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CONTENTS

KEI Board of Directors	II
KEI Advisory Council	III
Preface	V

Overview and Macroeconomic Issues

Lessons from the Economic Development Experience of South Korea	1
<i>Danny Leipziger</i>	
The Role of Aid in Korea's Development.....	7
<i>Lee Kye Woo</i>	
Future Prospects for the Korean Economy.....	27
<i>Jung Kyu-Chul</i>	

Building a Creative Economy

The Creative Economy of the Park Geun-hye Administration	35
<i>Cha Doo-won</i>	
The Real Korean Innovation Challenge: Services and Small Businesses	47
<i>Robert D. Atkinson</i>	
Spurring the Development of Venture Capital in Korea.....	55
<i>Randall Jones</i>	

Economic Relations with Europe

Korea's Economic Relations with the EU and the Korea-EU FTA	65
<i>Kang Yoo-duk</i>	
130 years between Korea and Italy: Evaluation and Prospect.....	73
<i>Oh Tae Hyun</i>	
2014: 130 Years of Diplomatic Relations between Korea and Italy	81
<i>Angelo Gioe</i>	
130 th Anniversary of Korea's Economic Relations with Russia	87
<i>Jeong Yeo-cheon</i>	

North Korea

The Costs of Korean Unification: Realistic Lessons from the German Case	93
<i>Rudiger Frank</i>	
President Park Geun-hye's Unification Vision and Policy	101
<i>Jo Dongho</i>	



130 YEARS BETWEEN KOREA AND ITALY: EVALUATION AND PROSPECT

By Oh Tae Hyun

Abstract

Last year was a special year for Korea and Italy as it marked the 130th anniversary of the Korean-Italian diplomatic relationship. Today, Korea and Italy share similar economic features including competitiveness and global companies. Their relationship has grown in the last few decades with the bilateral volume of trade between Italy and Korea exceeding \$1 billion in 1987 and expanding to \$8.5 billion in 2013. However, despite the growth in bilateral trade there is still room for the economic relationship to expand as the performance of investments between Korea and Italy have not been as strong as their economic size and trade volume would indicate.

Introduction

In October 2014, President Park Geun-hye visited Milan, Italy to attend the Asia-Europe Meeting (ASEM). Even though the ASEM summit was the main reason for the official visit to Italy, 2014 was a special year for Korea (or ROK, Republic of Korea) and Italy, the 130th anniversary of the Korean-Italian diplomatic relationship. Following ASEM, President Park held two official summits with Italian President Giorgio Napolitano and Prime Minister Matteo Renzi. Leaders of both countries held extensive discussions on ways to enhance bilateral substantive cooperation in expanding trade and investments, recent developments on the Korean Peninsula, and cooperation efforts on regional and international issues. After the summits, the two leaders signed a total of 17 agreements covering a wide range of areas, including the economy, culture, fashion, and IT.¹ In particular, President Park emphasized cooperative measures for creative industries, as well as for science, defense, and the arts.² They also declared that the Korea-EU FTA could have a positive impact on bilateral trade and reaffirmed their commitment to its full implementation.

With 130 years of diplomatic relations, both Korea and Italy have similar economic features including competitiveness and global companies. First, Korea is one of the most resilient and competitive countries in Asia and the 15th biggest economy in terms of GDP in 2013, and Italy ranks as the 9th largest economy. Second, in terms of trade, both Korea and Italy are leading trading countries despite having few natural resources. Korea is the 12th largest exporter and the 14th largest importer in the world, whereas Italy ranks 8th in exports and 7th in imports. Third, both countries have globally competitive companies, which are reflected in the *Global 500* published by Fortune. Among the world's 500 companies in 2014, both Korea and Italy have seven companies each. In terms of market values, Korean companies have \$392,661 million and Italian companies have \$341,058 million. And Forbes' *Global 2000* listed 52 Korean companies and 30 Italian companies among the world's 2000 leading companies in 2014. However, there are some differentiating factors between Korea and Italy. Among them, small and medium-sized enterprises (SMEs) are the main pivot of the Italian economy, which makes up 99.9 percent of its firms, 80 percent of its employment and 67 percent of its value added among the highest proportions in any OECD countries.³

This article will explore the 130-year diplomatic history between Korea and Italy, beginning with a focus on trade, investments, and political issues. The second section describes and suggests measures to enhance cooperation in economy, politics, and culture.

