The Strategy for Korea’s Economic Success

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4. Conclusion
Korea’s Economic Success: An Overview

South Korea’s economy: What do you do when you reach the top?

- Economist, November 12, 2011

• Heroic economic success
  - In 1960, one of the poorest countries in the world
  - In 2011, richer than the EU average income ($31,750 vs $31,550, PPP)

• A model for growth of developing countries
  - China: too vast to copy
  - Singapore/Hong Kong: city states, Taiwan: disputed sovereignty

• Combined growth
  - Economic growth with democracy
  - Economic growth with equity: Gini coefficient lower than Canada in 2010

• Korea’s potential shown in its history
  - Developed movable metal type two centuries before Gutenberg
  - In the last imperial dynasty, benefited from checks and balances more than China
Korea’s Economic Success: More Quotes

Quick Recovery
• Korea repaid the IMF drawings nine months ahead of schedule.
  (IMF, June 2000)

• Hyundai learned quickly from its mistakes and did not waste a crisis.
  (Washington Post, June 8, 2012)

Benchmarking and Beyond
• They think that anything the Japanese can do, they can do better, but now they’re proving it.
  (Foreign Policy, June 7, 2012)

• Samsung may lack in innovation, but no one can beat Samsung in playing catch-up.
  (New York Times, September 2, 2012)

Multiple Achievements
• Korea has the world-class industries: electronics, shipbuilding, steel, automobile, and gasoline exporting.
  (Forbes, September 9, 2015)

• The country is a rich, technologically advanced, mature democracy.
  (Foreign Affairs, January/February 2014)

Never Satisfied
• The South Koreans have worked like crazy, saved like crazy, and invested like crazy.
  (Foreign Policy, June 7, 2012)

• The only people unimpressed by South Korea’s accomplishments may be South Koreans themselves.
  (Economist, October 26, 2013)
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   • Current government policies
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4. Conclusion
Comparing the Four Tigers

<table>
<thead>
<tr>
<th></th>
<th>Singapore</th>
<th>Hong Kong</th>
<th>Taiwan</th>
<th>Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>History</strong></td>
<td>British colony (Western)</td>
<td>Japanese colony (Eastern)</td>
<td></td>
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<tr>
<td><strong>Economy Size</strong></td>
<td>City state</td>
<td>Middle-sized country</td>
<td></td>
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<tr>
<td><strong>Trade Policy</strong></td>
<td>Open door</td>
<td>Selective open door</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Growth Strategy</strong></td>
<td>State capitalism</td>
<td>Free capitalism</td>
<td>Balanced (SMEs)</td>
<td>Unbalanced (Chaebol)*</td>
</tr>
</tbody>
</table>

- The Singapore government played the most active role among the four tigers
- *Chaebol: (1) Speedy and bold decision (2) Thorough benchmarking of Japan, US and Europe (3) Diversified and specialized areas (4) Hard working and future investment (Owner-CEO)

Despite these differences, some common factors of their economic success can be found.
Reasons behind East Asian Economic Growth

General Understanding

• Cheaper labor?
  - But, there are other countries where labor is cheaper.

• Export promotion?
  - But, import substitution policy may be more effective.

• Perspiration? (e.g., Paul Krugman)
  - But, all countries should be diligent in their early stage of development

• Hard work of Confucianism?
  - But, Confucianism is more about keeping the status quo than changing it.

More Fundamental Reasons

• Cheap and productive labor
  - Agility (speed and precision)

• Global standard and economies of scale
  - Benchmarking (learning and best practices)

• Perspiration, and then inspiration
  - Convergence (mix and synergy-creation)

• Leadership and bureaucracy (elite vs crony)
  - Dedication (diligence and goal-orientation)
Comparing Korea with other Asian Tigers

- **Agility (speed and precision)**
  - Korean War, US military technology and management, mandatory military service

- **Benchmarking (learning and best practice)**
  - Learning Zaibatsu, but only the best practices

- **Convergence (mix and synergy-creation)**
  - Japan, US, Europe, and something Korean

- **Dedication (diligence and goal-orientation)**
  - Military need, economic need, and political need

