

Be first to use FT.com's new prototype site. Opt in here (you can opt out at any time).

June 24, 2015 4:13 am

South Korea aims for creative economy to end reliance on chaebol

Simon Mundy in Bundang, South Korea

[Share](#) [Author alerts](#) [Print](#) [Clip](#) [Gift Article](#)

[Comments](#)



As a state-run programming contest gets under way in a modernist glass building close to Seoul, a few dozen 20-somethings roam the venue, clad in black or white T-shirts and hoping their coding skills will win them a share of the Won27m (\$24,000) prize money.

The event is hosted by the creative economy centre at Bundang, south of South Korea's capital. It is one of a network of 17 such institutions being rolled out across the country that offer workspace,

Be briefed before
breakfast in Asia - our
new early-morning
round-up of the global
stories you need to
know

Sign up now

funding and advice to start-ups and budding entrepreneurs.

Along with a new ministry of future planning, the centres are the most visible manifestation of the government's "creative economy" agenda — President Park Geun-hye's drive to foster start-ups and ease the country's economic reliance on a small number of large business groups, known as chaebols, such as Samsung and Hyundai.

The push follows four consecutive years of growth below 4 per cent — unusually slow by South Korean standards — sparking concern that the country may struggle to close the gap with the world's richest economies. Attention has focused on the weakness of the small and medium-sized business sector, which has fallen steadily behind the country's manufacturing giants in terms of productivity.

Half a century ago, the president's father, military ruler Park Chung-hee, put the chaebols at the heart of his transformative industrial policy. Now, in a twist that demonstrates the lingering influence of the state over the conglomerates, Ms Park has enlisted the country's leading business groups in her own signature economic push: this time aimed at curbing their dominance by fostering a new generation of businesses.

The centre at Bundang, for example, is run by telecoms group KT, which is providing most of the operation's Won6.2bn annual budget and has deployed experienced staff to run it. "That one costs \$40,000, that one costs \$50,000 . . . that big one is \$100,000," says Ju Young-beom, one of those staff, pointing to 3D printers provided for the seven start-ups enjoying rent-free space in the building.

Each of the other 16 centres has been put under one of the country's leading chaebols. Samsung Electronics has set up two centres in the southeastern cities of Daegu and Gumi, while Hyundai Motor has done so in the southwestern city of Gwangju. Ms Park has attended the launch of each of the 12 opened so far.

But critics of the scheme question whether the business culture of the chaebols — which emerged as state-fostered, largely heavy industrial concerns — makes them best placed to nurture the sort of creative, dynamic start-ups able to compete with those emerging from Silicon Valley.

"Hierarchy and habit are very important parts of Korean corporate life," says Chung Yeon-woo, a professor at Ulsan National Institute of Science and Technology who was previously a senior car designer

at Hyundai.

The network could end up undermining its stated goal by hardening the grip of the chaebols on the economy, he warns. “In the end, all the small companies with good ideas will be bought by the big companies,” Mr Chung says, “and those left will not be the really good ones.”

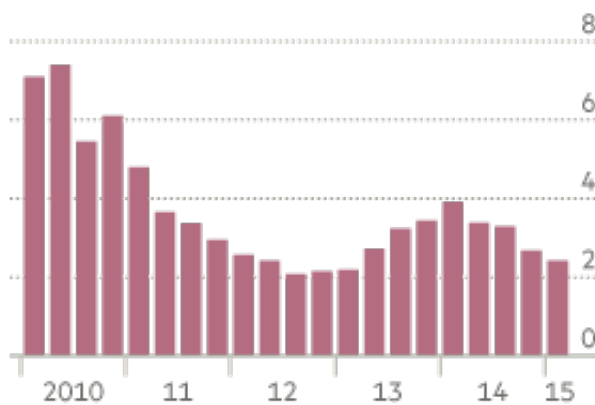
Such acquisitions would “not necessarily be a bad thing”, says Lee Je-joon, the official tasked with overseeing the creative economy centres at the future planning ministry.



Gwangju Creative Centre in South Korea, run by Hyundai

South Korea GDP

Annual % change



Source: Thomson Reuters Datastream

FT

In a recent report on South Korean start-ups, the consultancy McKinsey cited the chaebols’ lack of interest in acquiring small companies as a major factor deterring investment in the latter and slowing “the circulation of capital and human resources”. Among South Korean start-up owners who sold equity in their companies in 2013, only 0.4 per cent did so through takeovers, compared with 61 per cent in the US, it said.

Rallying investor interest is a major plank of the creative economy agenda. Seoul has rolled out new funding schemes, including a state-backed fund with about \$4bn in capital, with much of the cash

dispensed through mechanisms that “match” venture capital injections up to seven times over.

This appears to have helped spur significant growth in the sector. Venture capital funds in South Korea raised Won2.5tn last year, triple the amount in 2012, according to the Korea Venture Capital Association.

Government financial support has also helped drive a proliferation of start-up incubators and accelerators in Seoul’s upmarket Gangnam area — some of which are competing with the state-backed centres to support budding companies.

The latest was launched by Google, which this year set up Campus Seoul, providing workspace for eight of the 150 local start-ups that applied. The companies — some of which have benefited from

the government's funding schemes — receive advice and support from Maru 180, a non-profit venture established by the shipbuilder Hyundai Heavy Industries before Ms Park came to power.

“We believe that investing in these economies is going to produce financial return for us down the road, when more companies are created, coming online, using the internet, using Google,” says Mary Grove, head of Google for Entrepreneurs, a unit of Google that supports start-ups in more than 100 countries.

South Korea already ranks among the top five producers of mobile apps for Google's Android smartphone system, she says, with the number of IT start-ups increasing by an average of 10 per cent a year over the past four years.

South Korea's conglomerates, by contrast, showed little interest in supporting start-ups before the new policy push, says Ryu Jung-hee, chief executive of FuturePlay, an accelerator providing funding and technical support to start-ups in Seoul. “It's not organic, not natural [for them],” he says.

But attitudes have changed. Ihm Jong-tae, who heads the creative economy centre run by SK, the country's third-biggest chaebol, in the western city of Daejeon, says: “There aren't many things that SK can do alone any more. The group needs to change its portfolio, and open innovation is one of the most feasible ways to do that.”

Mr Ihm leads the way to a 3D printer room at the Daejeon centre and points out a prototype camera case printed by The S, an action camera maker that is one of 10 start-ups hosted there.

“Traditional Korean culture is that the big companies are the kings and the small ones are their servants,” says Lee Min-gu, co-founder of The S, which is hoping to win a grant of Won200m from SK in exchange for 1.5 per cent of its revenue over the next five years. “But I think it's changing, it's getting better.”

[Share](#) [Author alerts](#) [Print](#) [Clip](#) [Gift Article](#)

[Comments](#)



Greece: how did we get here?



Greeks vote in bailout referendum



Evernote chief says email has to go

Printed from: <http://www.ft.com/cms/s/0/9203e38c-0dab-11e5-9a65-00144feabdc0.html>

Print a single copy of this article for personal use. Contact us if you wish to print more to distribute to others.

© THE FINANCIAL TIMES LTD 2015 FT and 'Financial Times' are trademarks of The Financial Times Ltd.