Bilateral History between Korea and Italy

Overview of Diplomatic Relations Between Korea and Italy

Official bilateral relations between Italy and Korea date back to 1884, when the Chosun Dynasty and Italy signed the *Treaty of Friendship, Commerce, and Navigation between Korea and Italy*. Substantive relations between Korea and Italy have been remarkable since the Korean War broke out in 1950. During the Korean War (1950-1953), Italy helped the Korean people by sending humanitarian aid to the field hospitals, even though Italy was not a member of United Nations and had difficulty recovering from World War II. In 1956, the two countries reestablished diplomatic relations through embassies, instead of legations. Since then, the two countries have built and maintained a high level of bilateral cooperation. In 1984, they celebrated the 100th anniversary of diplomatic relations by exchanging messages between the two countries' leaders and by holding various commemorative events. Despite their long diplomatic history, the first state visit of Korea to Italy was in 2000 by President Kim Dae-jung, and the first state visit of Italy to Korea was in 2007 by Prime Minister Romano Prodi.

Furthermore, Italy has played an important role in bringing peace and stability to the Korean Peninsula as the first G7 country to establish diplomatic ties with North Korea in 2000 after the end of the Cold War. Italy took this initiative, which was carried out in close consultation with the ROK government, to support the ROK's policy of dialogue. They reiterated that Italy and the European Union strongly support the engagement policy South Korea has adopted vis-a-vis North Korea.

Trends in Economic Relations between Korea and Italy

Key Features of Both Countries' Economies

According to *The Global Competitiveness Report 2014-2015* released by the World Bank, Korea ranks 26th and Italy's ranking is 49th. Korea has comparative strengths in the macroeconomic environment, market side and innovation compared to the average, while it shows less competitiveness on institutions, labor market efficiency, and financial market development (Figure 1). On the other hand, Italy shows competitiveness on market size only, and is less competitive on other indicators. It is estimated that without additional policies and reforms to address structural obstacles, Italy's growth may remain sluggish over the near term (Figure 2).⁴

Recent Features of the Korean Economy

For decades, Korea was a model for industrializing countries with a combination of a relatively free market, preindustrial development policies, and an outward orientation.⁵ In particular, high-tech, innovative goods such as semiconductors and mobile phones, and manufactured goods like shipbuilding and vehicles, are competitive compared with other countries. During the last few decades, an export-driven economy has been the growth engine for Korea. However, the Korean economy has had difficulties with the competitiveness gap between large enterprises and small and medium enterprises (SMEs).⁶ In addition, economic growth has slowed with the decline of employment, and the productivity gap has widened between manufacturing and services. To address structural challenges, President Park has emphasized the importance of the creative economy and innovation for the future of Korea.⁷ In the *Three-year Plan for Economic Innovation*—with goals of 4 percent economic growth, 70 percent employment, and \$40,000 per capita income—President Park highlighted tackling public sector reforms, righting ill practices rampant in our society, boosting domestic demand through promoting Korea’s long-underperforming SMEs and fostering a creative economy.⁸ In order to boost Korea’s growth, the three-year plan suggests three strategies and nine areas of focus.

Strategy 1: Fair and efficient economy

- a. Reform the public sector on the basis of efficiency
- b. Reform the private sector on the basis of fair practices
- c. Strengthen social safety nets

