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Korea vs. Italy: Why Culture is Important in Keeping your Country Competitive

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Abstract

The purpose of this paper is to illustrate why culture is important in explaining both the rise and fall of a country's competitiveness. I want to show why Korea's competitiveness has been on the rise, whereas Italy's has been declining over the years using culture as an important explanatory variable. This paper utilizes primary and secondary data on national GDP and competitiveness in order to analyze macro and micro factors of rising or declining competitiveness. Simultaneously, this paper uses qualitative cultural analysis to fill the gap the economic data has created. Significant cultural differences between modern and postmodern Catholicism (Italy) and Confucianism (Korea) explain why Korea was more competitive than Italy in the manufacturing and cultural sectors in the 21st century. Few extant studies exist that compare Italy and Korea, as they didn't seem to be similar or comparable. However, it is simply appalling to see Korea's excellent track record of competitiveness that has actually outstripped Italy, which is a G7 member.

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Introduction

More than two decades ago, many social scientists still considered South Korea (hereafter, Korea) a developing country, and one of them wrote a brilliant comparative analysis between Ghana and Korea (Werlin, 1994). To many, Ghana had been a much more affluent and promising country than Korea until the 1970s after which the two countries could no longer be even compared as similar because Ghana had fallen into the so-called "developmental trap," whereas Korea kept posting

miraculous economic performances. Werlin's study was one of the early studies that recognized the importance of "political and cultural factors" more than economic ones. If we change "political" into "institutional" and "cultural" into "educational," it is much easier than ever to see why Korea excelled past any other developing nations in the 1970s and 1980s. The Korean institutions and education system basically defeated all other competing countries in the "Global South." In fact, UNESCO (2012: 205) once again picked up the issue of Ghana vs. Korea and argued that Korea defeated Ghana in economic development by lion's share due to Korea's success in equally distributing skills to workers by expanding secondary education enrolment. However, apart from the strong state thesis, advanced by many statisticians in the 1980s and beyond (see *inter alia* Johnson, 1982; Skocpol, 1985; Im, 1987; Migdal, 1988; Choi, 1998), these previous comparisons failed to pinpoint Korean institutions, although they were very clear and confident about Korean education.

Indeed, institutions, whether political, social, or economic, are not as obvious or confident as education. For one thing, all institutions are corrupt and change frequently due to various environmental influences that are either regional or global. Although it is obvious in hindsight that Ghana's institutions (or politics) were less efficient or effective than those of Korea's during the developmental period, it is not easy at all to figure out how and why Korean institutions were superior to begin with. Therefore, when things are not clear, we often close the case using the term "culture," insinuating that Korean institutions were better than Ghana's because of its Confucian culture. However, culture brings us nowhere, as Confucianism was the main factor of Korean backwardness until the 1970s and 1980s (Lie, 1998). Westernization and Christianity are overwhelming Korean society these days, so much so that even Koreans have mostly forgotten that they were Confucian in the near past (i.e., cultural amnesia).

Instead of culture, I argue that Korean institutions were different from those of either average developing nations that relied heavily on cronyism (i.e., rent-seeking) or developed Western nations that used credible commitments (i.e., established property rights and capitalist institutions). The term I used was "credible threats" to highlight the fact that the Korean economic miracle was not a result of culture *per se* but because of the monopoly of violence by the state that provided property right protection to the chaebol in order to maximize both chaebol growth and state extortion (i.e., rent-sharing). Rent-sharing, however, was only possible under the cultural state of "no trust" between social, political, and economic actors, a situation that was very similar to Italy, where mafia, therefore, had to be hired to resolve the cultural vacuum of social trust in economic activities (see *inter alia* Gambetta, 1996; Hawthorn, 2000; Varese, 2011; Oh, 1999; Oh & Varcin, 2002, 2010; Oh and Jun, 2016).

The state of terror and extortion within Confucian capitalism in tandem with highly advanced education, which was also carried out in a manner of Confucian terror and fear (Park and Abelman, 2004; Seth, 2005; Oh, 2010) enabled miraculous economic development, a new style of development Ghana couldn't simply keep up with. In the 21st century, it is not only Ghana, but even a G7 country like Italy cannot emulate Korea's regional and global competitiveness (see Fig. 1). During their respective developmental periods, Korea resembled Italy in terms of institutions that heavily relied on credible threats, instead of credible commitments. "Contrary to popular beliefs," writes Tim Parks (2000: 27), "the Italian child is not born into a splendid world of spontaneity, fun and sensual delight, but into a tight space of immense caution, inhibition, and a suffocating awareness of everything, but everything that can go wrong." Korean children could

have also faced the same or higher levels of suffocation, caution, and inhibition in a Confucian style. However, what was similar between the two countries back then no longer explains the widening gap of competitiveness now.

