the state in entrepreneurship to an otherwise thin conceptualisation of state.

In order to develop our empirically-grounded analysis, we use three different research techniques. Content analysis of think-tank, international organisation and industry association documents is the main technique to map out the Korean government's support for start-ups and entrepreneurship. To paint a picture of how the Korean entrepreneurial ecosystem's quality and quantity have changed since 2013 we collate statistics from different sources to capture the growth and performance of this sector. Meanwhile, a combination of in-depth, semi-structured interviews and online, survey-style interviews is the main technique to analyse the perceived impact of the Creative Economy Action Plan support on entrepreneurial activities.

To design the interview questions we first constructed a policy map (summarised in Table 3). Questions assess the performance of the various policies together and individually. We first asked interviewees whether they thought that the Plan had affected their activities and, if yes, how. This was followed by questions on the specific policy areas that interviewees thought had had a greater impact on their activities.

We first conducted face-to-face interviews with Korean start-up ecosystem organisers in August-September 2016. Interviewees included managers at accelerators, incubators and co-working spaces given their ability to comment about the ecosystem more broadly. We then conducted online, survey-style interviews with Korean entrepreneurs in November 2016.[2] To maintain a clear picture of who our interviewees were, we included several profiling questions at the beginning (e.g., what is your position in the entrepreneurial ecosystem? In what sector does your start-up operate? How long have you been active in entrepreneurship in Korea?). We conducted two further rounds of fieldwork in the form of face-to-face interviews with ecosystem organisers in Seoul in June and August 2017. Through these mosaic data points, we first examine the movements in entrepreneurial quality and quantity, and then ascertain whether the perception is that the advances are the result of the concerted efforts that began in 2013.

Changes in the quantity and quality of entrepreneurial activity in Korea since 2013

The Creative Economy Action Plan was launched in 2013. Korea's entrepreneurial ecosystem – both in terms of entrepreneurs and early-stage investors – has grown in this period. According to GEM, Korea had seen a general decline in entrepreneurship following the Global Financial Crisis, with a decrease in opportunity-driven entrepreneurship in the six years up to 2013 (GEM, 2013). The total early-stage entrepreneurial activity indicator languished from 10.0 in 2008 down to 6.6 in 2012. GEM paints a clear trend of start-up activity decreasing since the crisis. A similar trend is offered via data on entrepreneurship from the World Bank, which shows that the number of newly registered private corporations in Korea had declined between 2012 and 2013, and then increased from 75,356 in 2013 to 84,676 in 2014 (World Bank, 2016). For SMBA (2016), in contrast, the number of business ventures – a broader term than the high-growth start-ups that

GEM includes, but similar to that of World Bank statistics – depicts a steep uptick in activity from 2004 through to 2015, with a particularly significant increase in 2010.

It is useful to also examine data from THE VC, a Korean start-up providing analysis on the country's entrepreneurial ecosystem. THE VC shows that the number of Korean early-stage start-ups receiving funding increased in the first three full years following the launch of the Plan (see Table 1) (THE VC 2016c).

Table 1: Indicative statistics on Korean start-up fundraising environment

	Number of early-stage start-ups receiving funding (by number, not deal value)	Value of fundraising by start-ups (in KRW bn)	Number of funding rounds	Number of investors (participating in early-stage funding deals)
2013	Data not available	Data not available	143	82
2014	174	11,796	379	149
2015	274	24,626.8	633	203
2016	306	15,776.6	778	290