**Korea shares similarities but is also different from other Asian Tigers.**
### Distinctive Features of Korean Chaebol

#### Comparing Conglomerates of Japan, Korea and Taiwan

<table>
<thead>
<tr>
<th>Conglomerates</th>
<th>Japan</th>
<th>Korea</th>
<th>Taiwan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conglomerates</td>
<td>Zaibatsu</td>
<td>Keiretsu</td>
<td>Chaebol</td>
</tr>
<tr>
<td>Ownership</td>
<td>Family ownership</td>
<td>Cross-stock ownership</td>
<td>Family ownership</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Strong CEO leadership</td>
</tr>
<tr>
<td>Structure</td>
<td>Trading company</td>
<td>Trading company</td>
<td>Trading company</td>
</tr>
<tr>
<td></td>
<td>Balanced growth</td>
<td>Unbalanced growth</td>
<td>Balanced growth</td>
</tr>
<tr>
<td></td>
<td>More related, horizontal diversification</td>
<td>More unrelated, vertical integration</td>
<td>Smaller size</td>
</tr>
<tr>
<td>Finance</td>
<td>Corporate banks and financial institutions</td>
<td>National bank-based industrial financing (debt-based)</td>
<td>Fiscal rather than monetary financing (tax breaks, high-depreciation)</td>
</tr>
<tr>
<td>Example</td>
<td>Mitsubishi, Mitsui</td>
<td>Samsung, Hyundai</td>
<td>Cathay, Hon Hai</td>
</tr>
</tbody>
</table>


### Selective Assimilation of the Japanese Conglomerates
Korea’s Economic Growth: Academic Perspectives

<table>
<thead>
<tr>
<th>Study</th>
<th>Main Points</th>
</tr>
</thead>
</table>
| 1. Amsden (1989)                           | • Learning existing Western technologies rather than innovation  
• Efficient government intervention policy in the optimal allocation of resources                                                                 |
| 2. Song (1997)                             | • Outward, Industry, and Growth (OIG) strategy  
• Influence of Confucian and Christian ethics as an underlying basis for development  
• Land use, a family-planning program, savings, and consumption behaviors                                                                 |
| 3. World Bank (1993)                       | • Rapid physical and human capital accumulation  
• Government’s market-friendly policy                                                                                                                                          |
| 4. Cho (1994)                              | • Entrepreneurship and abundance of workers of high standard of literacy, discipline, and desire to grow  
• Unbalanced strategy by supporting chaebol  
• Export-led growth strategy along with effective government development strategy                                                                 |
| 6. Mason (1997)                            | • Slower rates of population growth favoring investment in education and incentives for saving, which accelerated economic development                                                                 |
| 7. Chang (2003)                            | • Chaebol as providers of efficient ways for allocating limited resources in Korea’s early and high-risk stage of economic development                                                                 |
| 8. Eichengreen, Perkins, and Shin (2012)   | • Korea’s continued growth through the accompanying rise in the labor force, capital stock, and productivity  
• Export diversification - Rapid shift of export structure to focus on high-growth products                                                                |

A common factor: The role of government
Korea’s Economic Growth: The US Perspective

The Korean Economy in Congressional Perspective

1. The collective effort of the Korean people
2. Political leadership
3. Domestic market expansion
4. Export promotion policies

- All four reasons are related to the role of government.
- Then, what is the essence of the Korean government’s role in developing its economy?
Understanding Korea’s Economic Policy

**Negative Perspectives**

- Chaebol-dominated economy?
  - Economic success but not sustainable
  - Cronyism

- Government intervention?
  - Market-distorting economic policies
  - Lack of innovation

- Unrelated diversification?
  - Economic inefficiency
  - Hidden costs

- Militaristic work ethics?
  - Sleeping just a few hours a day?
  - Human rights issue?