So, what really makes Korea different from Italy, if their institutions of credible threats and education of suffocation, inhibition, and caution are similar? In this paper I posit that Korea and Italy differ culturally in one major area: Italians don't look up to England, France, or Germany for cultural role models to be copied from, whereas Koreans do. Italians' pride over their culture is in no way comparable to that of Koreans who often discount their cultural heritage as either decadent or regretful, epitomized by the infamous sentiment of "*han*" or *ressentiment* (Cavalli, 1998: 7; Wike, 2008; Oh, 2011). Although pride is often a source of progress and advancement, it is also well known that resentment can motivate underdogs toward massive innovations to avoid cultural shame (i.e., forward learning). On the contrary, when Italians feel malaise due to economic downturns and social dysfunctions such as widespread corruption, they still maintain national pride in the form of reminiscence (i.e., looking backward) to avoid the present cultural shame (Wike, 2008).

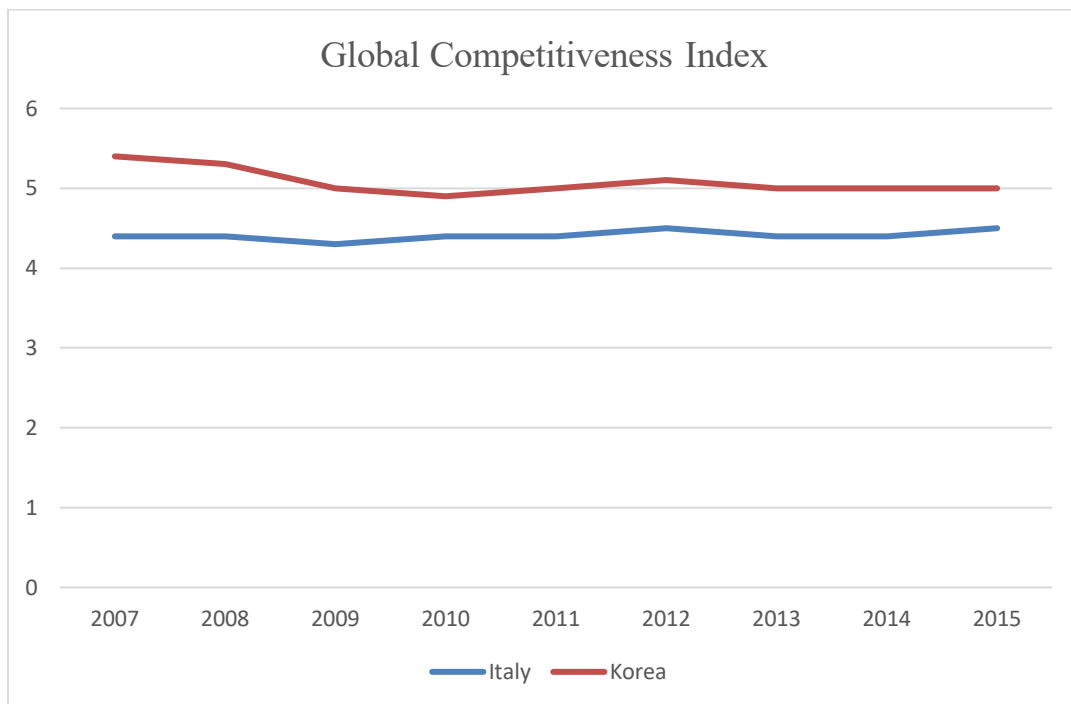


Figure 1 Italy vs. Korea (Global Competitiveness Index)

How cultural pride in one nation, where economic institutions are run by credible threats, explains the declining tendency of national competitiveness is something that this paper needs to explore and clarify satisfactorily. I will organize my arguments in the following fashion. Firstly, like some of my predecessors, I will demonstrate why macro or micro economic factors don't clearly explain a widening gap of competitiveness between Italy and Korea. Secondly, I will explain why credible threats were the institutional solutions to the problem of mistrust and the lack of property rights protection in both countries. I will also clarify why credible threats as institutions

of property rights protection can boost national competitiveness vis-à-vis that of rent-seeking societies. Thirdly, I will show why culture, especially national pride of one's own culture, plays an important role in either boosting or abating competitiveness when credible threats are dominant institutions of society. I will demonstrate how Koreans transform their cultural shame into economic competitiveness, whereas Italians pass up opportunities of ameliorating economic downturns with flagging national competitiveness.