Sources: THE VC, 2016a; THE VC, 2016c

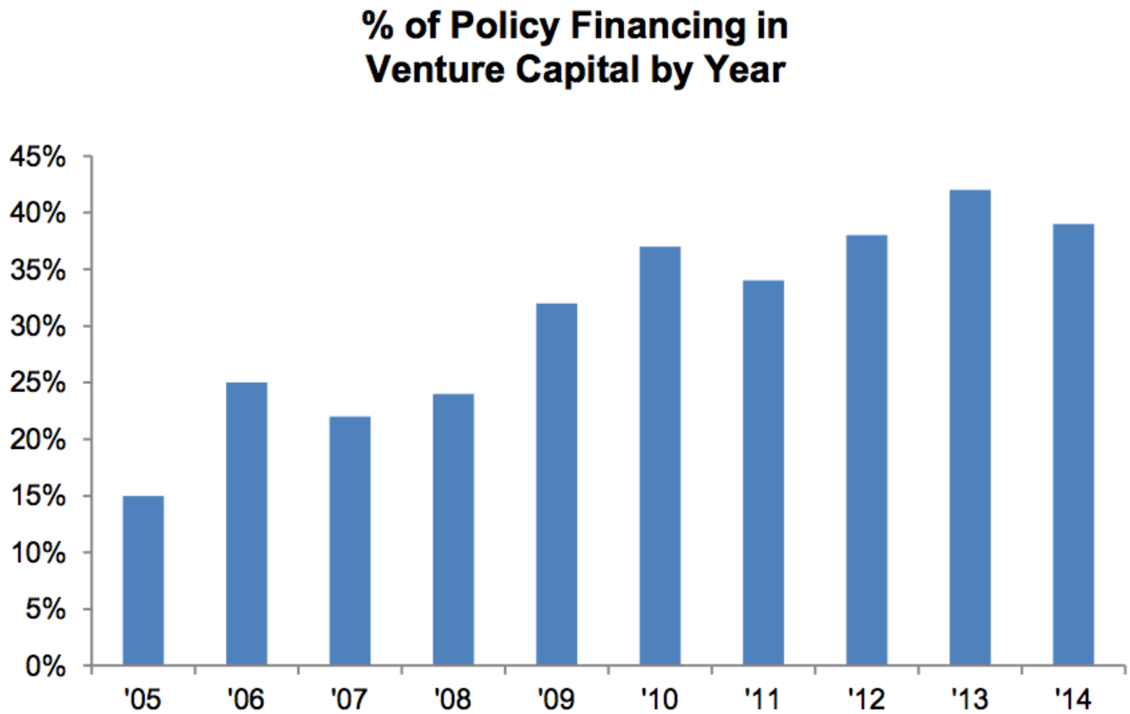
Other measures of the rate and quality of entrepreneurial activity focus on the level of start-up fundraising: the more start-ups that raise money, and the more money they raise, suggest both that more start-ups exist, and that more start-ups are of a quality capable of raising private capital. They include total funding raised, number of funding rounds and number of investors, for which THE VC has data available for the period 2013-16. The decrease in funds raised from 2015 to 2016 can be explained by ecommerce firm Coupang, founded in 2010, receiving more than half of all the funds raised by Korean start-ups in 2015. Excluding the Coupang-induced spike in 2015, fundraising increased between 2015 and 2016. Concerning the number of funding rounds, there was a steady increase from 143 in 2013 to 778 in 2016, constituting a marked growth in the volume of funding deals done in Korea within a matter of four years. The larger number of deals was completed by a growing universe of investors; as Table 1 shows, the number of investors more than quadrupled between 2013 and 2016 (THE VC, 2016a).

The quality and quantity of entrepreneurial activity can also be analysed by tracking changes in the number and assets under management of investors. The ecosystem's VC firms' ability to fundraise can reflect both to the evolution of the demand for early-stage financing, as a result of increased entrepreneurial activity as well as the provision of the supply of investment capital in order to promote entrepreneurship. Useful data points include capital raised upon fund formation, total number of funds and total number of managers, which THE VC (2016b) also has available for the period 2013-2016. Starting with capital raised by Korean VC managers, the amount went up from KRW88,572.4 bn in 2013, to KRW124,504.3 bn in 2014, to KRW131,379.4 bn in 2015, and then down to KRW110,621.4 bn in 2016. Notwithstanding this decrease between 2015 and 2016, the capital upon fund formation in 2016 was above 2013 levels. Moreover, the two other measures show that the number of actors involved in the funding of start-ups has increased. The total number of funds was 99 in 2013, 159 in 2014, 196 in 2015 and 211 in 2016.

The Korean Venture Capital Association (KVCA) has similar information on the funding side of entrepreneurship. It provides publicly available data on the 2004/2006-2015 period for the number of venture capital firms registered with the SMBA, number of venture capital funds formed and amount of venture investments. The number of venture capital firms registered with the SMBA declined between 2012 and 2013 and then increased from 101 that year, to 103 in 2014 and 113 in 2015; this was the highest number dating back to the start of the series in 2006. The number of venture capital funds formed also declined between 2012 and 2013 to then increase from 54 that year, to 82 in 2014 and 110 in 2015; again the highest number on record, in this case dating back to 2004 (KVCA, 2016a, 2016b.

Thus, data available from THE VC and the KVCA shows that start-up fundraising and activity from investors increased during the first three years of the Creative Economy Action Plan. There has been an increase in the quantity of entrepreneurial activity – number of firms, money raised, for example – since the launch of the Plan. However, this rising trend seems to have started before the Park government came to power, and thus before the Plan was launched (as the KVCA data suggests, for example). It would be prudent to assert that the Plan has supported, and in some cases accelerated, previous advances in the quantity and quality of entrepreneurship rather than created a completely new entrepreneurial ecosystem. Also, the government's role as an investor in the Korean VC industry, in terms of share of total money provided, is growing, not retreating (see Figure 1 below). This indicates that the increase in public money for early-stage financing activity has not been matched by private sector interest. This can be seen as a relative failure of the Park Government's Plan. Whilst it is true that private funding levels have grown during the implementation of the Plan, continuous reliance on the government for the financing of entrepreneurial activity raises questions about the sustainability of the ecosystem. Said simply, if it had to operate without government finance, could it? For entrepreneurship policy scholars, such as Lerner (2009), continued reliance on public money suggests that the quality of an entrepreneurial ecosystem is not yet there. Until private money flows into local start-ups, the commercial attractiveness of the ecosystem is not demonstrated.

