

# The innovation wave

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While policy making and OECD membership helps explain much of Korea’s successes in the last two decades, major firms have had a role to play too. In fact, Korea is associated with several global household brands, as strong demand for the likes of Samsung curved televisions, Hyundai hybrid cars and K-pop hits like “Gangnam Style” jolting the Land of the Morning Calm into the sixth-largest exporter in the world. But while productivity in many large manufacturers has pushed Korea into the world’s top ten producers of cars, ships, mobile phones and DVDs, productivity in smaller firms and the service industry means overall productivity is half the level of leading OECD countries.

A central element in President Park’s “creative economy” initiative of 2013 is to forge new pathways to boost productivity and long-term growth across the entire economy. A digital economy can support productivity gains by lowering barriers to entrepreneurship, enabling firms to reduce fixed costs and outsource many activities. Building on its position as a world leader in the provision of information and communication technology goods, like LG and Samsung, and benefiting from extensive broadband deployment—according to the OECD, Korea ranks 8th in the OECD for mobile broadband subscriptions, and 99% of businesses have broadband connections, OECD data show—the government’s innovation initiative is particularly focusing on start-ups and high-growth small businesses. Small and medium-sized enterprises (SMEs) represented 99.9% of enterprises in 2013, while

micro-enterprises accounted for 93.1%, both higher than the average for most OECD countries (68% and 89.9% respectively), but the digital economy has still to make its mark in this sector.

While 33.8% of larger Korean companies (>250 employees) sold online, this was only the case for 14.9% of smaller companies (10-49 employees). Overall, 15.7% of Korean companies were engaged in sales via e-commerce in 2013, below the OECD average of 21%. Yet Korean consumers are willing digital customers– for instance 47% of smartphone users made purchases on their phones in 2013, higher than the OECD average of 38%, according to data from the *OECD Digital Economy Outlook*.

The aim has to be to lift wages and labour productivity among SMEs, which is only a quarter of that of large firms, in order to provoke a beneficial knock-on effect in the wider economy. The concentration of SMEs in the service sector should be an area of policy focus, so that their productivity levels close the gap with manufacturing.

SMEs also need a better understanding of the digital tools available such as cloud computing, which enables easier, more flexible and on-demand access to applications and computing power, and which can be particularly beneficial for smaller firms. In 2014, more than 22% of businesses used cloud computing services in the OECD area; in Korea, however, only 10.4% of all companies relied on it in 2012.

Korea is also integrating digital innovation into other walks of life with the implementation of the Internet of Things (IoT) project. Rolled out across areas such as public administration and industry, the project aims to improve public services, productivity and efficiency and overall quality of life. To develop the IoT it is important to adapt current regulation in, for example, health care and transport, and in particular to revise medical law to allow for telemedicine.

On the same trajectory, it is important to embed new digital skills into training programmes and education, thus making them even more relevant for labour market needs. The digital economy should be a natural tool in the hands of Korea's digital savvy youth, and its students who regularly rank among the best performers in the OECD's [PISA](#) test, with tertiary educational attainment among younger Korean adults the highest in the OECD. However, a large proportion of young people aged 15-24 are not in education, training or employment. Among the 15-29 age bracket 42% of men and 44.4% of women are part of the labour force, below OECD averages of 64.1% and 53% respectively.

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The promotion of more a positive attitude towards start-ups and the development of a more entrepreneurial spirit will also be a challenge. Survey data indicates that Koreans believe themselves less capable of becoming an entrepreneur than in

most other countries. Many fear failure yet should be encouraged to consider entrepreneurship as a real career choice.

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## References

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