Imagining Competitiveness

In competitiveness studies, the terms “development” and “competitiveness” are not well distinguished from each other, as economic development is often considered by many in the field as a result of competitiveness (Thurow, 1992; Krugman, 1994, 1996). However, even if GDP levels are stalled at 2-5% as in many developed economies (e.g., Switzerland, Singapore, the U.S.), their competitiveness scores are much higher than the ones posting 8-10% annual growth rates (e.g., DR Congo, Cote D'Ivoire, Ethiopia, Myanmar, Turkmenistan). Competitiveness, therefore, has to be differentiated from the mere GDP growth, as the former includes potentials of industrial innovativeness, either incremental or radical. Particularly, we want to posit that true competitiveness must presuppose industrial and national capabilities of radical innovation (Tellis et al., 2009; Fagerberg and Mowery, 2006). If innovation capabilities are deemed more critical than growth capabilities, we need to know why some nations have higher innovative capabilities than others.

Innovative and growth capabilities are very different, although some of them are similar. In growth capabilities, capital, labor productivity, and technology are critical, given that most nations shall have similar growth constants, natural endowments, and human talents (except for continental states including Russia, the US, Canada, Australia, China and India). In radical innovation capabilities, C/T (creative combination of existing technologies) is more important than capital or labor productivity.

$GDP = a + bK + cL + dT$ (Samuelson and Nordhaus, 2009), where a is similar in most countries b is $\frac{1}{4}$, c is $\frac{3}{4}$, and T is a residual.

Radical innovation = $a + bK + cC/T + dT$, where a is similar in most countries, b is $\frac{1}{4}$, c is $\frac{3}{4}$, and T is a residual.

In this formula for growth and radical innovation, note that net capital inflow/outflow is not considered. This is because, as Krugman (1994) argued, a trade surplus is more or less irrelevant to competitiveness. He succinctly showed why trade surpluses could be signs of economic

slowdown, whereas a trade deficit can entail economic recovery, as the 1980s Mexican currency crisis and the current Korean recession indicates. After all, what counts the most in determining economic wellbeing through economic growth is domestic productivity growth, or cL and cC/T (Krugman, 1994: 34).

Now that competitiveness is known to be a mixture of both growth and innovative capabilities on a domestic level, we need to know why some nations do better than others in terms of capital accumulation and investment in development and R&D, labor productivity, labor creativity, and technological development. If we look at the innovation and sophistication factors, the competitiveness gap between Italy and Korea gets wider on Korea's favorite.

