



Organizational, Legal And Financial Approaches To Improving Startup Support Mechanisms: On The Example Of The Republic Of Korea

Khursanov Rustam Kholmuratovich

Candidate Of Legal, Acting Associate Professor Of Civil Law, Tashkent State University Of Law, Uzbekistan

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ABSTRACT

In fact, the development of startups plays an important role in shaping the national innovation system of the country, further increasing the share of innovation in the economy, creating new types of goods, works and services. Although there is no separate law in our country directly regulate the activities of startups, there are dozens of laws that indirectly cover this area. It is natural that the existing legal framework in this area will serve as a legal regulator in the development of startups in the country and the formation of a national innovation system.

Today, the models of developed countries in the legal regulation of innovative activities are used as an example by many developing countries. The national model of innovative development of the Republic of Korea is one of them.

KEYWORDS

Startup, Startup Company, innovation, legal regulation, crowd funding, venture, technology transfer, business incubator and accelerator, creative economy, Chaebol, initial public offering (IPO).

INTRODUCTION

It is important to study the experience of the Republic of Korea in the development and

financing, commercialization of scientific developments, startup projects and innovative ideas. Up to date, the Republic of Korea was

one of the world's leading countries in terms of investment in research, development and technology (R&D) in relation to GDP¹.

The Republic of Korea has established a state-level innovative economic policy, according to which an effective mechanism of state regulation of innovative development is being implemented. Government regulation of innovation development includes the improvement of innovation infrastructure, various sources of funding for innovation, including through venture capital, the emergence of new startups and the development of a set of regulations governing this sphere.

These parameters allow the Republic of Korea to become one of the most developed innovative countries in the world in a short time. The creation of a sufficiently flexible and efficient system of public-private partnership in South Korea has also paved the way for the stabilization of innovations².

The idea of developing an innovative economy in the Republic of Korea is not new idea itself, the first innovative development program was adopted in 1999 - called "Vision 2025". The program outlines the tasks on scientific and technical development of the Republic of Korea until 2015. It was also planned that by 2025, Korea should be competitive in research and development at the G7 level. At the same time, special attention was paid to the quality of

technology, living standards, level of environmental pollution and the development of innovations in medicine.

As one of the first practical steps in the development of innovation, the Korean government launched the Techno park Development Project in 1997. In 1998, the Korean Association of Techno parks (KTA) was established, under the auspices of which six techno parks were established and merged³.

In 2013, the modern stage of development of economic policy of the Republic of Korea has begun. Since then, the Korean government has focused on raising funds for small and medium-sized business development, new business projects in the field of information and communication technologies, and as a result adopted a "creative economy" program as part of innovative development at the state level.

The creative economy is mainly characterized by supporting the participation of citizens in the creation of new goods, works and services through the creation of startups, the development of venture entrepreneurship, the establishment of cooperation between industry and higher education. Through this program, the Korean government has guaranteed the right of all citizens with innovative ideas or unique technology in the country to establish a new structure. As a result, the system of **"startup - study and profit - tax collection - reinvestment"** has fully been

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<https://www.nsf.gov/statistics/2016/nsb20161/#/report/chapter-4/cross-national-comparisons-of-r-d-performance>

² Leshakova N.P. State regulation of innovative development of the Republic of Korea. Russian

Journal of Innovation Economics. 2017; 7(2):161–174 (in Russ.)

³ Sean Connell. Building a Creative Economy in South Korea: Analyzing the Plans and Possibilities for New Economic Growth. Korea Economic Institute of America, 2013

implemented in the country⁴. There are 17 innovation centers in the country, which operate in each region and major cities.

Regarding to lawyers and economists, the essence of the new industrial revolution with the growth of the technological component of production, the Internet things and artificial intelligence will be the integration of digital, physical and biological industries. At the same time, the most difficult issues related to the development of social norms and relevant normative documents, as well as the development of legislation in this area will remain important⁵.