**Positive Perspectives**

- Fast growth
  - Unbalanced growth strategy for efficiency
  - Transparent criterion: export performance

- A series of five-year economic plans
  - Benchmarking other countries’ policies
  - Reducing trial and errors

- Dominant diversification
  - A dominant sector
  - Synergistic mix with other sectors

- Economic culture
  - Incentives and sense of achievement
  - Zero-sum or positive-sum with happiness?
Stages of Korea’s Economic Development

<table>
<thead>
<tr>
<th>Nation-building Stage</th>
<th>Fast-growing Stage</th>
<th>Stabilizing Stage</th>
<th>Restructuring Stage</th>
<th>Revitalizing Stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Park Geun-hye (2013-2018)</td>
<td></td>
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</tr>
</tbody>
</table>

- **Nation-building Stage**
  - Focused on agriculture, wooden goods, small-scale manufacturing sector
  - Foreign aid, particularly from the U.S., after the Korean War until 1961

- **Fast-growing Stage**
  - Significantly reduced amount of foreign aid
  - Focused on economic modernization - Manufacturing - Internationalization - Unbalanced growth
  - Saemaeul campaign for nation-wide transformation

- **Stabilizing Stage**
  - Problems of rapid growth: high inflation, overinvestment, imbalance
  - Focused on stabilization - Fiscal/monetary policy
  - Optimized (free) competition among firms: industry rationalization
  - Balanced and egalitarian approach - Welfare - Labor-friendly policy

- **Restructuring Stage**
  - More democratization movements
  - Emphasis on free trade - Liberalization - Internationalization
  - 1997 Financial Crisis - Nation-wide restructuring efforts - Promotion of FDI
  - Social tension - Labor-friendly policy - Balanced growth - Tax increase

- **Revitalizing Stage**
  - Low consumption and stagnated growth
  - Imbalance between manufacturing and service sector
  - Growth without employment
  - 2008 Financial Crisis
  - Market-friendly renovation - Labor market flexibility
  - Emphasis on green growth, technology, and balanced growth by encouraging SMEs
  - New engine for growth?
Korean Government Policies and Key Ideas

Fast Growing Stage
Stabilization Stage
Restructuring Stage
Revitalization Stage

Solving Problems
Creating Advantages

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Profile
• Received bachelor’s degree in electronic engineering from Sogang University and studied in France
• Took on the role of First Lady between her mother and father’s assassinations in 1974 and 1979, respectively
• Elected 4 times as the Grand National Party assemblywoman since 1998 in Daegu and became the Chair of the Party in 2012
• President (2013 – Present)

• Economic Problems
  - Unbalanced growth
  - Stagnated global market

• Economic Goals
  - Economic democracy: To reduce income inequality
  - Creative economy: To expand domestic market and employment

• Specific Strategies
  - Supporting SMEs and raising wages
  - Establishing 17 innovation centers for start-ups & entrepreneurs
President Park’s Two Economic Goals: An Overview

Present Park presented a two-pronged approach for dealing with Korea’s economic problems and achieving a “second miracle of the Han River.”

Economic Democracy

Background
• A response to unbalanced growth
• Mutually reinforcing the cycle of national advancement and the happiness of Koreans

Definition
• Enhancing fairness
  - LE and SMEs to prosper together
  - Eliminating various unfair practices that frustrate SMEs

Creative Economy

Background
• A response to stagnated global market
• Creating new growth engine for new markets and new jobs (2.5 million in five years)

Definition
• Increasing convergence
  - Convergence of technology and industry
  - Convergence of culture and industry

Creation of a new ministry
• Ministry of Future Creation and Science

Moving from market and business friendly polices by President Lee Myung-bak to “fair and creative economy”

President Park’s Two Economic Goals: Effectiveness?

**Economic Democracy**

• **Negative influences of government help**
  The government policies aren't helping, an owner of SME said. The minimum wage will rise from $4.85 this year to $5.25 next year. However, if it costs $1 for a Korean company to make something, it costs only 30 cents for a Chinese company to make it (Washington Post, Oct 13, 2015).

• **Small impact**
  A $39 billion fiscal stimulus package (3% of GDP) includes property-boosting measures such as a loosening of the loan-to-value and debt-to-income ratios for home buyers and increasing the loan amount eligible for borrowers. It looks impressive at first glance, but its actual impact is likely to be fairly small (CNBC, Jul 31, 2014).

**Creative Economy**

• **Slow progress and limited scope of influence**
  To try to lessen South Korea's reliance on exports, Park has been promoting a "creative economy" strategy - fostering start-ups and encouraging entrepreneurship. But these efforts are slow going and are not going to provide any relief to South Korea's 3 million SMEs (Washington Post, Oct 13, 2015).

