

Promotion of Shared Growth through Collaboration
between Big Firms and SMEs in Korea

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In this presentation I would like to introduce a Korean initiative to promote cooperation and collaboration between big firms and SMEs to achieve shared growth and joint prosperity between big firms and SMEs.

I hope the Korean experience can give some implication for India's SME policy.

Industrial Clustering

During Korea's rapid economic growth, which transformed Korea from one of the poorest agrarian economies to a modern industrial power, Korea's industrial clustering strategy played a critical role. Indeed, various industrial complexes were located along the coastal lines and inland localities, and they have served efficiently as export manufacturing bases with easy access to ports and overseas markets. This strategy was also successful in supplying much needed manpower to industrial complexes within commuting distance from surrounding rural areas. As expected, Korea's industrial complexes enjoyed big advantages of scale and scope economies resulting in rapid

urbanization and industrial transformation. Special free economic zones to attract foreign direct investment and free trade areas also added an extra dimension to the industrial complexes. It is fair to say that Korea's highly successful export-led development has been the result of effective clustering strategies of industrial complexes.

“Creative Economy”

In the “new normal” era characterized by slow growth and underemployment, Korea's President Park Geun-hye Administration has proposed “creative economy” initiative to transform Korean economy to a more knowledge-based and innovative system. To this end, Korean government and business sector have been addressing new challenges and issues to embrace new strategies for innovative and sustainable growth. Korea's “creative economy” initiative involves basically the commercialization of new ideas and new technologies by merging manufacturing technology with ICT. At the core is a set of knowledge-intensive economic activities that could be nurtured through effective networking among industries, government, universities and research institutes. It also involves integration of various industries through ICT and active venture financing.

Korea Commission for Corporate Partnership(KCCP)

Following a severe economic downturn and the great demise of Korea's

SMEs after the global financial crisis in 2008, Korean business leaders agreed to establish the Korea Commission for Corporate Partnership (KCCP) in 2010 to encourage and facilitate voluntary collaborations between big companies and SMEs. Although the Commission is a non-government organization, its decisions are respected by the government.

The KCCP aims to create positive-sum synergies through consensus building processes among representatives of big businesses, SMEs and independent public entities. One of the important tasks for KCCP is to determine which businesses should be designated as exclusively for SMEs. KCCP also works to establish fair trade mechanisms between big firms and SMEs.

The KCCP tries to help Korean SMEs become competitive and sustainable through shared growth agreements with big companies, including benefit sharing schemes of technology cooperation, rapid payment system, promotion of joint R&D, and joint overseas marketing and operations. Overall, the KCCP works to make sure that a positive-sum game – not a zero-sum game - is played between big companies and SMEs through dialogue and voluntary collaboration.

Inclusive Growth

It is well known that the Korean economy is characterized by a growing gap between big companies, such as Samsung and LG, and SMEs. Within the

manufacturing sector, SMEs account for 99 percent of the total business establishments and are responsible for 88 percent of Korea's total employment. However, most of the Korean SMEs are operating in old traditional sectors and in subcontracting relationship with big companies. Only 15 percent of SMEs engage in export activities. Also, Korean SMEs normally suffer from poor access to financial institutions, inadequate marketing capabilities and shortage of skilled manpower. KCCP's scheme of shared growth is to help those SMEs in the traditional sectors to innovate and gain competitiveness through collaboration with big companies.

Many of the Korea's relatively new venture companies are innovative and globalized. If Korea's big companies and new generation of hi-tech oriented SMEs can collaborate in R&D and expanding their markets overseas, this can be a win-win framework for both big firms and SMEs.

“Inclusive growth” strategy recommended by the IMF, OECD and World Economic Forum could be an answer to ensure that the benefits of growth would be widely shared, and this could be expedited by sharing the benefits of growth between big companies and SMEs.

Regional Innovation Centers

In 2014, as a concrete step toward building a creative economy, the Korean government designated a total of 18 localities nationwide as regional innovation centers by assigning one business group as anchor, on the basis

of the group's main operating region and local factor endowments, to promote collaborations with local SMEs. It is expected that this arrangement could encourage venture startups through joint technology development and collaboration between the big company and regional SMEs.

For example, Samsung Group has been designated as the anchor company in Daegu City, and Samsung Group is expected to collaborate with the local SMEs in the areas of IT and electronics by establishing the regional innovation center.

Hanjin Group, a global giant in shipping and logistics, has been designated as anchor company in Incheon City, and Hanjin Group has established the regional innovation center to collaborate with regional SMEs in logistics and distribution business.

This approach requires positive interactions between the anchor conglomerates and the local SMEs. Given the size distribution of firms in Korea, it is indeed a great challenge to pursue the two goals of achieving productive efficiency and achieving shared growth between the big firms and SMEs at the same time. However, the vision of "creative economy" and the objective of "shared growth" can be achieved more easily and better by establishing such regional innovation centers and institutionalize collaboration between big companies and SMEs.

Cooperation and co-prosperity between firms are not a matter of sacrifices

or concessions of big companies, but a matter of achieving a mutually beneficial agreements in the spirit of co-prosperity. This spirit of mutually beneficial cooperation is at the root of Korea's regional innovation centers. The search for a new growth engine and the solution to income polarization lies in shared growth and collaboration between big firms and small ones.

I believe that Korea's pursuit of a creative economy and promotion of partnership between big and small businesses in Korea can benefit both the big companies and SMEs, and help Korean economy regain competitiveness and maintain more balanced growth between big companies and SMEs.

Thank you for your attention.