

Korea's Startup Renaissance: A New Engine for Economic Development

Abdelfateh Tebani¹ /Laboratory of Algerian capital market assessment in the context of globalization, Faculty of Economics, Commerce and Sciences Management, University of Setif 01 – Ferhat Abbas, Algeria, Abdelfateh. Tebani @univ-setif.dz

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Abstract

South Korea's rapid economic ascent from one of the world's poorest nations in the early 1960s to a leading economy by the mid-1990s is a remarkable success story. This transformation, characterized by high per-capita income and world-class industries, was achieved within a single generation. The nation's economic structure has shifted from a manufacturing-based model to a service-oriented economy, with a notable increase in the number of small businesses and the participation of women and older workers in the workforce. However, the transition from a catch-up model to an innovation-driven economy presents new challenges, requiring a focus on productivity and the development of new growth engines.

This paper explores the potential of startups as a key driver of economic development in South Korea, examining the factors that contribute to their success and the policies that can foster their growth.

Keywords: Korean startups, startup ecosystem, entrepreneurship in Korea, innovation economy, tech startups, venture capital in Korea, economic impact, business growth, government policies, startup funding.

GEL Classification: L26 (Entrepreneurship), O53 (Economy of Asia), M13 (New Firms; Startups), G24 (Venture Capital).

Résumé :

La rapide ascension économique de la Corée du Sud, passée du statut de l'un des pays les plus pauvres du monde au début des années 1960 à celui d'une économie de premier plan au milieu des années 1990, constitue une remarquable success story. Cette transformation, marquée par un revenu par habitant élevé et des industries de classe mondiale, a été accomplie en l'espace d'une seule génération. La structure économique du pays est passée d'un modèle basé sur la fabrication à une économie orientée vers les services, avec une augmentation notable du nombre de petites entreprises ainsi que de la participation des femmes et des travailleurs âgés sur le marché du travail. Cependant, la transition d'un modèle de rattrapage à une économie fondée sur l'innovation pose de nouveaux défis, nécessitant un accent accru sur la productivité et le développement de nouveaux moteurs de croissance.

Ce document explore le potentiel des startups comme moteur clé du développement économique en Corée du Sud, en examinant les facteurs qui contribuent à leur succès ainsi que les politiques susceptibles de favoriser leur croissance.

Mots-clés : startups coréennes, écosystème de startups, entrepreneuriat en Corée, économie de l'innovation, startups technologiques, capital-risque en Corée, impact économique, croissance des entreprises, politiques gouvernementales, financement des startups.

Jel Classification Codes : L26; O53; G24.

¹ Corresponding author: Abdelfateh Tebani e-mail address: Abdelfateh. Tebani @univ-setif.dz

I. Introduction

The startup ecosystem in Korea has been a significant driver of economic growth and transformation, contributing to the country's remarkable economic success in recent decades. Korea, once among the poorest nations in the world, has since become a global economic powerhouse, transitioning from an agriculture-based economy to a technology-driven, innovation-led one. (Lee, 2018)