• **Negative social perception on start-ups**
  The Korea New Exchange was established in July with the aim of further bridging the gap between venture entrepreneurs and investors... Young Koreans often avoid starting a company or working for SMEs due to high risks, instead seeking stable jobs at conglomerates, whether public or private (Koreaherald, Aug 15, 2013).

**Fundamental Problems**

• The vagueness of concepts and a long-term task that would make it almost impossible to achieve in her five-year term
• Different perspectives between the government and the companies
Differences between the government and the firm’s perspectives for achieving the two economic goals.
National vs Firm Competitiveness: Clashing or Compatible?

Dinner party in February, 2011 at Woodside California
- President Obama with 12 major IT company CEOs

• President Obama
What would it take to make iPhones in the U.S.?
Why can't that work come home?

• Steve Jobs
Those jobs aren’t coming back.


<table>
<thead>
<tr>
<th></th>
<th>Politician</th>
<th>Businessman</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>Domestic</td>
<td>Domestic + Foreign</td>
</tr>
<tr>
<td>Interest</td>
<td>Voters</td>
<td>Stakeholders</td>
</tr>
<tr>
<td>Goal</td>
<td>Welfare: Employment</td>
<td>Profit Creation</td>
</tr>
<tr>
<td>Method</td>
<td>Protectionism</td>
<td>Efficiency</td>
</tr>
<tr>
<td>Strategy</td>
<td>Made in Home Country</td>
<td>Made in World</td>
</tr>
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<td>Global View</td>
<td>Competition</td>
<td>Competition + Cooperation</td>
</tr>
<tr>
<td>Outcome</td>
<td>Income Distribution</td>
<td>Survival and Growth</td>
</tr>
</tbody>
</table>
Solution? International Trade vs Global Value Chain (GVC)

**iPhone: US trade/GVC balance with China**

- **Trade balance**: - $1.9 billion [US import: $2.02 billion, US export: $121.5 million]
- **GVC balance**: + $48 million [US value: 6%, Chinese value: 3.6%]

---

**Input** ($121.5 million)

- USA
- China

**Export** ($2.02 billion)

- USA
- China

**Assembly**


Note: In 2009, Chinese iPhone exports at $2.02 billion to US. After deducting $121.5 million in Chinese imports for parts produced by U.S. firms such as chip maker Broadcom Corp., they arrive at the figure of the $1.9 billion Chinese trade surplus—and U.S. trade deficit—in iPhones. 48 million surplus with China comes from the calculation as follows: $121.5 million - $2.02 billion x 3.6% = $48 million.

- Not Really ‘Made in China’: China only accounts for $6.5 (3.6%) of the iPhone’s $178.96 production cost.
- Trade balance is no longer an accurate index of national competitiveness.
Global Value Chain (GVC): Implications

- The unit of competition: from a single firm to the entire GVC
- Competition between GVCs, but cooperation within the GVC
Global Value Chain (GVC): Samsung vs Apple

**Competition and cooperation between and within the Global Value Chain**

**Samsung Electronics**
- Korea (tech, R&D, mother factory)
- Silicon Valley (tech)
- Milan, Italy (design)
- 50 countries (sales)

**Apple**
- Silicon Valley (tech, R&D, design)
- 16 countries (sales)

**Competition**

**Affiliated & Related Firms**
- SEV (manufacturing)
- SEC (flash memory, processor)
- Qualcomm (wireless-communication chip, processor)
- STM, Bosch, Yamaha (sensor)
- Sam Kuang, Intops (case)
- Samsung Display (display & screen)

**Foxconn** (manufacturing)
- SEC (processor)
- Toshiba (Flash memory)
- Qualcomm (wireless-communication chip)
- STM, Bosch, ELPIDA (sensor)
- AT&S (case)
- LG Display (display & screen)

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Comparison between Samsung vs Non-Samsung Suppliers

### Samsung suppliers have higher competitiveness than non-Samsung suppliers (2012)
(unit) firms: number, employees: number, revenue: million won