In Korea, an excellent legal framework has been created in the context of the development of key sectors of the economy through innovation and further improvement of startups. In particular, from 2012 to 2015, the country adopted about 130 special documents regulating the activities of ministries, innovation agencies and research institutes. Key regulatory documents have been adopted to ensure the growth of the creative economy, for instance:

1. *Model Law on Intellectual Property* (2014);
2. *Special Act "On Support for the Development of Research Zones"* (2013);
3. *Act "On the creation of an effective ecosystem for the launch of new business projects and venture organizations"* (2013);

⁴ Lee J.-W. The Republic of Korea's Economic Growth and Catch-Up: Implications for the People's Republic Of China. Working Paper Series ADBI. April 2016. (571):28–30. Available from: <https://www.adb.org/sites/default/files/publication/183353/adbipw571.pdf>

⁵ Klaus Schwab. The Fourth Industrial Revolution. World Economic Forum, 2016. 1944835008, 9781944835002

4. *Law on the Regulation of Artificial Intelligence* (2017)⁶.

In addition to the legislative framework, new state structures have been established to influence institutional support for state regulation of the innovative economy. In Korea, the state structure of governance and innovation development has been reformed to improve coordination between ministries and government agencies. The following changes were made as part of the reforms:

- ***The Ministry of Science, Information and Communication Technologies and the Ministry of Future Planning (MSIP) was established;***
- ***In 2017, the Ministry of Small, Medium Business and Startups was established (Minister of SMEs and Startups);***
- ***The powers of the Ministry of Trade, Industry and Energy have been expanded (Ministry of Trade, Industry and Energy, MOTIE). These newly established ministries are key players in the development and support of the country's "creative economy"***⁷.

The responsibilities of the Ministry of Science, Information and Communication Technologies and Future Planning in the implementation of innovative infrastructure include:

- Formation, coordination and evaluation of the strategy for the implementation of the

⁶ Leshakova N.P. State regulation of innovative development of the Republic of Korea. Russian Journal of Innovation Economics. 2017; 7(2):161–174 (in Russ.)

⁷ Leshakova N.P. State regulation of innovative development of the Republic of Korea. Russian Journal of Innovation Economics. 2017; 7(2):161–174 (in Russ.)

creative economy in the field of creative economy and education;

- Coordination of national policy for the development of science and technology;
- Evaluation of the effectiveness of science and technology development policy;
- Adherence to safety measures when using new technologies and nuclear energy;
- Provision of infrastructure for telecommunications and new industries;

The activities of the Ministry of Trade, Industry and Energy have been supplemented with the following powers:

- Formation, coordination and evaluation of policy for the development of research in the industrial sector;
- Development of the regional innovation system;
- Support for the commercialization of new technologies;
- Encourage private investment in research;
- Expanding global cooperation in technology transfer and development.

The main tasks of the newly formed Ministry of Small and Medium Business and Startups are:

- Creation of a convenient system for the formation of firms and startup companies;
- Development of a solid foundation for the development of small, medium-sized businesses and startups;
- Overcoming the shortage of manpower for small and medium-sized businesses and startups;
- Strengthening the capacity of micro-entrepreneurs and ensuring cooperation

between large companies and small, medium-sized businesses and startups.

The full launch of the "creative economy" also includes tax incentives for financing new startups and innovative projects, guarantees of their state support and other financial instruments. In 2015, tax reform aimed at stimulating the national economy, developing small and medium-sized businesses and startups, and simplifying the tax system was carried out:

- a. Restrictions on the use of net operating losses of up to 80% for large companies;
- b. The term of the tax credit was extended for another 3 years;
- c. The tax rate for investments in R&D and energy-efficient production has been reduced;
- d. To encourage the expansion of M&A deals for startups to master new technologies, a 10% deduction from the corporate income tax of the acquiring company has been introduced⁸.

Since 2013, the Korea Development Bank has been the main source of government funding for the "creative economy." To finance projects related to the development of innovations and startups, the Development Bank of Korea has partnered with the Industrial Bank of Korea to set up a \$ 72.3 million Global Partnership Fund, which serves as a strategic investor for venture funds.