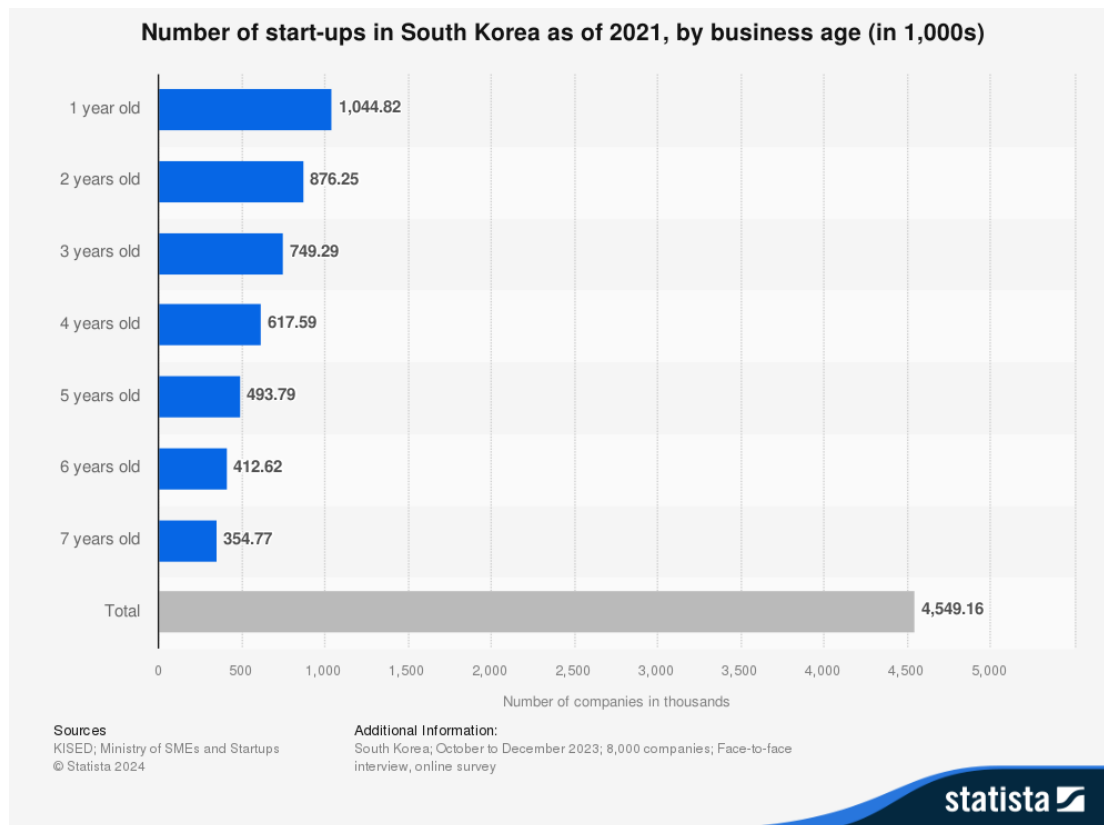
The thriving startup ecosystem in Korea has played a crucial role in this economic transformation.

The genesis of the modern Korean startup ecosystem can be traced back to the late 1990s, a period marked by the Asian Financial Crisis, which exposed vulnerabilities in the existing economic model and catalyzed the need for diversification and innovation (Kim, 2001). In response to the crisis, the Korean government strategically fostered technology-intensive small and medium-sized enterprises as a means of restructuring the economy and promoting growth (Lee, 2003). The emphasis on incubating technology-centered venture firms emerged as a key priority for both the public and private sectors (Lee, 2003). The growth of the Internet and e-commerce played a crucial role during this period, driving societal changes and serving as an antidote for the ailing economy (Kim, 2001). The Asian Financial Crisis of 1997 served as an impetus for the rise of e-commerce in Korea beginning in 1998, which contributed to Korea's economic recovery (Kim, 2001). Sustained e-commerce growth is contingent on continued economic reforms of the domestic market by the Korean government (Kim, 2001).

The Korean government's proactive policies have been instrumental in nurturing the startup ecosystem, by implementing various measures to promote technology-based ventures and encourage innovation (Lee, 2000).

The evolution of venture incubation in Korea has undergone several stages, reflecting the changing economic landscape and policy priorities.

Fig. (01): Number of start-ups in South Korea as of 2021, by business age



Source: KISED; Ministry of SMEs and Startups, 2024

<https://www.statista.com/statistics/717996/south-korea-number-of-start-ups-by-business-age/>

II. Background

II.1 Historical Context: *From Crisis to Innovation*

Post-1997 Asian Financial Crisis reforms catalyzed structural economic changes, emphasizing SME growth to reduce reliance on chaebols (Lee & Kim, 2015). The 2008 Global Financial Crisis further exposed vulnerabilities in traditional models, accelerating government and public support for startups as engines of job creation and resilience (Shin, 2017). By 2013, the Creative Economy Initiative marked a policy pivot, fostering partnerships between startups, chaebols, and academia (Yoon & Lim, 2019).