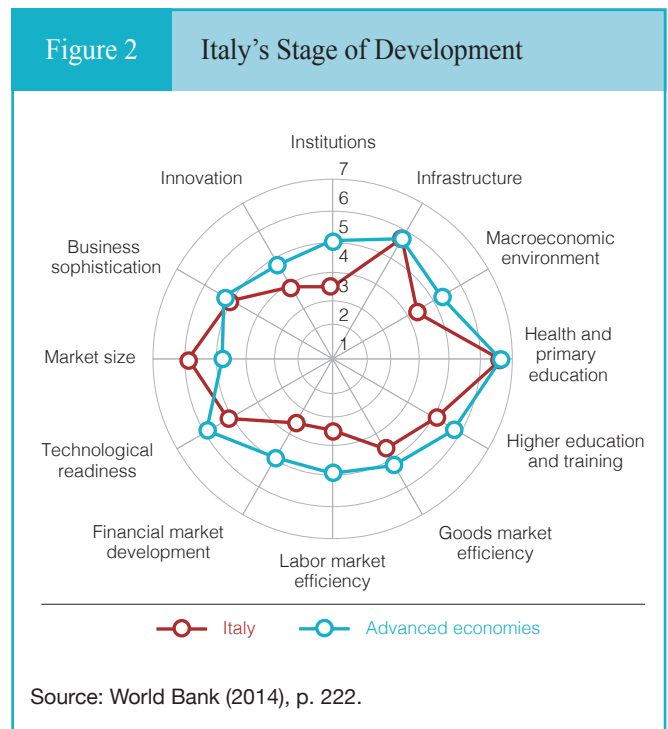
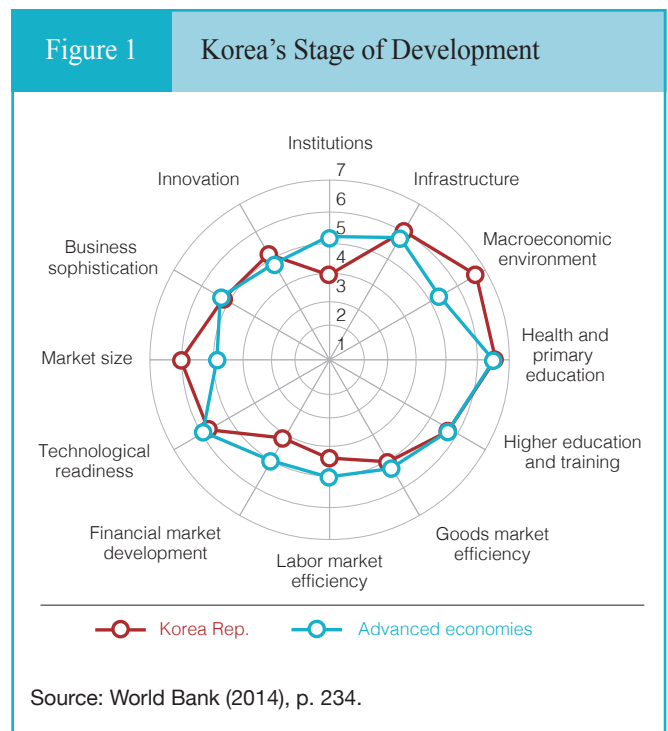
Strategy 2: Growth through innovation

- a. Promote a creative economy
- b. Invest in the future
- c. Develop overseas markets

Strategy 3: Balance between exports and domestic consumption

- a. Boost investment
- b. Stimulate domestic consumption
- c. Increase female and youth employment

As the creative economy is one of the core pillars for implementing the *Three-year Plan for Economic Innovation*, President Park presented her vision of it at a business forum in Milan, cohosted by businessmen from Korea and Italy. In other words, bilateral cooperation between Korea and Italy could enhance the foundation of the creative economy for Korea, while also supporting the Italian economy.



Recent Features of the Italian Economy

The third largest country in the Eurozone, Italy has been well known for the competitiveness of its SMEs. In particular, there are many competitive family-based companies which have succeeded for hundreds of years. SMEs in Italy comprise 99 percent of the country’s industrial forces, and

Table 1

Major Trade Goods Between Korea and Italy (2013) (Unit: \$ million, MTI 4-digit)