Figure 1: The Korean government's share of VC financing annually (2005-2014)



Sources: KVCA; KCMI

Since the launch of the Plan, governmental institutions have indeed remained one of the largest contributors of financing for local VC funds. Publicly available data indicates the importance of the Growth Ladder Fund, set up by the Park administration in August 2013 with a focus on later-stage finance. As of October 2017, it had KRW1,850 tn assets under management. The funds are managed by "K-Growth" (Korea Growth Investment Corp), with three the capital coming from three investors: the Korean Development Bank (KRW 1.35 tn), the Industrial Bank of Korea (0.15 tn) and D.Camp (KRW 0.35 tn). The Growth Ladder Fund's sub-funds aim to support the entrepreneurial ecosystem across seed, growth and later stages of a firm's life-cycle (K-Growth, 2016).

The Park government, however, also sought to mobilise private capital. Therefore, it legalised equity-based crowdfunding in July 2015. Legalisation fostered a lending mini-boom in a previously non-existent source of capital for Korean start-ups. As of mid-December 2016, 100 firms had successfully completed 105 issuances, raising a total of KRW163.12 bn (Financial Services Commission, 2016).

An indicator for the "quality" of the ecosystem – instances of start-up successes, measured in terms of equity raised via IPOs – have also increased since the implementation of the Plan. Three metrics confirm the steady increase in start-up successes: (1) the number of listed firms, (2) market capitalisation on KONEX and (3) funds raised by venture capital-backed firms through IPOs in KOSDAQ. The number of KONEX-listed firms went from 21 upon its launch in July 2013, to 81 in June 2015, to 124 in June 2016 and to 141 as of January 2017.[3] This represents a seven-fold increase in the first four years of the exchange. Market capitalisation also increased several times over between 2014 and 2016 (see Table 2).[4] The amount raised via IPOs on KOSDAQ by venture capital-backed firms nearly doubled between 2013 and 2015, going from KRW90.8 bn in 2013 to KRW159.5 bn in 2015. The latter is the largest amount since the start of the series in 2006 (KVCA 2016a).

Table 2: Korea's public equities market trends (2013-2016) (values in KRW)

	2013	2014	2015	2016
KONEX Market Capitalisation		0.46 trn (July)	3.6 trn (June)	5.2 trn (June)
VC-backed firm fundraising on KOSDAQ	90.8 bn	97.8bn	159.5 bn	Not yet available

Sources: KVCA (2016a); Korea Exchange (2017)

Start-up successes can also be measured as achieving success in global markets. There have been suggestions in the specialised media that Korea has only had locally successful start-ups (The Asian Entrepreneur, 2016). In the absence of publicly-available data on the internationalisation of Korean start-ups, it is challenging to know whether this is accurate. Anecdotal evidence, however, suggests that there have some start-up successes in terms of global market growth. Coupang's raising of a US$ 1 billion round of VC funding in the second quarter of 2015 is the leading example of successful VC funding. Nexon is a leading worldwide development and publisher of online games (World Economic Forum, 2014), ColorNote is the leading note-taking mobile app in more than 50 countries (Mundy, 2014), and several younger start-ups have received international prizes and awards (Ministry of Science, ICT and Future Planning, 2016). However, there is no Korean start-up "equivalent to WhatsApp" emerging as a result of the Plan. By this we mean a globally recognised start-up that scaled up its business internationally in very few years.

In sum, since 2013 there are more start-ups, investors and financing mechanisms, suggesting an advance in both the quantity and the quality of the entrepreneurial ecosystem in Korea. But we are left wondering, to what extent are these trends the result of the Creative Economy Action Plan? To answer this second question, we first place the Plan in historical context within the Korean developmental state industrial policy approach, detail the Plan components and then present our fieldwork data on the perceived impact of the Plan on entrepreneurial activity.

Evolution of the Korean developmental state

Korea is among a group of East Asian countries labelled as developmental states. Johnson's (1982) seminal work on Japan laid out its institutional characteristics. These can be summarised as a focus on long-term strategic goals driving socio-economic development, the existence of a quasi-autonomous bureaucratic apparatus with leeway to set up policies, and the use of fairly institutionalised mechanisms for public-private cooperation in their pursuit (Johnson, 1982). Subsequent work by Amsden (1989), Wade (1990), Evans (1995), or Woo-Cummings (1999), among others, showed that similar systems underpinned economic development in Hong Kong, Singapore, Korea and Taiwan from the 1960s.

This underlying system allowed for the implementation of a set of growth-enabling instruments and policies. Amongst them, the use of industrial policy to allow specific domestic industries to catch up with their counterparts in developed countries, financial repression to stimulate savings, capital allocation management through an acquiescent banking sector, and the use of fiscal policy to promote exports were common (Wan, 2008). Macroeconomic policies were supplemented with microeconomic policies to support particular sectors. In some areas, by the 1980s sector-specific state support had been replaced by functional support in the form of a commitment to state assistance to the economy as a whole (Hundt, 2015).