II.2 Policy Frameworks and Institutional Support

Government initiatives have been pivotal. The Ministry of SMEs and Startups (MSS, 2017) institutionalized support through funding programs (e.g., TIPS program

for R&D) and regulatory sandboxes (Kim et al., 2020). Venture capital grew from \$2.9B in 2016 to \$6.4B in 2021, with public-private funds like KIC and KDB (Lee & Hwang, 2022). Infrastructure projects (e.g., Pangyo Techno Valley) created innovation clusters, though regional disparities persist (Park, 2021).

II.3. Technological and Educational Infrastructure

Korea's high internet penetration (95%) and R&D investment (4.8% of GDP) underpin its tech-driven startups (OECD, 2022). Universities like KAIST and POSTECH have commercialized research via tech-transfer offices, spawning ventures in AI and biotech (Jang et al., 2021). Collaborations with chaebols (e.g., Samsung's C-Lab) blend scale with agility (Choi, 2020).

II.4. Cultural Shifts and Entrepreneurial Mindset

Cultural narratives are shifting from "lifetime employment" to entrepreneurial risk-taking, fueled by unicorn successes (Coupang, Kakao) and media glorification (Kwon, 2018). Youth unemployment and dissatisfaction with chaebol hierarchies further drive this trend (Kim & Lee, 2020). However, stigma around failure and gender gaps (only 15% of startups are female led) remain barriers (Global Entrepreneurship Monitor, 2022).

II.5. Challenges and Global Integration

Despite progress, scaling remains challenging due to late-stage funding gaps and regulatory complexities (Jung, 2021). Startups also compete with chaebols for talent and market share. Yet, global ambitions are evident: Coupang's NYSE IPO (2021) and Naver's AI expansions into Southeast Asia exemplify Korea's "soft power" strategy, leveraging Hallyu for market access (Lee & Cho, 2023).

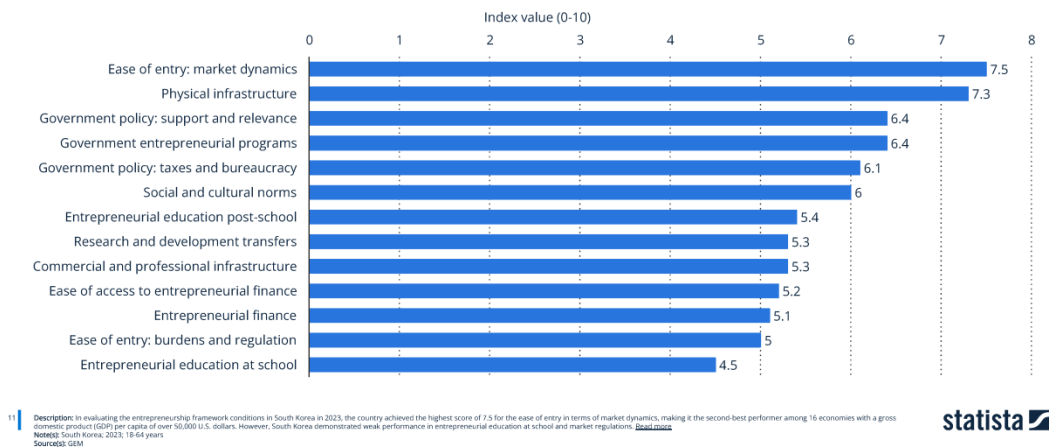
II.6. Economic Impact and Future Trajectory

Startups contribute 12% of GDP and 20% of new jobs (MSS, 2023), signaling economic diversification. However, long-term sustainability hinges on addressing funding cycles, regional inclusivity, and work-life balance to retain talent (OECD, 2023). The COVID-19 pandemic tested resilience but also accelerated digital adoption, benefiting fintech and e-commerce (Kim et al., 2022).