	Exports from Korea to Italy			Imports from Italy to Korea		
	Code	Name	Value	Code	Name	Value
1	7411	Passenger car	453	5132	Leather bags	420
2	2140	Synthetic resin	385	7512	Valve	346
3	8121	Wireless phone	209	1334	Naphtha	346
4	7461	Vessel	149	2262	Pharmaceuticals	298
5	6132	Hot rolled sheet and strip	144	4412	Knit fabric garments	196
6	6133	Cold rolled steel and strip	103	7111	Prime mover	164
7	3203	Tires	80	5129	Other footwear	139
8	7420	Parts of automobile	80	6171	Casting, forged steel	120
9	7231	Machine tools for cutting metal	78	7112	Pump	108
10	4360	Knitted fabrics	53	9411	Spectacles	103
Top 10	Value	1,734 (55.8%)		Value	2,240 (41.6%)	
Total	Value	3,126 (100%)		Value	5,383 (100%)	

Source: KITA (www.kita.net, accessed 2 Dec 2014).

produce 65 percent of the country's exports and account for 80 percent of the country's employment.⁹ Italy has remained the world's top ranking exporter in textiles, clothing, and leather goods.¹⁰ Also, Italian competitiveness is evident in the ranking of Italian brands. According to FutureBrand Index 2014, Italy ranks 5th in the world after the United States, France, Germany, and Japan. In terms of industry sectors, Italy records a high level on Food & Beverage (2nd), Fashion (2nd), Luxury (3rd), Automotive (4th), Personal Care & Beauty (5th), and Electronic goods (10th). Korea ranks 10th in the world, with a high level only in Electronic goods (4th) and Automotive (8th).¹¹ The Italian economy, however, has gone through difficult times since the European sovereign crisis in 2010.¹² In particular, the Italian economy as a whole may have faced difficulties integrating and exploiting new technologies to boost performance as well as a broad range of structural and administrative issues.¹³ Prime Minister Matteo Renzi wanted to stimulate growth, which is possible only if Italy's economy regains its competitiveness. Therefore, when the Italian government suggested their G20 Growth Strategies in 2014, Italy tried to deal with some reforms to address the inefficient governance system in spite of important achievements. According to the IMF, Italy has to streamline unnecessary regulations to reduce and red tape to recover their competitiveness. In fact, Italian economy has been estimated to lose its competitiveness on the global market over the last decades. The SMEs-centered economy of Italy has some challenges to deal with.

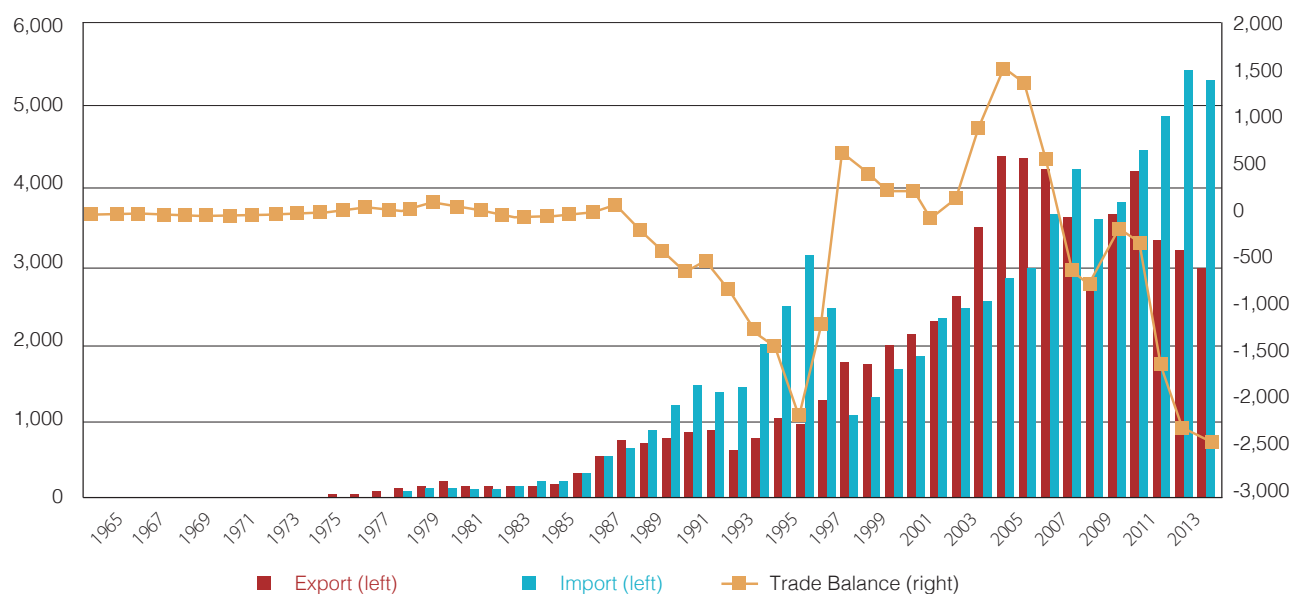
Trade and Investments between Korea and Italy