The 1997 East Asian Financial Crisis (EAFC) hit the foundations of the developmental state (Kwon, 2000). Praise was replaced by accusations of inefficient state dirigisme, widespread cronyism and inadequacy for economies that had achieved upper middle income and high income status (Wan, 2008). As a result, many scholars announced the end of the developmental state in the aftermath of the crisis (see Park, 2011). Afterwards, however, a more nuanced debate about the death or survival of the developmental state replaced the apparent consensus that East Asian countries had lessened their interventionism.

There is now a growing body of literature suggesting that the developmental state has not retreated but rather adapted to a changing domestic and international environment (e.g., Wan, 2008; Park, 2011; Kim, 2012; Suh and Kwon, 2014; Thurbon, 2016). Given that the developmental state was and remains an underlying institutional system involving governments, bureaucracies and the private sector rather than a collection of policies only, it would have been difficult for the EAFC to terminate it (Hundt, 2015). Most notably, there is a 'developmental mindset' that has survived the EAFC, cutting across both liberal and conservative governments (Thurbon, 2016).

Following on the argument that functional policies in support of the economy as a whole were already commonplace in the 1980s, it is possible to discern three policy shifts relevant to our focus on start-ups and state-supported entrepreneurship. They are (1) continuous industrial restructuring, (2) the evolution of the economic financing model, and (3) technological upgrading.

(1) Continuous industrial restructuring has been a characteristic of Korea since its development process started in the 1960s. The restructuring process underwent a major change in the aftermath of the EAFC though. Support for *chaebols* became less central to industrial policy (Lim, 2010; Kim, 2012). Most notably, the Korean market was opened to foreign competition, even if partly as a result of GATT/WTO rules (Kim 2012). Equally relevant, the government's control over the financial system was loosened, allowing *chaebols* to access foreign sources (Kim, 2012). A consequence of these changes was the emergence of new forms of public-private sector relations, with firms

becoming less dependent on the government (Lim, 2010). Concurrently, SMEs became more central to the state's industrial policy (Kim, 2012).

(2) The economy's financing model has undergone two big shifts in recent history. In the early 1990s, the government liberalised the financial sector. Mismanagement of this process was the main reason why Korea was affected by the EAFC (Wan, 2008). Following the crisis, the government re-imposed capital controls. After a few years, however, the financing model evolved. Capital markets were allowed to play a greater financing role (Hundt, 2015). The government even fostered the development of bond markets (Rethel and Sinclair, 2014). Yet, the state has not fully abandoned the idea of managed credit allocation and control over the financial sector. State-directed, bank-based lending still exists (Thurbon, 2016), and the government imposed capital controls at the onset of the Global Financial Crisis (Gallagher, 2015). Korea's financing model therefore combines a more liberalised financial sector with a degree of interventionism.

(3) Technological upgrading has become central to the government's strategy to boost growth in developmental Korea. The state has used a combination of policies and instruments to harness governmental resources to support high-tech sectors such as biotechnology and ICT (Kim, 2012; Hundt, 2015). Certainly, the Korean state has a history of supporting economic upgrading. In the 1980s and 1990s, sub-sectors of the technology industry, including electronics and semiconductors, were favoured by the government (Lim, 2010). At least partially as the result of these efforts, Korea's technology firms, notably Samsung and LG, fomented positions at the edge of the frontier of the global technology industry.

In the aftermath of the EAFC, with Korean labour becoming expensive compared to China's, and increasing interconnectedness thanks to new communication technologies, the Korean government decisively increased its support of SMEs (Jones and Kim, 2014). This trend has led towards positioning high-growth start-ups as engines behind the creation of a high-tech economy, as epitomised in Park's 'creative economy' speech. By increasing the innovation capabilities of high-technology start-ups, the Korean state hopes to enhance innovativeness and reduce economic dependence on *chaebols.* Korea's sustainable economic growth, it is hoped, will come from these small technology firms when they are re-structured to be more dynamic (Song, 2013). The underlying 'developmental mindset' referred to above underpins this shift. Starting from the Kim Dae-jung government, successive Korean administrations have implemented SME-oriented policies – including support for venture firms (Thurbon, 2016).

The above helps to explain why developmental Korea seeks to support entrepreneurship. This dovetails with an industrial restructuring policy including the promotion of SMEs, a changing economy's financing model involving the coexistence of capital markets and bank-based lending, and a technological upgrading process that has put new technologies at the centre of economic growth. Though the Korean state has shifted from supporting large firms to small firms, we contend that the 2013 Plan can be best conceptualised as the Korean government continuing to play a central role in promoting specific areas of economic activity. Korea thus remains a developmental state.

Mapping the Korean developmental state's support for entrepreneurship

Globally, a veritable menu of industrial policies aimed at driving innovation-centric entrepreneurial activity has evolved. The menu consists of instruments across eight categories of action: (1) regulatory changes and incentives, (2) tax policy, (3) government funding, (4) infrastructure investments, (5) building clusters, networks and institutes, (6) attracting talent and investment, (7) extending stock market access for start-ups, and (8) improving education and training (Klingler-Vidra, 2014).