Fig. (02): Entrepreneurship framework conditions South Korea 2023

Entrepreneurship framework conditions in South Korea in 2023, by indicator

Entrepreneurship framework conditions South Korea 2023, by indicator



Source: Open survey Startup alliance, 2024, p 09

<https://www.statista.com/study/56423/startups-in-south-korea/>

III. Startup ecosystem in Korea

III.1. Government Support and Policy

The South Korean government plays a crucial role in fostering the startup ecosystem through active policy support. This includes the development of the Startup Innovation Ecosystem (SIE), which aims to enhance innovation-based startup activities and their performance. The SIE is distinct from the traditional National Innovation System (NIS) and has positively impacted Korea's NIS by co-evolving with government policies. Additionally, the government has implemented immigrant startup programs to attract and support tech entrepreneurs with foreign backgrounds, integrating elements of innovation, entrepreneurship, and immigration policies.

III.2. Entrepreneurial Competencies and Satisfaction

Entrepreneurial competencies, such as information technology and opportunity competency, are vital for the competitive agility and satisfaction of startups in Korea. These competencies enable startups to scan the market environment, seize business opportunities, and transform capabilities into actions, ultimately improving entrepreneurial satisfaction outcomes. The alignment of these competencies with entrepreneurial actions is crucial for the success of small and mid-size startups.

III.3. Challenges and Opportunities for Foreign Entrepreneurs

While South Korea offers numerous opportunities for foreign companies, understanding the local market and navigating its complexities remain challenging. The country is actively seeking new paths to prosperity, opening opportunities for foreign entrepreneurs. For Indonesian workers in Korea, developing startups involves thorough market research, strong business planning, and effective management and financial strategies to succeed in the competitive Korean market.

III.4. Financial Support and Capital Markets

The Korean capital market is structured to support small and medium-sized enterprises (SMEs) and startups, with both private and public capital markets available. The government has developed financial aid programs to provide funds to these companies, significantly contributing to the venture capital market's development. However, startups often face challenges in raising sufficient capital due to low credit ratings and limited access to primary markets.

VI. Overview of Korea's Startup Ecosystem:

South Korea has seen significant growth in its startup ecosystem, driven by government support and private investment. As of 2023, there are over 15,000 startups in the country, with key growth areas including Blockchain, Fintech, Biotech, IoT, Beauty, Fashion, and Korean entertainment.

VI.1. Importance of Startups:

Startups play a crucial role in innovation and economic growth, especially in a country like Korea, where traditional conglomerate-led growth faces limitations in the era of the Fourth Industrial Revolution.

VI.2. Components of Korea's Startup Ecosystem

Quantitative Growth: The number of startups in Korea has increased substantially, with 239,620 technology-based startups in 2021, accounting for 16.9% of all startups. **Qualitative Growth:** There is a shift towards more corporate and technology-based startups, indicating a move beyond quantitative growth to qualitative development, technology and knowledge.

VI.3. Public R&D Investment

Korea has a high ratio of public R&D investment to GDP but faces challenges in technology transfer and commercialization efficiency.

Innovation Hubs

Efforts to create collaborative networks between large corporations Chaebols) and startups are underway, with innovation centers established nationwide Finance

Venture Capital and Funding

There has been a dramatic growth in private venture capital and angel investment, with significant government support through funds like the \$9 billion startup fund.

EXIT Market

The prevalence of IPOs over M&A in the exit market is notable, with a need for more late-stage funding options Infrastructure

