

Foreign experts say

'creative economy' is...

Science & ICT



Service Sector

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The term "creative economy" puzzled many when President Park Geun-hye was inaugurated in February and declared it as her administration's economic paradigm. By June, the government came up with its own definition — "combining creative ideas with science and information and communications technology (ICT) to help create new businesses, markets and industries and to generate more jobs." Along with the definition, the government announced six strategies. Starting a business will become easier, with proper rewards for creative ideas. Small and medium enterprises will play a lead role in an economy that large conglomerates or chaebol have traditionally dominated. The government also plans to encourage the integration of science and ICT into existing industries to add value and competitiveness. It also wants to educate students to foster creativity and entrepreneurship, and plans to invest more in science and ICT. The last strategy is to create a



culture where good ideas are freely communicated and brought to reality. Although the government has laid out somewhat specific goals and detailed plans to achieve them, the public is still learning to understand what a creative economy is, while foreigners remain largely confused. The Korea Times' Business Focus talked to foreign experts to hear their perception of a creative economy and the most important ways to achieve it. The four interviewees visited Korea in June to participate in the Global Industry and Economy Forum 2013, which the state-run Korea Development Institute and the Ministry of Strategy and Finance organized. The experts agree that creativity is the right focus in today's highly dynamic global economy. They believe creativity is a main element in a country's ability to adapt to swift changes and come up with business ideas that cater to consumers' future needs that are not yet known. But they say that rather than focusing on science and ICT, Korea should strive to improve its overall service sector. They do not mean that Korea should move away from the manufac-

turing industry to concentrate on financial services or healthcare. Rather, they argue that the manufacturing and service industries should be much more interdependent and that the service aspect of manufacturing companies should be strengthened. "A lot of value not only comes from your ability to physically produce something, but also comes from how you package it, how you design it, with Korea for more than 20 years. He spent more than 25 years with the World Bank and was in charge of various projects in Korea. While acknowledging Korea's impressive growth over the decades, he remains unsatisfied with the service sector. "In developed economies, the share of services in their GDP is 75 percent or more in average," he says. "The investment in R&D and technology focuses too much on manufacturing. "A lot of innovations are not technology based, but are new ways of organizing and distributing goods and services. Korea is weaker there," he says. He cites Walmart, the world's largest chain of discount and warehouse stores, as an example of non-technical innovation. He says Walmart does not produce goods on its own, but generates revenue through non-technological innovations. Enrico Deiato, director of the Swedish Agency for Growth Policy Analysis, agrees with Dahlman. "A creative economy is a knowledge-based economy where manufacturing and knowledge-based service companies work very closely together," he says. He cites Swedish company Ericsson as an example. In the 1990s, Ericsson mainly installed cellular telephone systems. Today its major business is operating mobile networks around the world. Dirk Pilat, deputy director of Directorate for Science, Technology and Industry at the Organisation for Economic Cooperation and Development (OECD), says Korea should

look at various areas, not just science and ICT. "I often find growth coming from surprising areas — new areas we don't think about at this moment," he says. "There are sometimes risks when a government focuses only on the things which are apparent at this moment. It's important to keep your eyes open for wherever the growth is going to come from." He says a government's willingness to foster start-ups is important in this regard, because this is likely to drive innovations from diverse — or even unknown — areas. "New ideas can more easily come from new firms. They turn into businesses and turn into jobs. Focusing on new ventures is extremely important, and is a sensible policy. The OECD is doing a couple of reviews on Korean policies and we look at them very carefully," Pilat said. **Education reform** Economists agree that education is the most fundamental element for a creative economy, with Dahlman urging Korea to move away from its "industrialized" form of education.

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Improve service side of manufacturing

Dahlman was closely involved

'Service aspect of manufacturing industry should improve'

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Among the government's strategies for a creative economy, education has probably received the least attention. The government's plan to reform education — announced in June 5 — is rather vague. The plan for elementary and middle school students is to develop textbooks that combine mathematics, science, engineering and fine arts. Universities will offer more degrees and courses that cover different majors and fields. The government will also encourage extracurricular activities related to launching new businesses. It will also support start-up societies.

Morris Teubal, professor of economics at the Hebrew University of Jerusalem in Israel, says the foundation of Israel's creative economy was the country's "vision" toward education and a knowledge society.