<table>
<thead>
<tr>
<th></th>
<th>Samsung Suppliers</th>
<th>Non-Samsung Suppliers</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Mobile Phone</td>
<td></td>
</tr>
<tr>
<td>Firms</td>
<td>118</td>
<td>34</td>
<td>3,849</td>
</tr>
<tr>
<td>Average Employees</td>
<td>97</td>
<td>118</td>
<td>38</td>
</tr>
<tr>
<td>Average Revenue</td>
<td>53,443</td>
<td>85,405</td>
<td>9,599</td>
</tr>
<tr>
<td>Revenue per worker</td>
<td>553</td>
<td>720</td>
<td>250</td>
</tr>
</tbody>
</table>

### Samsung suppliers grow faster than non-Samsung suppliers (2010 - 2012)
(unit) firms: number, revenue: million won

<table>
<thead>
<tr>
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<th>Non-Samsung Suppliers</th>
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<td>118 118</td>
<td>34 34</td>
</tr>
<tr>
<td>Growth</td>
<td></td>
<td>2010 2012</td>
</tr>
<tr>
<td>Average Employees</td>
<td>97 118</td>
<td>38 59</td>
</tr>
<tr>
<td>Growth</td>
<td></td>
<td>2010 2012</td>
</tr>
<tr>
<td>Average Revenue</td>
<td>53,443 73,593</td>
<td>85,405 9,599</td>
</tr>
<tr>
<td>Growth</td>
<td>9,203 9,599</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Data Source: Samsung Electronics

Samsung suppliers: Among SMEs with employees of 10-299, the firm sales revenue gained from Samsung Electronics were more than 10%, based on 2012 statistics. The SMEs are manufacturing firms in the sector of electronics parts and components, PC, video, audio, and other communication equipment. Non-Samsung suppliers: firms other than Samsung suppliers in the same industry.

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Korea’s Creative Economy: Policies and Issues

• **Immediate help**
  - Incentives: Cash, tax break
  - Hidden costs?

• **Building infrastructure**
  - Innovation centers in 17 locations
  - Economies of scale?

• **Supporting sectors**
  - A wide range of support: legal, financial, and other services
  - Other supporting sectors and living environment?

• **Narrow goals**
  - Innovation centers for regional innovation and entrepreneurship
  - Global competitiveness?
Silicon Valley: An Overview

Silicon Valley: Interesting Facts
- R&D expenditures grow the most slowly among the innovation regions
- Jobs are created more from existing (65%) and moving in (12%) companies than new ones (23%)
- One high-tech job generates five jobs in the service sector
- But the worker productivity is the highest, 62% above the US average

Comparison with New York City, Boston, Southern California, Seattle and Austin

Growth in R&D Expenditures
Innovation Regions, 2004-2012 (Index 2004-100), inflation adjusted

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth Rate 2004-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York City</td>
<td>+42%</td>
</tr>
<tr>
<td>Austin</td>
<td>+34%</td>
</tr>
<tr>
<td>Seattle</td>
<td>+26%</td>
</tr>
<tr>
<td>Boston</td>
<td>+26%</td>
</tr>
<tr>
<td>ALL INSTITUTIONS</td>
<td>+26%</td>
</tr>
<tr>
<td>S. California</td>
<td>+14%</td>
</tr>
<tr>
<td>Silicon Valley</td>
<td>+9%</td>
</tr>
</tbody>
</table>

Cost of Doing Business and Worker Productivity
Compared to the U.S. Average, Innovation Regions, 2012 and 2013

<table>
<thead>
<tr>
<th>Region</th>
<th>Cost of Doing Business Index in 2012</th>
<th>Annual Output per Worker $/Worker in 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York City</td>
<td>+60%</td>
<td>+60%</td>
</tr>
<tr>
<td>Boston</td>
<td>+25%</td>
<td>+25%</td>
</tr>
<tr>
<td>Silicon Valley</td>
<td>+62%</td>
<td>+62%</td>
</tr>
<tr>
<td>S. California</td>
<td>+14%</td>
<td>+14%</td>
</tr>
<tr>
<td>Seattle</td>
<td>+12%</td>
<td>+12%</td>
</tr>
<tr>
<td>Austin</td>
<td>+5%</td>
<td>+5%</td>
</tr>
</tbody>
</table>