Trends in Trade Between Korea and Italy

The bilateral volume of trade between Italy and Korea exceeded about \$1 billion in 1987, and amounted to \$8.5 billion in 2013 (Figure 3). In 2013, Italy ranked the 31st destination of Korean exports and the 22nd of Korean imports. Among EU members, Italy is Korea's 5th largest trade partner, following Germany, Netherland, UK, and France. Bilateral trade volume between Korea and Italy remains at a low level compared to the magnitude of their total foreign trade. Korea's exports to Italy, which had been experiencing ups and downs after the global financial crisis and the European sovereign crisis, have decreased since 2011. This decrease seems to be natural given Korea's overall exports to the EU shrank by 7.3 percent in the same period. This is because major export goods from Korea to Europe are impacted by the economic situation. In contrast, Korea's imports from Italy have increased even though there was once a sharp drop in 2009. In this context, the reason why Korea's trade deficit vis-à-vis Italy has widened is that the economic recession in Italy decelerated import demand because of the European sovereign crisis and economic recession. Even though trade size could be high, it can increase to better reflect the potentialities of the two economies given the economic size of the two countries. Korea and Italy must, therefore, work to increase bilateral trade through export promotion and

Figure 3

Trade Balance Between Korea and Italy (Unit: \$ million)



Source: KITA (www.kita.net, accessed 2 Dec 2014).

liberalization of the remaining hurdles. In terms of goods, major exports good from Korea to Italy are passenger cars, synthesis resin, wireless phones, vessels, and hot rolled sheet, while imports from Italy are leather bags, valves, naphtha, and pharmaceuticals (Table 1). As seen in Table 1, Korea's top 10 exports to Italy account for 55.8 percent and Korea's top 10 imports from Italy are 41.6 percent. This shows that Korea should take active measures to diversify its goods and global markets.

Trends in Foreign Direct Investment Between Korea and Italy

Among useful and efficient ways to increase trade is to encourage investments in both directions. However, the performances of investments between Korea and Italy have not been as strong as their economic size and trade volume. So it leaves much room for improvement. In terms of Foreign Direct Investment (FDI) inflows from Italy to Korea from 1962-2014, Italy's investment accounts for 0.2 percent (\$535 million) of the total inward investments to Korea, ranking 29th in the world and 12th among the EU member countries (Figure 4). At the sector level, Italy's FDI to Korea is concentrated in the areas of accommodation and food service activities (27.9 percent) for services, and machinery and equipment (27.1 percent) for manufacturing. Trends of Italian investment to

Korea have shown variations. FDI from Korea to Italy records 0.15 percent (\$569 million) ratio of FDI stocks during the period of 1968-2014, which means that Italy is the 54th country for Korea's FDI (Figure 5). At the sector level, FDI outflows from Korea to Italy were mainly directed toward retail and wholesale (62.5 percent), manufacturing (16.9 percent), and financial and insurance activities (11.5 percent).