"It was the founders' vision of the country [Israel] that it should be a knowledge economy, a knowledge society," he says. "Knowledge was very much appreciated. This is reflected in the fact that the Technion — Israel Institute of Technology in Haifa was founded in 1912 and the Hebrew University of Jerusalem was created through 1925 and 1926. That's 23 years before the creation of the state. At the inauguration ceremony of the Hebrew University, Einstein was present."

Teubal says the strength of Israel's "science, technology and higher education" infrastructure, which began to take form in the 1920s, is why the government's effort to foster ventures in these fields succeeded.

Dahlman also stresses the importance of education, especially in cultivating creativity in young minds.

"What Korea did is industrialized education and Korea's higher education enrollment rate and the number of college-educated people are very high compared to the world standard," he says. "But Korean students are not as creative as they need to be in this new context."

He says this is because of the education system and that Korea should focus less on rote learning and more on creativity.

"Then students would come up with innovative solutions to problems," he says. "That's a creative economy."

Don't just imitate Israel

In the early 2000s, Korea had a flourishing venture culture and pioneering IT industry. But with ventures failing and the IT industry stagnating, the government sought sustainable models abroad, especially in Israel and the Silicon Valley in California.

The state-run Small and Medium Business Administration, for example, has nearly copied Israel's Technological Incubator program, which supports selected private incubators to invest in and mentors start-up ventures in science technology. Korea also plans to follow another Israeli program called Yozma (Hebrew for initiatives), which Israel introduced in 1993 to attract venture capital for start-ups by providing tax breaks and matching their investment.

However, Teubal points out that initiatives like Yozma were not possible in many countries.

"You have to have the right institutional structure and the right bankruptcy laws," he says. "Check what kind of intermediation [between start-ups and venture capital] is possible. Limited partnerships, which are a form of intermediation, are not possible in many countries. It was possible by chance in Israel. But it was not possible in Italy, Finland, Argentina and many other countries. It's a knowledge-based, long-term affair."

Dirk Pilat says "the time of an easy



Carl Dahlman
Professor of International relations and information technology at Georgetown University



Dirk Pilat
Deputy director of Directorate for Science, Technology and Industry at the OECD



Enrico Delaio
Director of the Swedish Agency for Growth Policy Analysis



Morris Teubal
Professor of economics at the Hebrew University of Jerusalem

model to follow" is over.

"Probably a country like Korea will have to figure out her own way," he says. "You cannot look at one country and say you want to be like that although you can be inspired and learn from other countries. Korea is getting to a stage where it has to learn from herself. That involves creativity and people with different skills and different education than in the past. The focus on creativity and education becomes much more important."

Can government drive creativity?

So far the government has decided what a creative economy should be and how the related policies will be implemented. The private sector has had little to say. Can the government actually instill creativity and entrepreneurship in businesses and the public and drive innovations?

A Korean scholar familiar with Israeli culture because she is married to an Israeli, says she is not sure if copying Israel will work because Israelis' entrepreneurship and adventurous spirit is part of their personality and culture.

The experts to whom Business Focus spoke say government policy can play a role in bringing about change.

Instead of being a nanny state telling businesses what to do and providing direct subsidies, Korea could create a climate that encouraged business investment.

"It can [do this], definitely, not by selective policies like giving subsidies, but by creating the right attitude, right incentives and right business climate," Deiaio says. "That is different from parts of the Israel model, which was much more selective."

The Swedish cites a few examples of major institutional changes since the economic crises that Sweden faced between 1991 and 1993. The changes include lower corporate tax rates, pension reform, and deregulating the airline, electricity and telecommunication sectors.

While remaining resilient through the global financial crisis and faithful to its welfare system, Sweden was ranked first in "innovation performance" among EU members in this year's European Commission Innovation Union Scoreboard. Sweden also topped several sub-categories, including human resources, "finance and support" and "firm investments."

Deiaio says this flexible business climate allows active "creative destructions" — replacing existing businesses or technologies with more-advanced and innovative counterparts.

"To be creative, you have to allow experimentation," he says. "Sweden is a perfect example. Over the last 10 years,

we lost 300,000 jobs but added around 500,000 — a net creation of almost 195,000 jobs. Companies are born and they exit. We shouldn't be scared when a company fails. It's a normal process, a very good process

actually." Pilat agrees that governments have a key role to play in driving creative economy — and says the first step is to adjust regulations to make the most of a fast-changing business

environment. "The government needs to look very carefully how easy it is for entrepreneurs to create companies," he says. "You have new ideas, a new business model, but there may be

some regulation in place that you never thought about. The government needs to think constantly if its regulations still make sense? On the entry side, that's already very important."

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