

The Fourth Industrial Revolution and the Future of Capitalism



Moderator **CHO Dongsung** Chancellor, Incheon National University
Discussant **George HARA** Chairman and Chief Executive Officer, DEFTA Partners
ZHOU Li Assistant Dean, Cheung Kong Graduate School of Business, China
Rapporteur **PARK Hanna** Edu-Consulting Manager, Korea Human Development Institute

— **George HARA** In the past, I served as ambassador to the U.S., and my work as an archaeologist took me to places like Honduras, India, and Guatemala. I went on to get my M.B.A. at Stanford University, and it was during this time that I became aware of all of the successes coming out of Silicon Valley. In 1985, I founded a venture capital firm, and we made considerable contributions to nurturing the Information and Communications Technologies (ICT) and high-tech industries in San Francisco and Israel. After we went public on NASDAQ in the 1990s, I began exploring the idea of a self-initiated capitalism. I started doing research on businesses in Europe, Israel and the U.S., focusing specifically on corporate social initiatives. I also did work in Japan, providing consultations for the finance ministry and for the Prime Minister. I developed an interest during this time in developing countries, for example in Africa. I became aware that 40 percent of the three billion people who live on the African continent are impoverished. This got me interested in the issue of public interest.

Public interest capitalism is concerned with the creation of an environment where companies, vendors, employees, and society as a whole can thrive. It

makes possible the redistribution of wealth through the redistribution of the power that the capitalism thus far, has been concentrated in the hands of a few. Companies use this redistributed capital in their efforts to create healthy communities. People and companies become linked in a virtuous circle, which enhances the value of companies and ultimately benefits shareholders. This is what public interest capitalism entails.

— **ZHOU Li** The Fourth Industrial Revolution is unlike previous industrial revolutions. As has been discussed at Davos, we can expect numerous concurrent technological breakthroughs that will profoundly alter our lives. China, having missed out to a large extent on the previous revolutions, has been working to get quickly up to speed. And China has made a rapid strides toward the forefront of the new industrial revolution on the back of its state capitalist system. At the start of industrialization, China's growth figures were lower than the average, while in Japan, industrialization drove broad growth, and in Korea, the Third Industrial Revolution enabled the country to surpass the global average and achieve many successes. China's development began in the 1970s, and today, the country is a major economic

power that is recording continued growth. By shifting from the planned economy maintained until the 1970s to a partially market-oriented economy, it has been able to catch up to much of the world.

For China, the advent of the Fourth Industrial Revolution coincides with several important factors. First, China's market size is among the largest, and the country ranks third in the world in patent applications. Second, China's data and computer sectors are growing rapidly, and the Chinese robotics industry is on par with the rest of the world. With China's upper middle class expected to exercise significant purchasing power, accounting for over 56 percent of the country's consumer market by 2022, the Chinese market will no doubt present attractive opportunities for many companies around the world. China is making rapid gains in R&D as well. China Produces more college graduates than the U.S., large numbers of Chinese have been educated abroad which brings high exposure to the latest technologies. The country may have once lagged behind in growth, but today it is catching up at a tremendous pace.

Though capitalism in China differs from capitalism in Western countries, the Chinese state-run system is running stably. Progress is being made on the "Made in China 2025 Initiative," and efforts are being made to promote the development of growth of major industries. Views on China's state capitalism model remain divided, but in the words of Deng Xiaoping, "It does not matter whether a cat is white or black, as long as it catches mice." In my view, the state-owned enterprises that have proceeded according to central planning are the main drivers of the Chinese economy.

— **CHO Dongsung** Before going into an explanation of the Fourth Industrial Revolution, I would like to first look at a few examples of national economic strategies. In Japan, ultra-nationalist policies have been advanced under the guise of constitutional reform and savvy diplomacy, and the quantitative easing measures central to "Abenomics" have helped the Japanese overcome their prior defeatism. Germany has opened smart factories equipped with

Internet of Things (IoT) solutions and set a goal to improve industrial productivity by 30 percent. The Trump administration has introduced a model of politics that returns to the protectionism that characterized the period between the 1890s and 1930s, with an executive order issued to withdraw the country from the Trans-Pacific Partnership (TPP) and indications that a similar withdrawal from the North American Free Trade Agreement (NAFTA) may be next. Korea has weak monetary policies and institutions, but the economy has a strong manufacturing sector at its core which means that the country needs to target the Fourth Industrial Revolution in the short term and devise a smart national strategy for the long term.