Korea's developmental state policies for supporting entrepreneurship canvass most, if not all, of these arenas. Industrial policies to support high-technology entrepreneurship proliferated post-EAFC. State entities, including the Korea Finance Corporation and the Small and Medium Business Corporation, offer loans to SMEs – worth KRW11.8 trillion in 2011 alone (Jones and Kim, 2014). Yet in Korea, as elsewhere, bank loans are not sufficiently available for high-growth start-ups (Lerner et al., 2014). Early-stage equity financing, such as business angels and venture capital markets, can address this 'financing gap' by providing capital (and access to networks and operational expertise) in exchange for ownership stakes in the start-up (Klingler-Vidra, 2016). In a bid to develop local angel and venture capital markets, the Korean government launched numerous programmes, such as the Korea Venture Investment Corporation (KVIC), established in 2005. KVIC supports the VC market through the Korea Fund of Funds, which invests in private VC funds (Jones and Kim, 2014). The government also worked to ensure that there are 'exit' opportunities for successful entrepreneurs and equity investors; in 2005 the state created KOSDAQ as a venue for high-growth, high-technology companies to raise equity via stock market listings.

Korean entrepreneurship policy has strived, since the Global Financial Crisis, to promote specific types of entrepreneurs, particular sectors and to address deficiencies in the innovation model in focused arenas. To promote entrepreneurship amongst younger generations, 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). Recognising the need to expand investment in basic research, in 2012 the government inaugurated the Institute for Basic Science.

Here we identify the key policies implemented since 2013 across the eight categories identified above.

Table 3: Korea's Creative Economy Action Plan: policies and initiatives introduced, 2013-2016

1. Regulatory changes and incentives	Regulatory reforms to reduce barriers to technology-related M&A
	Initiatives to reduce regulatory burdens include the *Regulatory Guillotine*, the *Thorn under the Nail*, the *Sin-Moon-Go* and the "cost-in, cost-out" system

2. Tax policy	Tax incentives (tax deductible) to stimulate angel investment and reinvestment by successful entrepreneurs
3. Government funding	Government pledge US$3 bn annual investment in the Korean start-up ecosystem following Park Geun-hye's 2013 address
	Pledge to increase basic research funding by 40 per cent in 2017
	Government commitment to expand public R&D expenditure to 6.2 per cent over five years from 2014; commitment to 18 per cent of public R&D going to SMEs by 2017
	Plans for a KRW300 bn Youth Development Fund to support innovative youth activities announced in 2015
	Creation of the Angel Investment Matching Fund, in which the state offers co-investment alongside business angels
4. Infrastructure investment	In 2014 the Korean Ministry of Science began investing US$1.5 bn in local telecoms companies to develop (the world's fastest) wireless network (5G)
	Launch of Emissions Trading System to provide financial incentive for green activities
5. Clusters, networks and institutes	First of the Centres for Creative Economy and Innovation (CCEI) launched in Daegu Metropolitan city in 2014; CCEIs were operating in 18 locations by 2015
	Creation of joint industry-university-government research institute R&D centres
6. Attracting talent and investment	2016 launch of K-Start-up Grand Challenge, an accelerator attracting start-ups from around the world
	Creation of an "entrepreneur visa" to encourage highly-skilled foreigners to create start-ups in Korea
7. Stock market access	KONEX (launched 2013) catering to high-growth start-ups and in 2016 the government designated brokerage firms for start-ups accessing the public equities markets
8. Education and training	2015 launch of KISED (Korea's Institute for Start-up and Entrepreneurship Development), which supports fifty Korean start-ups in three month total-immersion programmes overseas

Sources: Mundy (2013b); Connell (2014); Jones and Kim, (2014); OECD (2015); Jung and Kim (2016); Shu (2016); The Asian Entrepreneur (2016).

Perceptions of the Creative Economy Action Plan on Korea's entrepreneurial ecosystem

The results of our analysis show that Korea's entrepreneurial ecosystem grew in terms of quantity and quality during the Park government years. What was the impact of the Plan on these advances? This is the second question that we seek to answer. To assess the influence that the Plan might have had on the evolution of Korea's entrepreneurial ecosystem, we interviewed key members of the Korean entrepreneurial ecosystem, including entrepreneurs, to understand its policies' *perceived impact*. Our interview questions sought to ascertain the following data inputs. Firstly, the impact of the Plan on the quantity of entrepreneurs. These questions focused on how has the plan, and to what extent, promoted entrepreneurial activity. Secondly, our interviews probed ways in which the Plan affected the quality of entrepreneurs operating in Korea. The "quality" questions covered management skills, fundraising abilities and increases in financing available.

The perceived impact on entrepreneurship manifests in: (1) increasing quantity of entrepreneurial activity by culturally promoting entrepreneurship as a valid career path and by increasing funding available for entrepreneurs, and (2) increasing the quality of entrepreneurs by advancing managerial skills.