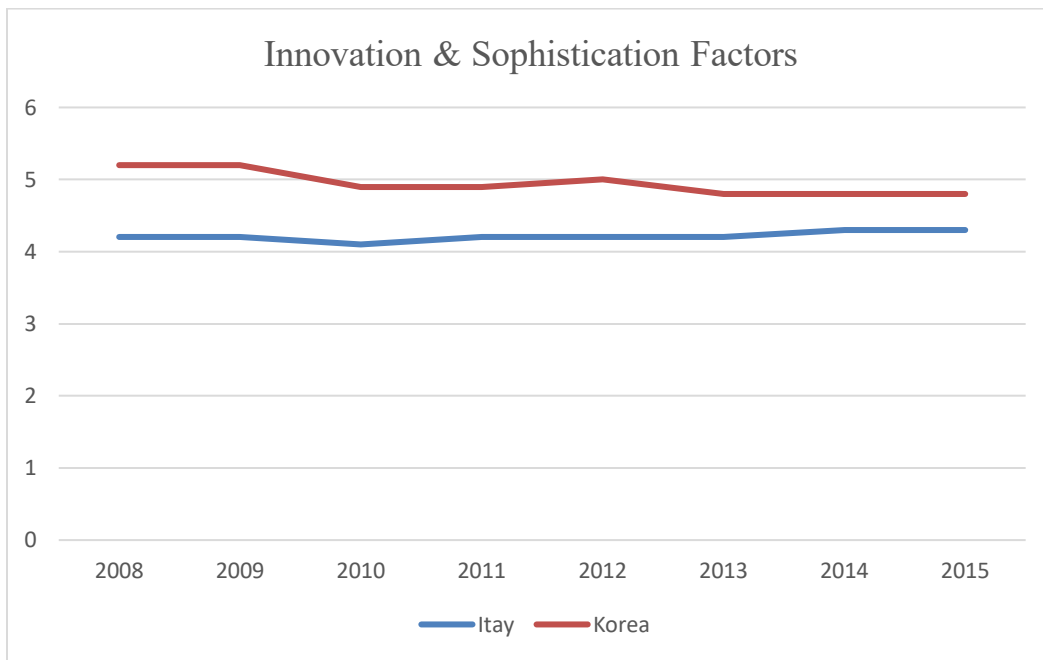


Figure 2 Italy vs. Korea (Innovation & Sophistication Factors)

I propose to study this question by first explaining the concept of “cultural hype” in GDP growth and radical innovation. Unusual performances of domestic productivity growth and innovativeness in the absence of international factors (e.g., global booms) and/or natural resource bonanzas are related to a cultural hype. Therefore, a cultural hype is not relevant to competitiveness *per se*, as it could be a short or midterm internal shock due to abrupt political changes that cause massive institutional reforms (Nazism, fascism, national liberation movements, democratization, etc.) and/or that cause unusual competition between rival countries (Cold War, national rivalries, imperialist or global power conflicts). I then explain why both Italian and Korean post-war economic performances in terms of productivity growth and innovativeness were related to an institution of “credible threats” that caused a temporal cultural hype. I finally discuss under what conditions cultural hypes can be prolonged as in the case of Korea (and also in Japan) in the form

of learning fervor.

Macro and Micro Economic Factors: Italy vs. Korea

When comparing Italy and Korea for their domestic productivity growth (or competitiveness), we are not interested in comparing their national brand images, soft power, or military power. What we’re interested in are the macro and micro economic factors that lead to competitiveness growth in terms of economic well-being. Economic well-being is often measured in terms of productivity growth through radical innovation and real wages, or standard of living (Krugman, 1994). The post-war data of productivity, real wages, value added by activities, innovativeness, and living standards in Italy and Korea all show periods of “cultural hypes” that allowed temporal explosion of rapid growth in all those indicators.

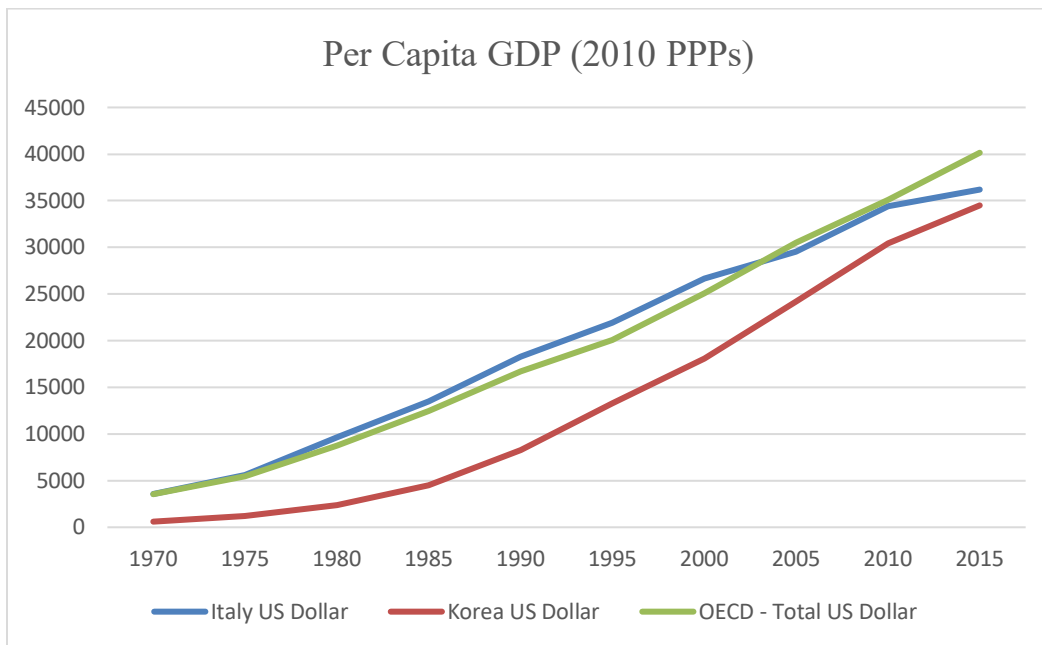


Figure 3 Italy vs. Korea (GDP)