A crowdfunding system has been created to finance small projects of small and medium enterprises, startup companies, online financing by an unlimited number and number of investors and the launch of new startup

⁸ Leshakova N.P. State regulation of innovative development of the Republic of Korea. Russian

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projects. That is, the practice of rapid capitalization of investments in the financing of startups through this system was introduced, and the following new aspects were introduced:

- An exchange for small and medium-sized businesses and startups was established only (**KONEX Korea New Exchange**);
- Developed processes for concluding M&A agreements for startup companies;
- There is a procedure for holding events to inform the parties about the activities in the field of M&A.

The Business Incubator Institute is also actively involved in the development of startups and effective research in Korea. They typically offer startups the following opportunities and guarantees. In particular, the release of startups less than 5 years from the date of joint liability for joint obligations, exemption from unsatisfactory credit history, the establishment of a fund to restart the startup project, as well as the introduction of corporate adaptation programs.

Within this system, there are several online platforms that inform stakeholders, take various measures to promote the ideas of the "creative economy", provide information on convenient tools for the development and financing of small and medium enterprises.

1. **CrowdNet** - information on large-scale fundraising and cheap lending;
2. **K <Startup** - basic information on government support for new projects;

3. **Corporation Investment Information Plaza** - supports the exchange of information between prospective companies and investors;
4. **TIPS** - Support promising high-tech projects in Korea and bring them to the international market.

The government has set up a \$ 480 million Future Fund to develop small and medium-sized businesses and startups, which has approved \$ 220 million for investment in new startup projects and \$ 260 million for the M&A sector.

The development of a creative economy means the state's close cooperation with the largest transnational corporations (cheboli) of the Republic of Korea. Chaebol are a group of independent firms and large financial and industrial groups that belong to specific families and are under their administrative and financial control⁹.

According to the plan of the Creative Economy Program, Chaebols will be the main investors and participants in the program of development of techno parks and regional innovation clusters. The main activities of large corporations in this program are the financing of innovation centers, the development of ideas and new projects, support for startups and the provision of practical assistance in sharing research results. It is known that in

⁹ Kim E. The impact of family ownership and capital structures on productivity performance of Korean manufacturing firms: Corporate governance and the «chaebol problem». Jurnal of the Japanese and International Economies. 2005; 20(2):209–233.

Available from: https://www.researchgate.net/publication/222672874_The_impact_of_family_ownership_and_capital_structures_on_productivity_performance_of_Korean_manufacturing_firms_Corporate_governance_and_the_chaebol_problem

Korea, the share of the 5 largest chaebols in the GDP of the Republic is 45 to 60%¹⁰.

It is clear that the deepening of cooperation between universities and industry is also an important factor in supporting scientific research. Because a number of innovation centers are established based on or near large research institutes or universities. For example, the Korea Institute of Industrial Technology (KITECH) has offices in 8 of the 17 centers¹¹.

According to Venturein statistics, in 2015, there were more than 30,000 companies operating in South Korea that could be classified as high-tech startups, and more than 10 venture investors are members of the Unicorn Club, which brings together startups worth more than \$ 1 billion.

It should be noted that the role of the state in the development of the creative economy and innovation in Korea is growing. Over the past 3 years, a legislative framework for innovation development, a system of state institutions regulating and supervising the development of innovations, as well as 17 centers for the development of creative economy and innovation have been established.

CONCLUSION

In order to centralize and improve the state policy to support startups, taking into account the experience of the Republic of Korea, it is necessary to establish a special state body for small, medium-sized businesses and startups. The main powers of the state structure are to create a convenient system for the formation

of firms and startups; developing a solid foundation for the development of small, medium-sized businesses and startups; overcoming the shortage of manpower of small and medium-sized businesses and startups; strengthening the capacity of micro-entrepreneurs and ensuring cooperation between large companies and small, medium-sized businesses and startups. It is also necessary to further revitalize the system of grant programs and consulting programs by qualified experts to finance startup companies at different stages.

At the same time, it is expedient to develop a roadmap for small and medium-sized businesses, startups on the organization of special stock exchanges. This roadmap should provide for the simplification of the system of concluding contracts through the issuance of securities owned by small and medium-sized businesses, startups and their placement on the stock exchange.

In conclusion, the innovative system of the Republic of Korea combines the state investment policy in the field of research with business strategies based on the requirements of the world market. It might be better the Korean experience should be applied in Uzbekistan as well.

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