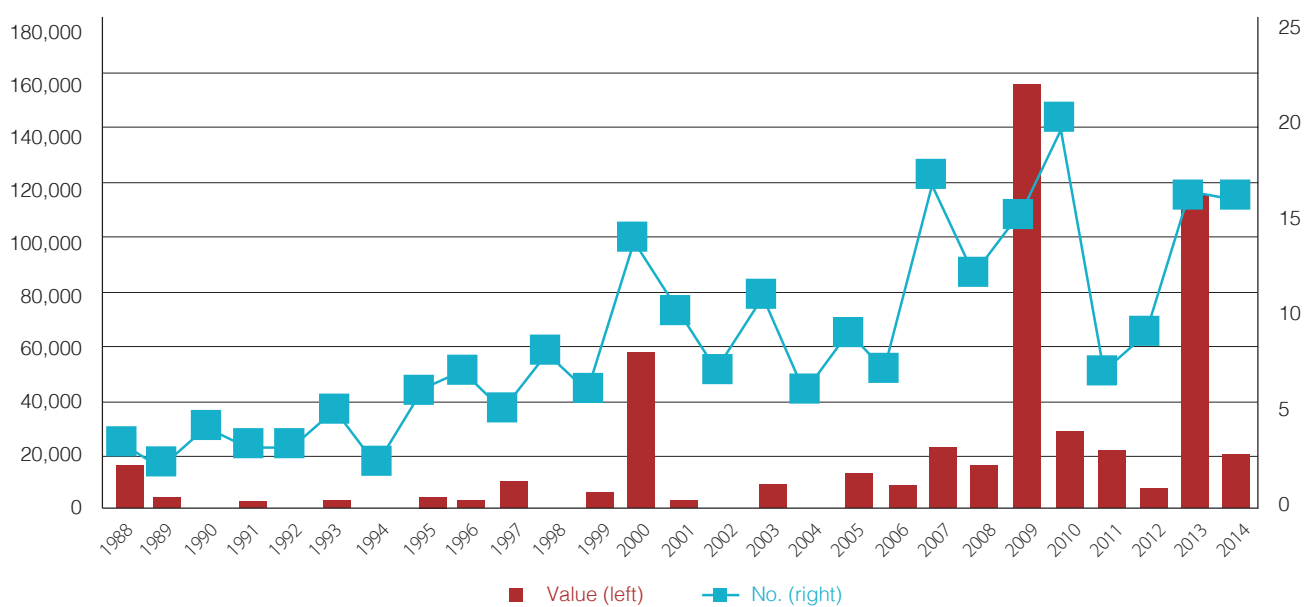
Major Cooperation Issues Between Korea and Italy for the Future

Economic Cooperation: SMEs and Creative Economy Partnership

"If the two nations could collaborate with each other's strength through industrial and technological cooperation, creative ideas could become manufactured goods targeting the global market," President Park said at a business forum in Milan on October 2014. Korea and Italy signed a series of memorandums of understanding to boost cooperation in a wide range of issues, including fashion, design, and information technology. Cooperation, competition and creativity between Italian SMEs and Korean SMEs could lead to a new era of the global market beyond domestic and regional markets. As President Park mentioned, Italian SMEs have been well known for their longevity and competitiveness based on Italian brand power. Also, Korea

Figure 4

FDI Inflows from Italy to Korea (Unit: \$ thousands)



Source: MOTIE (www.motie.go.kr, accessed December 26, 2014).

has obvious strengths in manufacturing and IT technologies. According to the OECD, Korea's gross domestic expenditure on R&D as a percentage of GDP was 4.039 in 2012, the 2nd among OECD countries, while that of Italy is 1.266.¹⁴ Therefore the combination of Italy's brand and Korea's technology can benefit companies in both countries. In addition, the automobile industry is an area where Korea and Italy can cooperate by integrating their comparative advantages on IT and automobile production. As a result of the summit, 17 agreements—covering the economy, culture, fashion, and IT—will be implemented by a high-level cooperation committee.