For a sounder capitalism to take root in Korea, a consensus needs to be reached between management and labor, and the advanced manufacturing base needs to be harmonized with state-of-the-art science and technology. For Korea to become a smart nation, it will have to satisfy conditions like the popularization of ICT, economies of scale, and the alleviation of social and economic polarization, and shared value creation will need to take place on the basis of a consensus between business and society. Capitalism in its current form is unpredictable, but the capitalism of the future should be centered on people and shared values. Shared value creation can happen through clusters, where you can achieve the dynamic of simultaneously pursuing the interests of the individual company as well as the interests of the cluster. It will be necessary to explore ways to develop these clusters. Creating shared values is a truly Korean idea. In some respects, to enhance cooperative value is a way forward not just for Korea but for Asia as a whole.

[Q & A]

Q. CHO Dongsung Would you say that Japanese companies, given the choice between corporate values and social values, are inclined to prioritize on the latter?

A. George HARA Traditional owners would prioritize social values because they recognize that economic value creation happens in the process of pursuing social values.

Q. CHO Dongsung I want to ask Korean businesspeople in the audience the same question. If you found yourself in a situation where you had to choose between social values and corporate values, that is, profit generation, which would you choose?

A. MIN Namkyu(CEO, JK Materials) If it was a situation where the survival of the company was at stake, corporate values would be a higher priority. In our current situation, I think we might put social values first.

A. KOO Jakwan(CEO, Samkoo Inc.) In terms of shared values, the role of shareholders interested in the company's growth is important, but the employees are also extremely important. I think the answer would vary depending on the life stage of a company. I would say companies have a responsibility to society, and it is their duty to carry out this responsibility faithfully.

Q. CHO Dongsung Chairman Chang Mankey, of the Korea Human Development Institute, could you give us your take?

A. CHANG Mankey(President, Korea Human Development Institute) The solutions to any problems lie in the people. If a company finds itself in a situation where the interests of society and the interests of the company conflict, the company probably was not doing things properly in the first place. In my opinion, it would be more important to focus on resolving that problem than to go on about social and corporate values.

A. Japanese businessman If we enter the Fourth Industrial Revolution and engage in competition without principles, both Japan and the U.S. will fall into a crisis. If the crisis prolonged they will make both difficult to survive into the next century. This is why sound management principles are important. We need to have the mindset that we are going to change the world together.



Policy Implications

- Capitalism as it exists today is far from perfect, and it will have to change in step with future developments. Before such changes can take place, there are principles that must be realized first, for example, a virtuous-circle relationship between the creation of shared value, wealth redistribution, and power. Preparing for the Fourth Industrial Revolution and beyond will only be possible when distribution and sharing of wealth are prioritized over its concentration.
- Growth can be considered healthy when people are the primary consideration. Proper management ideals and philosophies based on this understanding need to be established.

New Value Creation and Management Philosophy of Longevity Corporation in Asia



Moderator	CHO Woojin Professor, Tama University
Keynote Speaker	Hideaki OTAKA Vice Chairman, Pasona / Former President, Toyota Motor North America PARK Jinsun CEO, Sempio Foods Company
Discussant	CHANG Mankey Chairman, Korea Human Development Institute
Rapporteur	CHOI Yong Jun Section Chief, Korea Human Development Institute

Hideaki OTAKA In Japan, more than 25,000 companies have been in business for over 100 years and of these, more than 10,000 have operated for over 200 years. The U.S. has the second largest number of companies, 11,000 of which have been in business for more than 100 years. Germany comes in third with 7,600 businesses still running after 100 years. I have been doing research on the keywords and development plans for long-lived corporations and how they managed to stay in business for so many years. Among the oldest companies in Japan, Kongo Gumi has the longest history. Kongo Gumi is well-known as one of the oldest companies in the world. This construction company was established in the year 578 to build temples and flourished during the Nara Period(710–784). A variety of long-lived Japanese businesses that operate today include Ikenobo Kodokai, a company which teaches flower arrangement, and Japanese traditional hotels situated around hot springs.

One needs to look at the different aspects of running a business, rather than just focusing on profit generation, to answer the question “What positive effects do long-lived corporations bring?” In modern

American society, making money is considered the most important value, but Adam Smith, who was once called the father of capitalism in the middle of the 18th century, noted in his book *The Wealth of Nations* that corporations should be allowed to freely pursue its business aims without state regulations. Smith afterwards emphasized in his book *The Theory of Moral Sentiments* that business leaders must be equipped with their own ethics, philosophies, and sentiments.

This year marks the 80th anniversary of the establishment of Toyota Motor Corporation. The management philosophies developed by founder Toyoda Kiichiro are still embraced by the entire company. All Toyota employees should not flaunt their wealth based on the assumption that their industry creates high profits and contributes to the national economy; be diligent and honest; and create a virtuous culture with the spirit of fraternity. The founder consistently emphasized that Toyota was owned by society at large and not by its stakeholders or any one individual. Ishida Baigan founded a religious movement called Sekimon Shingaku in the Edo Period. The philosophy of Shingaku, literally meaning heart