The GDP per capita data (Fig. 3) shows that cultural hype occurred in Italy between 1985 and 2005 when the Italian figure surpassed that of the OECD average. For Korea, it is between 1985 and 2010, during which GDP per capita grew very rapidly almost intercepting the Italian figure by 2015. However, this data doesn’t reveal anything clearly about productivity, or GDP per hour worked (Fig. 4). Although Korea has demonstrated increasing tendencies of productivity growth especially from 1985 to 2010, its growth pattern was much slower than that of Italy’s from 1980 to 2000. The productivity gap is narrowing down only slightly from the 2010s, not because of Korea’s productivity growth but because of Italy’s massive unemployment that took off during

the same period. If we combine Figs. 3 and 4, we can conclude that cultural hype worked in both countries in terms of boosting domestic productivity in Italy and elongating working hours in Korea.

However, this conclusion does not sufficiently explain why elongating working hours would automatically boost per capita GDP and productivity slowly. Especially, we want to know why productivity has rapidly increased in Korea since 2000. Although Italians have enjoyed strong levels of productivity, Korea countered that with high levels of investment (Fig. 5), especially in capital intensive (i.e., high value added) industries (Fig. 6). Therefore, if we combine Figs. 4, 5, and 6, a new revised conclusion will be that average Italian workers were paid more than what they had contributed to value added of the national aggregate income during the same period when their Korean counterparts got paid less in proportion to their actual contribution to value added of the Korean aggregate income. Simultaneously, for the same period, Korean manufacturers and industrialists in the high value-added sector continued to prop up their industries with investments, whereas the actual level of investments in capital intensive industries has continuously fallen in Italy. The outcome of these conditions is the phenomenal performance by Korea in the contribution to value added in almost all sectors, except for the agriculture, forestry, and fishery sectors.

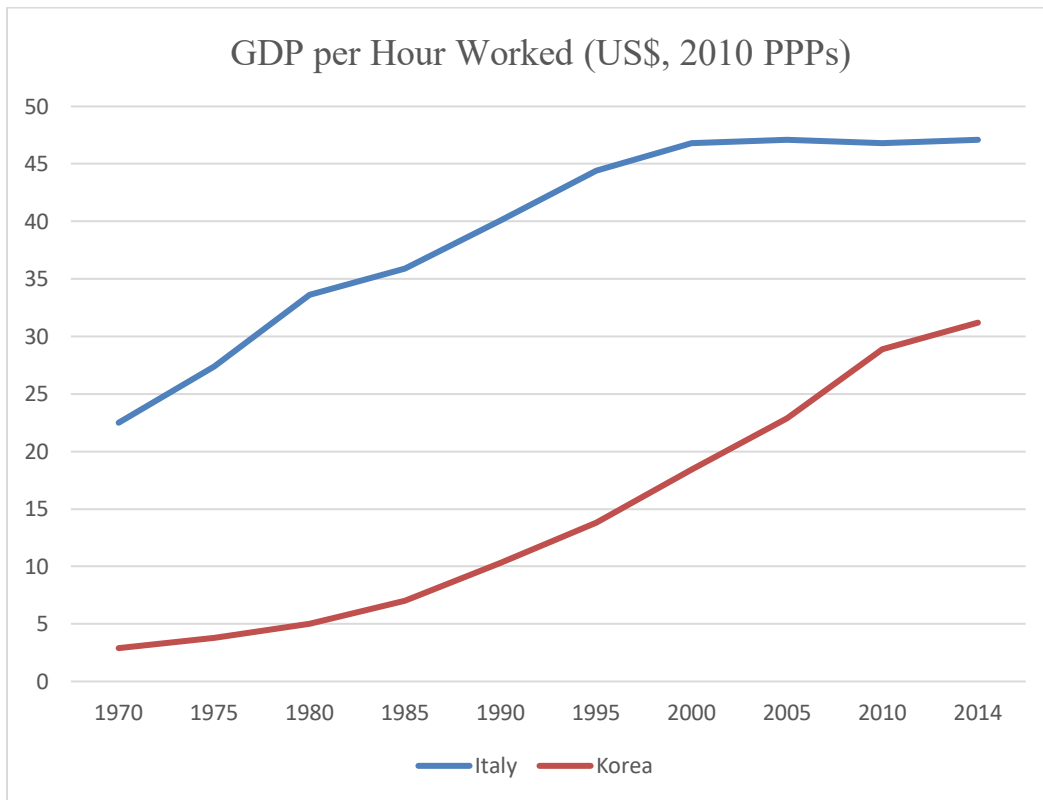


Figure 4 Italy vs. Korea (Productivity)