Source: Silicon Valley Competitiveness and Innovation Project 2015
The Relationship between R&D and Business Success

- Wide disparities persist in how well innovation investments actually pay off. R&D is often seen as a black box, where large sums of money go in and innovative products and services only sometimes come out. *(PWC Strategy & Inc. Global Innovation 1000, Winter 2014)*

### The Ten Most Innovative Companies and Their R&D Spending (2014)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>R&amp;D Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td><strong>US$ billion</strong></td>
</tr>
<tr>
<td>1</td>
<td>Apple</td>
<td>4.5</td>
</tr>
<tr>
<td>2</td>
<td>Google</td>
<td>8.0</td>
</tr>
<tr>
<td>3</td>
<td>Amazon</td>
<td>6.6</td>
</tr>
<tr>
<td>4</td>
<td>Samsung</td>
<td>13.4</td>
</tr>
<tr>
<td>5</td>
<td>Tesla Motors</td>
<td>0.2</td>
</tr>
<tr>
<td>6</td>
<td>3M</td>
<td>1.7</td>
</tr>
<tr>
<td>7</td>
<td>GE</td>
<td>4.8</td>
</tr>
<tr>
<td>8</td>
<td>Microsoft</td>
<td>10.4</td>
</tr>
<tr>
<td>9</td>
<td>IBM</td>
<td>6.2</td>
</tr>
<tr>
<td>10</td>
<td>P&amp;G</td>
<td>2.0</td>
</tr>
</tbody>
</table>

- The first computer was created at the University of Pennsylvania and the first semiconductor was invented at Bell Labs in New Jersey, yet neither one was commercialized there. All that happened in Silicon Valley. *(Forbes, April 2, 2013)*
Silicon Valley Competitiveness

• **Dynamics**
  - Fast processes: Idea generation, commercialization, entrepreneurship and business innovation
  - Market economy: Annually 3,000 opened or moved into; 2,500 closed or moved out; 500 net gain

• **Interaction**
  - Continuous churning of companies and jobs: learning and benchmarking others’ skills
  - Sharing experiences of foreign expertise: 56% of technology-related workforce are foreign born

• **Ecosystem**
  - Industry ecosystem: Computers, social media, bio-tech, energy, financial & legal services
  - Living ecosystem: Schools, markets, culture, leisure, climate, etc.
    - Business cost (housing, transportation*): 20% higher than the national average
    *1 in 6 commuters travels two hours or more each day

• **Motivation**
  - Willingness to work harder: Wider income disparity
  - Highest economic mobility: Improving economic status (from bottom 5th to top 5th: 12.5%)

*Numerical data are adopted from Silicon Valley Competitiveness and Innovation Project – 2015 (svcip.com)*
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   • Main issues and possible solutions

4. Conclusion
Conclusion: Strategies for Korea’s Sustainable Growth

What to be careful of and what to promote?

• **Policy Tools**
  - Increasing incentives: Taxpayer’s money
  - Reducing regulations: Reducing red tapes (e.g., hidden costs, time)

• **Development Directions**
  - The Korean way: Innovation centers in 17 locations
  - Global best standards: Silicon Valley (i.e., ecosystem of business & living)

• **Supporting Sectors**
  - Specific firms/sectors: SMEs, services
  - Overall industries: Multi-technology products & industries, synergies

• **Economic Goals**
  - Fairness: Income redistribution
  - Growth: Efficient resource allocation and increasing value creation
Appendix
### Need for a New Perspective: Samsung Electronics vs Nokia