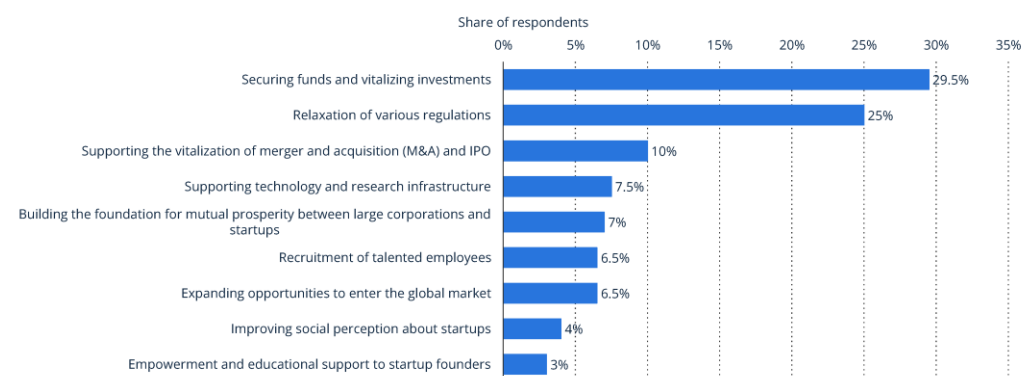
Accelerators and Hubs

An increase in private accelerators and startup hubs, both in metropolitan and local areas, supports startup growth.

Fig. (03): Government priorities for the startup ecosystem South Korea 2023

Key priorities for immediate government action in the startup ecosystem in South Korea in 2023

Government priorities for the startup ecosystem South Korea 2023



14 | Description: According to a survey conducted in South Korea in 2023, about 29.5 percent of startup founders emphasized the need for government support in securing funds and stimulating investments. Additionally, approximately 25 percent of respondents highlighted the importance of easing various regulations.
 Notes: South Korea, September 5 to 19, 2023, 200 startup founders and co-founders
 Source(s): Opensurvey; Startup Alliance

statista

Source: Open survey Startup alliance, 2024, p 15

<https://www.statista.com/study/56423/startups-in-south-korea/>

V. Challenges and Opportunities

The Korean government has played a significant role in fostering the growth of the startup ecosystem through various policy initiatives (Kim, 2008). These include the implementation of legal and financial support mechanisms to encourage

entrepreneurship and innovation. (Холмуратович, 2021) The government's efforts have aimed to transform the Korean economy from a traditional manufacturing-based model to a more knowledge-driven, technology-intensive one. (Kim, 2008)

The Korean startup ecosystem has evolved significantly over the past two decades, with the emergence of a vibrant community of technology-focused small and medium-sized enterprises. This transformation has been driven by the government's strategic shift towards promoting a knowledge-based economy, which has involved measures to establish a robust technological support system and facilitate the commercialization of innovative ideas. (Lee & Choi, 2017)

The rise of the Korean startup ecosystem has had a profound impact on the country's economic landscape. Startups have become a key driver of innovation, job creation, and economic growth, contributing to the diversification of the country's industrial base and the strengthening of its international competitiveness. (Lee, 2003) (Lee & Choi, 2017) (Холмуратович, 2021) (Kim, 2008)

However, the Korean government's approach to nurturing the startup ecosystem has also faced some criticism. Researchers have argued that the government's bureaucratic control and excessive regulations have hindered the active interactions and collaborations between various stakeholders in the innovation ecosystem (Lee & Choi, 2017).

VI. Conclusion

South Korea's startup ecosystem is a dynamic and rapidly evolving landscape, driven by supportive government policies, strong entrepreneurial competencies, and a robust capital market. This study found out that while challenges remain, particularly for foreign entrepreneurs, the country's commitment to technological advancement and global talent attraction positions it as a leading startup hub in Asia.

To ensure long-term success, Korea must address key issues such as technology transfer efficiency, globalization, and reliance on government funding. While government support has been instrumental in fostering innovation, overdependence on state-backed initiatives can limit the diversity of funding sources and slow the natural evolution of the private investment sector. Encouraging more private venture capital participation, corporate investments, and cross-border collaborations will be essential in creating a more resilient startup ecosystem.

Additionally, enhancing international partnerships and improving market accessibility for foreign entrepreneurs can further drive Korea's competitiveness on the global stage. Streamlining regulatory processes, fostering a more inclusive business environment, and expanding international networks will help startups scale beyond domestic borders and integrate into the global economy.



By fostering a more balanced and globally connected startup ecosystem, South Korea can fully leverage its entrepreneurial sector as a key driver of sustainable economic growth, technological leadership, and long-term prosperity. With the right strategies in place, the country is well-positioned to solidify its status as a premier innovation hub in Asia and beyond.

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