(1) Increasing the quantity of entrepreneurial activity

Support for SMEs is the latest iteration of the continuous industrial restructuring process characteristic of the Korean developmental state (Kim, 2012; Thurbon, 2016). The Park Government's Plan seems to be part of this process. To begin with, interviewees across the whole entrepreneurial ecosystem believe that the Plan had an effect on increasing the volume of participants. Interviewees explained that even those not directly targeted by the Plan benefited from it due to its impact on growing the entrepreneurial ecosystem as a whole. 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 that we can work with.[5]

Similarly, the general partner of an accelerator argued that the Plan was directly responsible for the increase, saying that "the government creates an environment in which there is more entrepreneurship".[6] As for entrepreneurs themselves, there was general recognition that the Park government had been helpful in the entrepreneurial ecosystem. Consistent with the general view of entrepreneurs interviewed, one of them put it succinctly: "The government has invested aggressively and tried to develop the start-up ecosystem".[7]

Given the general feeling that the Plan increased the volume of activity, the question is how it did so. There are two mechanisms whereby the Plan is perceived to drive the increase entrepreneurial activity: (1) by making entrepreneurship an acceptable career and raising awareness and (2) increasing the financing available for would-be entrepreneurs.

Korean graduates (and their parents) have had a preference for securing graduate jobs in the country's *chaebols*. Employment in large conglomerates is seen as more socially prestigious, more secure and better paid (Song, 2012). However, the Plan seems is contributing to this perception changing; a job with a start-up is increasingly deemed as a good alternative. As one entrepreneur indicates:

> [The Creative Economy Action Plan] has changed the perception of entrepreneurship, which is now seen as meaningful.[8] [translated from Korean]

The head of a facilitator shares this view. He contends that:

> [The Government has] created the idea that creating a start-up is an alternative to a career in a *chaebol*. Also, they have created a buzz around entrepreneurship. […] Even parents push their sons to become entrepreneurs, [which is] a change in mentality.[9]

The Plan sought to increase knowledge about entrepreneurship itself. The government had to raise awareness about what becoming and entrepreneur entails, as well as regarding the existence of entrepreneurship-supporting measures. As the programme manager of a connector with four years of experience in the entrepreneurial ecosystem puts it:

> Public awareness [of entrepreneurship] has definitely increased with the Park Geun-hye government. When she launched the creative economy initiative, maybe start-ups were not in her mind. However, start-ups immediately became a focus of the initiative. This has raised the profile of entrepreneurship.[10]

In the words of the director of a facilitator, the Park government and Park herself were invested in raising awareness about entrepreneurship:

> The Park government has launched programmes, attended the launch event of creative centres, etc. So [Park] is a champion of entrepreneurship and start-ups. In Korea, this serves as a strong and positive message. She has put this sector on the map, which is very important in Korea. People have reacted to this.[11]

Awareness-raising has also had the effect of attracting Korean returnees and overseas entrepreneurs to Korea. The general partner of a Korean facilitator explains: "overseas Koreans and Korean-Americans are being attracted to join the entrepreneurship ecosystem".[12]

The Korean developmental state's financing model has been moving away from bank-based credit towards a greater role for financial markets (Hundt, 2015). At the same time, the government's 'developmental mindset' still affords an important role to state-directed lending (Thurbon, 2016). The Plan was a clear example of this duality, and it mixed policies to allow the financial sector to provide more financing to start-ups with greater availability of government funds to entrepreneurs. Indeed, *over two thirds of interviewees referred to "access to funding" as the area in which the Plan was particularly effective*. They thought that start-ups faced problems accessing funding prior to its launch. Prior to the Plan, start-up financing was very challenging as banks demonstrated a strong preference for lending to *chaebols* (Mundy and Song, 2012). Furthermore, when funding was made available to start-ups it was generally for their launch, not in the growth and later stages (Mundy, 2013a).

It should be noted, however, that previous governments were already providing financing for start-ups. The KVIC Fund of Funds was key in this area. 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]".[13] Whilst there was already money available at the seed stage, the Plan included two efforts that are viewed as particularly impactful on start-up funding. First was increasing the amount of funding through the KVIC Fund of Funds and second, the launch of the Growth Ladder Fund in August 2013.

The General Partner of a Korean accelerator argues 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.[14]

The larger amount of funding available encouraged would-be entrepreneurs to launch their start-ups. Our interviewees pointed out the availability of government funding as one of the key reasons that led them to start their own firms. 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.[15] [translated from Korean]

Another entrepreneur put it succinctly, "money is a must".[16] Sufficient start-up capital, from this interviewee's perspective, is essential to encouraging entrepreneurship, and this is precisely what the Plan has done.