<table>
<thead>
<tr>
<th>Success Case (Samsung)</th>
<th>Failure Case (Nokia)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Speed</strong></td>
<td>Samsung’s success in the smartphone market should be attributed to speed and rapid response to market changes (Guardian, 2012).</td>
</tr>
<tr>
<td><strong>Precision</strong> (quality control)</td>
<td>Samsung CEO Lee said, “Good (quality) products come from the fingertips of our employees and partners.” (Financial Post, 2014).</td>
</tr>
<tr>
<td><strong>Learning</strong></td>
<td>Samsung may lack in innovation, but no one can beat Samsung in playing catch-up (New York Times, 2012).</td>
</tr>
<tr>
<td><strong>Best practice</strong></td>
<td>Samsung’s success story has been largely based on improving products already on the market (Korea Times, 2013).</td>
</tr>
<tr>
<td><strong>Mixing</strong></td>
<td>Samsung’s vertical integration is a key factor behind the success of its smartphone business, which has relied on components sourced internally (Financial Times, 2014).</td>
</tr>
<tr>
<td><strong>Synergy-creation</strong></td>
<td>Samsung’s success in electronics/smartphone is due to the synergistic integration of its different business divisions: consumer electronics, mobile phone, components sectors.</td>
</tr>
<tr>
<td><strong>Diligence</strong> (extra engagement)</td>
<td>Employees are highly disciplined and work long hours: it is common for R&amp;D employees to work on Sundays (Guardian, 2012).</td>
</tr>
<tr>
<td><strong>Goal-orientation</strong> (no complacency)</td>
<td>Samsung creates crisis when things are going well (e.g., operate in a state of perpetual crisis) (Economist, 2011). Samsung continuously changes its target rivals from Motorola to Nokia and to Apple.</td>
</tr>
</tbody>
</table>
### The ABCD Model: An Integration of Established and Emerging Theories

<table>
<thead>
<tr>
<th>Agilelity</th>
<th>Established Theories</th>
<th>Theories and Concepts for Further Development</th>
<th>Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Speed</td>
<td>Early entry advantage</td>
<td>Fast process advantage (Economies of speed)</td>
<td>Automobile Industry</td>
</tr>
<tr>
<td>• Precision</td>
<td>Automation</td>
<td>Process techniques (自働化) e.g., JIT, TQM, 6 sigma</td>
<td>(Ford, Toyota, Hyundai)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benchmarking</th>
<th>Learning</th>
<th>Absorptive capacity (Economies of learning)</th>
<th>Steel Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Learning</td>
<td>Resource-based view of the firm</td>
<td>Incremental innovation e.g., Kaizan, creative imitation</td>
<td>(US steel, Nippon steel, POSCO)</td>
</tr>
<tr>
<td>• Best practice</td>
<td>Destructive innovation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Convergence</th>
<th>Mixing</th>
<th>Combinative capability (Economies of diversity)</th>
<th>Electronics Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Mixing</td>
<td>Specialization capability (Economies of scale)</td>
<td>Related &amp; Unrelated diversification e.g., Chaebol, smartphone</td>
<td>(GE, Sony, Samsung)</td>
</tr>
<tr>
<td>• Synergy-creation</td>
<td>Related diversification (Economies of scope)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Dedication</th>
<th>Diligence</th>
<th>Perspiration (Economies of hard-working)</th>
<th>Work Ethics</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Diligence</td>
<td>Inspiration</td>
<td>Continued growth after catch-up e.g., constructed crisis, extra commitment</td>
<td>(US, Japan, Korea)</td>
</tr>
<tr>
<td>• Goal-orientation</td>
<td>Unique positioning</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## “What” vs “How” Approach

<table>
<thead>
<tr>
<th>Existing Studies</th>
<th>New Study</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>“What” Approach</strong></td>
<td><strong>“How” Approach</strong></td>
</tr>
<tr>
<td>• Superior resources</td>
<td>• Similar resources</td>
</tr>
<tr>
<td>- Cheaper labor</td>
<td>- Similar labor cost, but HOW?</td>
</tr>
<tr>
<td>- Higher technology</td>
<td>- Similar technology, but HOW?</td>
</tr>
<tr>
<td>• Focus on “input” factors</td>
<td>• Focus on “process” factors</td>
</tr>
<tr>
<td>• Static view</td>
<td>• Dynamic view</td>
</tr>
</tbody>
</table>

### Regression Model

\[
Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 \ldots
\]

- “What” Approach: \(X_1, X_2, X_3, X_4 \ldots\)
- “How” Approach: \(\beta_1, \beta_2, \beta_3, \beta_4 \ldots\)

As the gap in “What” factors has been narrowing, the “How” approach becomes more important.