Political Cooperation

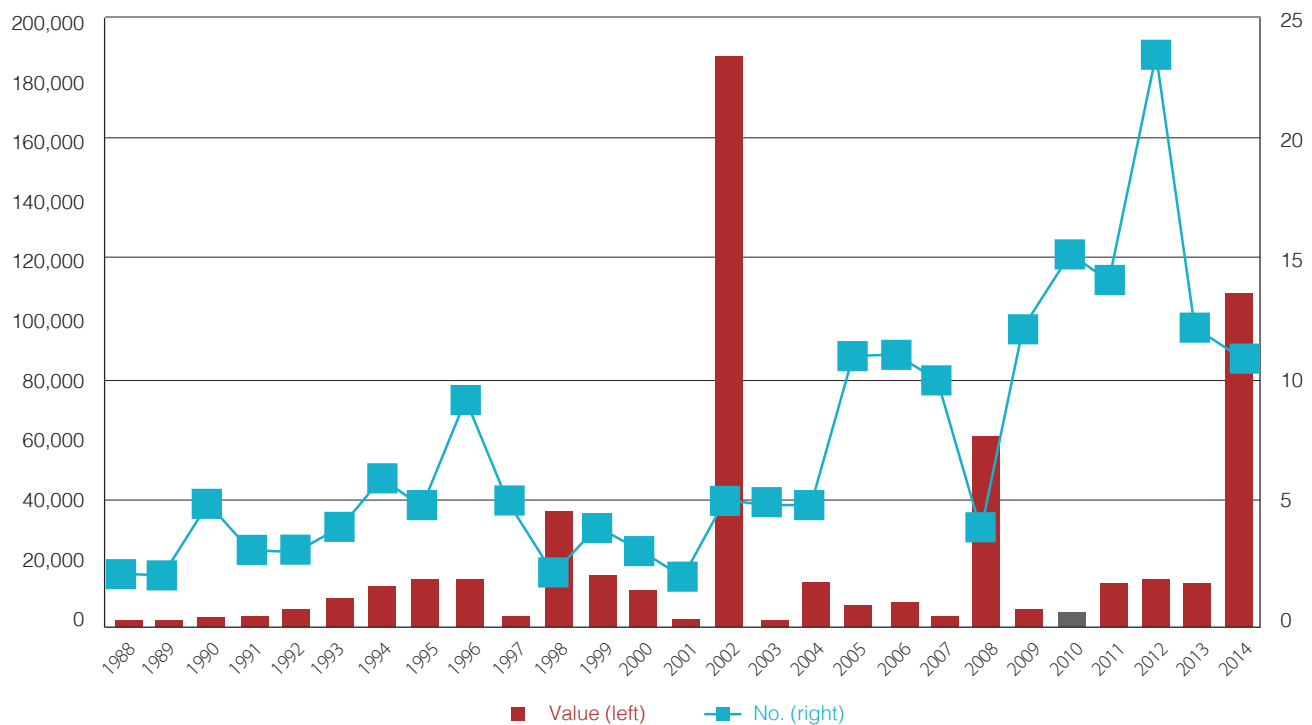
Throughout the diplomatic history of Korea and Italy, Italian high-level politicians have consistently tried to support the Korean government's policy toward North Korea. The Italian Minister of Foreign Affairs, Lamberto Dini, officially visited North Korea in March 2000. It was the first visit by a G-7 minister to Pyongyang. On that occasion, Minister Dini delivered to the North Korean authorities the clear message that "in this era of globalization, no country can develop in isolation and no one can guarantee his own security without taking care of the concerns of others. In particular, peace and security on the Korean Peninsula and in the region are fundamental concerns of the international community. Italy advocates a solution through a direct dialogue between the North and the South."¹⁵ During the 2014 Summit of Korea

and Italy, leaders of the two countries shared a vision on their political stance on North Korea and commitment to bilateral support, which will pave the path for political cooperation on the Korean Peninsula in the future. Also, Korea and Italy will cooperate on other international issues, such as UN reform and the G20 agenda, based on their shared understanding.

Cultural Cooperation

Korea and Italy signed a Cultural Agreement between the two countries to strengthen relations and mutual understanding. A positive relationship between the two countries must be based on the knowledge of their respective cultures. During the 2014 summit, the Korean Ministry of Culture, Sports and Tourism and Ministry of Italy's Heritage, Cultural Activity and Tourism shared their ideas on some measures to cooperate on preserving and restoring cultural assets, as well as on cultural and tourism exchanges and on policies to improve tourism between both countries.¹⁶ As both countries have many of historic assets, ranging from buildings and sculptures to paintings, human resources and technologies concerning the conservation and restoration of cultural legacies are very important. Therefore more exchanges of cultural activities as well as of policies on tourism will be beneficial for the two countries as well as for the next generation.