Table 3 shows that the Park government introduced new funding schemes and other initiatives to support start-ups. Focusing on the birth stage, the Park government legalised equity-based crowdfunding in July 2015 (as explained above) and increased financial support for angel investors. Regarding the latter, the head of the Korean branch of an international facilitator points out:

> Historically venture capitalists were funded by government; now angel investors are part of the ecosystem, but they get government support to make a profit.[17]

As already explained, there was a perception that prior to 2013 there was no funding available following the launch of a start-up. Thus, the Plan set out to boost funding opportunities at the growth and later stages as well as exit paths (e.g., stock exchanges as IPO destinations). The government designated brokerage firms for start-ups in 2016 and launched KONEX in 2013 for early-stage start-ups to gain access to equity financing. As the programme manager of a Korean connector explains:

> Giving the money for start-ups to be created and giving them an early exit option [through KONEX] are very important. [...] Before, start-ups would find it difficult to find exit strategies.[18]

The Plan's impact on the availability of funding for start-ups was directly connected to the Korean developmental state's focus on reforming the economy's financing model. The move away from bank-based financing can be understood in the context of the limited support that Korean banks provide to start-ups. At their early stages, start-ups are now able to access financing in light of equity investment provided through public entities (e.g., K-Growth) and in regulation that enabled new forms of private financing (e.g., crowdfunding). Furthermore, launching KONEX enables entrepreneurs to develop their business in an environment in which capital markets are part of the financing model from the early stages, as the availability of exit options is vital to the vibrancy of entrepreneurial and venture capital markets (Black and Gilson, 1998). In addition, deregulation of the financial sector by legalising new forms of financing and supporting different types of investors also points in the direction of limiting reliance on bank-based financing. In this respect, the Park government's support for FinTech (financial technology) was telling. The director of a Korean facilitator explains:

> A couple of years ago, [name of company] and other companies supporting start-ups wanted to support the launch of FinTech companies. Big banks were opposed, but the government intervened to find a compromise and FinTech companies were launched.[19]

The above quote also hints at another characteristic of the Park government's vision on the economy's financing model: the state still played a role.

(2) Quality of (would-be and active) entrepreneurs

Continuous industrial restructuring not only needs new companies to be launched, it also needs these companies to survive and grow. This requires company managers to have the necessary skills for this to happen. There is extensive evidence that the greatest barriers to becoming an entrepreneur are limited managerial experience and difficulties in accessing capital (Schoof, 2006). Korea's Plan sought to help would-be entrepreneurs to overcome these barriers. Considering that the skills necessary to manage a new company being set up as opposed to an established company are different, traditional university-based entrepreneurship education is considered inadequate (Pittaway and Cope, 2007). There is evidence that universities do not particularly excel at educating effective entrepreneurs. This applies to Korea (Lee, Chang and Lim, 2005).

Clusters, institutes and centres are key to the development of the managerial skills of entrepreneurs. They constitute a physical ecosystem in which successful and would-be entrepreneurs, potential investors and other players in the entrepreneurial ecosystem can interact, provide mentoring and learn from each other. Would-be entrepreneurs can learn the necessary managerial skills to launch and operate their business from successful entrepreneurs. These clusters provide access to the right people to develop these skills (Schoof, 2006). The Park Government's Plan sought to further develop and consolidate this physical ecosystem. It did so by establishing 18 CCEIs in which aspiring entrepreneurs learn and interact with successful start-ups such as KakaoTalk and Naver as well as from *chaebols* such as Samsung and LG (Ramirez, 2016).

Our interview data shows that the network of clusters, institutes and centres was one of the ways in which the Plan had a positive impact on Korean entrepreneurs. Interestingly, ecosystem organisers did not consider this particularly relevant. We speculate that this might be the case because they are part of cluster-building themselves, so it is more difficult for them to abstract from their daily jobs and perceive their value compared to other policies. Differently, several of the entrepreneurs interviewed thought that the establishment of clusters, institutes and centres was one of the most useful policies of the Plan. As an entrepreneur argued:

> [State support of clusters, institutes and centres] directly affect the success of start-ups.[20]

With regards to the reasons why this is the case, entrepreneurs point to the training and mentoring opportunities that clusters, institutes and centres provide. One of the interviewees explained that the training that came from them rolled out as part of the Plan provided essential training.[21]

The importance afforded to the physical development of the ecosystem links to industrial restructuring. As start-ups are increasingly central to the Korean developmental state, resources are devoted to fostering mentoring and learning from successful entrepreneurs. The state's investment in clusters, institutes and centres promotes links between would-be entrepreneurs, experienced entrepreneurs and potential investors. Considering that would-be entrepreneurs often lack managerial skills and the fact that personal relations remain central to Korean business practices (Kang, 2010), this support is perceived as particularly impactful.

Even though successive Korean presidents have been supporting entrepreneurship from at least the 1960s, the Park government's Plan is novel in its focus on the ecosystem, rather than particular firms, and in the extent of its efforts.[22] But this does not guarantee its continuity under future presidents. Korean presidents can only run for a non-renewable five-year mandate, with the effect that their policies might be discontinued by future administrations.[23] On this issue, there was general agreement among interviewees that the effects of the Plan would survive the Park government. Even though the Plan was not the beginning of governmental support for entrepreneurship, interviewees believe that is changed the mentality of the population and other governments will have no option but to continue to support it.[24]

Why is this the case? There were a multitude of reasons put forward by interviewees. The director of a facilitator points out that:

> There has been a radical change. [...] The Park Geun-hye government has completely changed the discourse and economic environment. Whoever replaces the current president will be very likely to continue supporting start-ups, even if they change the name [of the policy].[25]

Concentrating her attention on the Korean entrepreneurial ecosystem itself, the programme manager of a Korean connector drew attention to the impact of the Park government on its attractiveness and sustainability:

> Korea was on a clear track but government added fuel to it. The signals were there in terms of creating start-ups, foreigners coming in, etc. But government has made it more sustainable. Also, government has made the ecosystem more attractive.[26]

Conclusion

The Korean developmental state is very much alive. Existing scholarship suggests that formerly developmental states in East Asia have not disappeared as countries have graduated to developed status. Instead, they have adapted their policies to a different domestic and international environment while maintaining the underlying system. The decades-old system survived the EAFC and seems not to have persisted after the Global Financial Crisis as well. Under the remit of a Creative Economy Action Plan launched in 2013, Park government-led developmental Korea used a wide range of policies to support entrepreneurship and start-ups. The goal was to reduce dependence on *chaebols* and to support SMEs to promote innovation. In other words, to create a “start-up nation” like that of Israel or Taiwan.

Through an empirically-grounded analysis using government documents and original interviews triangulated with statistical data from multiple sources, we assess whether the Korean state has been responsible for driving the recent advances in the quality and quantity of local entrepreneurial activity. Our data revealed that the perception is that the Plan is one of the driving forces behind the advances. The desirability of entrepreneurship as a professional path has been changed – improved – through the visibility of the Plan. The government also continued to play a central role as the financier of VC funds and, in so doing, entrepreneurs in Korea, as previous governments had since the early 2000s. Finally, the Plan’s clusters, institutes and training efforts are perceived to be useful in advancing the management skills of Korean entrepreneurs.

The Creative Economy Action Plan was not entirely novel. Our analysis suggests that it was, in many ways, a continuation of the industrial restructuring and a shifting financial model that has long characterised Korean economic policy. The positive perception of the efforts of this developmental state’s ability to drive contemporary start-up activity contributes to the debate about the developmental state’s decline or persistence. We find that in the archetypal developmental state of Korea, the state is still perceived as effective in promoting desired forms of industrial activity and mobilising essential financing. The target firms and forms of finance may have evolved from *chaebol* and credit to start-ups and equity, but the capacity of the state to drive economic activity remains – at least in the eyes of its intended recipients.

[1] We would like to thank two anonymous reviewers for their helpful comments. This research has been supported through grants provided by the Department of European & International Studies and the Department of International Development at King’s College London.

[2] It should be noted that these interviews were conducted as the scandal of the alleged influence of Choi Soon-sil, the daughter of a cult leader, over Park Geun-hye was starting to unfold. Based on the replies from our interviewees, it seems that the scandal had little if any bearing on their perceptions of the Creative Economy Action Plan.
[3] Data from Korea Exchange, available at <http://global.krx.co.kr/main/main.jsp> (accessed on 10 January 2017).
[4] Ibid.
[5] Interview with the Head of the Korean branch of an international facilitator, 23 August 2016, Seoul.
[6] Interview with the General partner of a Korean accelerator, 23 August 2016, Seoul.
[7] Online interview with Korean entrepreneur, 22 November 2016.
[8] Online interview with Korean entrepreneur, 18 November 2016.
[9] Interview with the Head of the Korean branch of an international facilitator, 23 August 2016, Seoul.
[10] Interview with the Programme Manager of a Korean connector, 9 September 2016, Seoul.
[11] Interview with the Director of a Korean facilitator, 9 September 2016, Seoul.
[12] Interview with the General partner of a Korean accelerator, 23 August 2016, Seoul.
[13] Interview with the Head of the Korean branch of an international facilitator, 23 August 2016, Seoul.
[14] Interview with the General partner of a Korean accelerator, 23 August 2016, Seoul.
[15] Online interview with Korean entrepreneur, 19 November 2016.
[16] Online interview with Korean entrepreneur, 22 November 2016.
[17] Interview with the Head of the Korean branch of an international facilitator, 23 August 2016, Seoul.
[18] Interview with the Programme Manager of a Korean connector, 9 September 2016, Seoul.
[19] Interview with the Director of a Korean facilitator, 9 September 2016, Seoul.
[20] Online interview with Korean entrepreneur, 22 November 2016.
[21] Online interview with Korean entrepreneur, 23 November 2016.
[22] Previous governments did not have a focus on developing a holistic entrepreneurial ecosystem, but rather on the launch of more SMEs including start-ups. Interview with Korean government official, 23 August 2017, Seoul.
[23] Thurbon (2016) notes, however, that post-EAFC successive governments have consistently supported SMEs, including venture firms, even as the name of their policy to do so has changed.
[24] It should be noted that newly-elected president Moon Jae-in has already pledged to continue to support entrepreneurship.
[25] Interview with the Director of a Korean facilitator, 9 September 2016, Seoul.
[26] Interview with the Programme Manager of a Korean connector, 9 September 2016, Seoul.

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