Figure 5 FDI Outflows from Korea to Italy (Unit: \$ thousands)



Source: Korea Exim Bank (www.koreaexim.go.kr, accessed December 26, 2014).

Conclusion

Korea's and Italy's economic performances have differed since the global financial crisis. The Korean economy has been more resilient and a model for other emerging countries, while Italy has undergone more reforms designed to restore competitiveness under the suggestion of the EU Commission and IMF. As we can see in the summit agenda, Korea and Italy share common interests: to penetrate the global market together through cooperation between the two countries' companies. In other words, the summit of Korea and Italy has shown win-win strategies for a constructive future. Of course, the economic relations between Korea and Italy still have a strong growth potential, which could be accelerated by bilateral investment. In 2010, Chatham House published a paper entitled, *The 'Marco Polo' Effect: Chinese FDI in Italy*, which investigated the motivations driving Chinese outward investment in Italy. The report delved into a dramatic increase of Chinese FDI to Italy, naming the situation the "Marco Polo Effect."¹⁷ However, Korean businesses seem to focus on opening new markets rather than increasing direct investment. These business patterns raise the question of why Korean firms fail to sufficiently take into account investments in Italy since the Korea-EU FTA established the foundation for direct investment? Korean companies need to change the way they do business, and the

2014 state visit of Korea to Italy has reinvigorated economic bilateral ties, and boosted other expressions of cooperation between Korea and Italy. The 130th anniversary of relations between Korea and Italy could be the new starting point for the future.

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- ¹ President Park and Prime Minister Renzi signed a total of 17 agreements covering a wide range of areas, including economy, culture, fashion and IT.
- ² "Republic of Italy-Republic of Korea Joint Press Statement on the occasion of President Park Geun-hye's official visit to Italy." Briefing by the Office of the President, Republic of Korea (October 18, 2014).
- ³ *OECD Studies on SMEs and Entrepreneurship Italy: Key Issues and Policies* (OECD, 2014): p. 15.
- ⁴ *The Global Competitiveness Report 2014-2015* (World Bank, 2014).
- ⁵ *Country Profile: Republic of Korea* (Global Insight, 2014): p. 1.
- ⁶ *Article IV: Republic of Korea* (International Monetary Fund [IMF], 2014).
- ⁷ The term of "Creative Economy" means a process of creating new jobs and industries through converging science, technology, culture and industry in new ways, and by fostering the blossoming of creativity in the very borders that were once permeated by barriers. Also, the concept is usually discussed in terms of meshing existing sectors with information and communication technologies (ICT).
- ⁸ Connell, Sean, "Building Creative Economy in South Korea: Analyzing the Plans and Possibilities for New Economic Growth" *Academic Paper Series, December 10* (Korea Economic Institute of America, 2013).

- ⁹ *Country Profile: Italy* (Global Insight, 2014).
- ¹⁰ “Italy’s productivity puzzle.” *The Economist* (October 4, 2013).
- ¹¹ “Made in: The Value of Country of Origin for future brands,” FutureBrand (2014).
- ¹² *Article IV: Italy* (International Monetary Fund [IMF], 2014).
- ¹³ Tiffin, Andrew, “European Productivity, Innovation and Competitiveness: The Case of Italy.” *IMF Working Paper WP/14/79* (2014): p. 5.
- ¹⁴ *The 2014 Edition of Research and Development* (OECD, 2014).
- ¹⁵ Ministero degli Affari Esteri e della Cooperazione Internazionale (www.esteri.it, accessed December 12, 2014).
- ¹⁶ Korean Ministry of Culture, Sports and Tourism (www.korea.net, accessed December 12, 2014).
- ¹⁷ “The ‘Marco Polo’ Effect: Chinese FDI in Italy” *IE Programme Paper: IE PP 2010/04* (Chatham House, 2010).

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