To support this observation, the wage data in proportion to value added from the industrial sector is unusually high for Korea even among the four leading OECD countries. This doesn't mean that workers' salary in the Korean industrial sector is high even for the OECD standard.

Instead, this suggests that Korean workers in the industrial sector are paid the most in proportion to value added in the sector, which is also the highest among the four OECD countries. At least in the industrial sector, Korean workers and employers are highly motivated in investing in capital intensive industries and producing high levels of value added through high levels of innovation (Fig. 2) and long working hours.

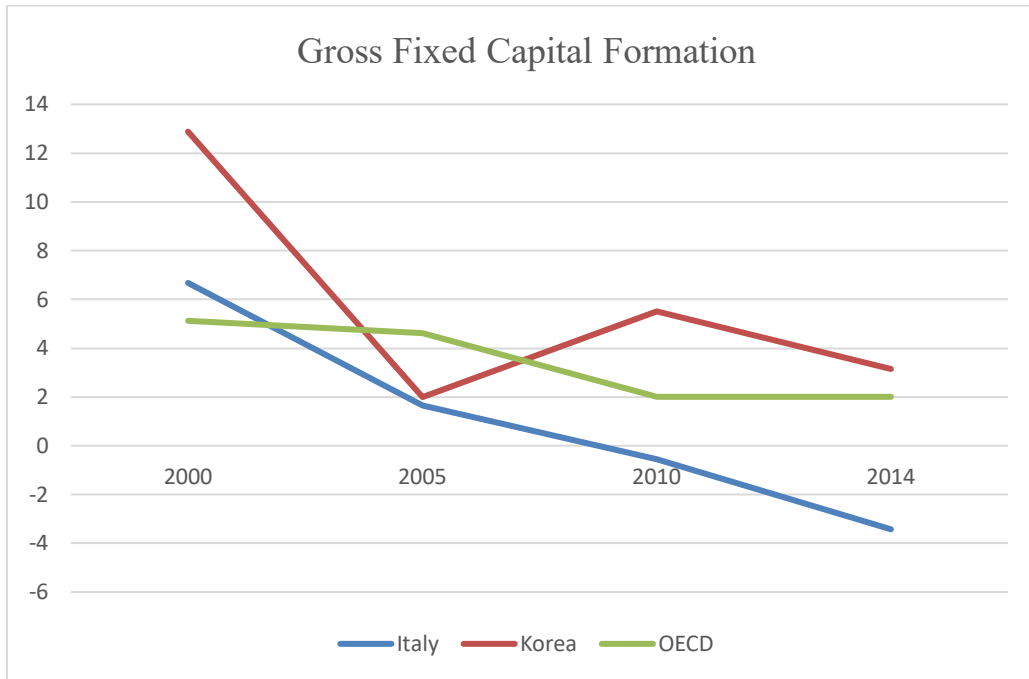


Figure 5 Italy vs. Korea (Gross Fixed Capital Formation)

Discussions so far indicate that Korean competitiveness does not fully derive from competition in the global market (the net foreign currency influx). The Korean success story also partially comes from its persistent commitment to the domestic manufacturing and service sector industries that maintain high levels of innovativeness and value-added outputs that as combined boost real wages of workers and their economic well-being (Fig. 7). Having pointed out the importance of the investments initiated by the government and corporations in the capital intensive industries, which successfully affected domestic productivity and real wage increases, I want to argue that political institutions regarding property rights protection are very crucial in bringing in different effects of competitiveness in different countries. In sum, Italy’s failure in matching its levels of productivity and competitiveness to those in Korea can be attributed to Italy’s unnecessary reliance on the primary sector and demanding more wages and salaries than to economic actors’ actual contribution to value added to the economy, especially in the industrial and service sectors. Can political institutions explain and predict these two different results?

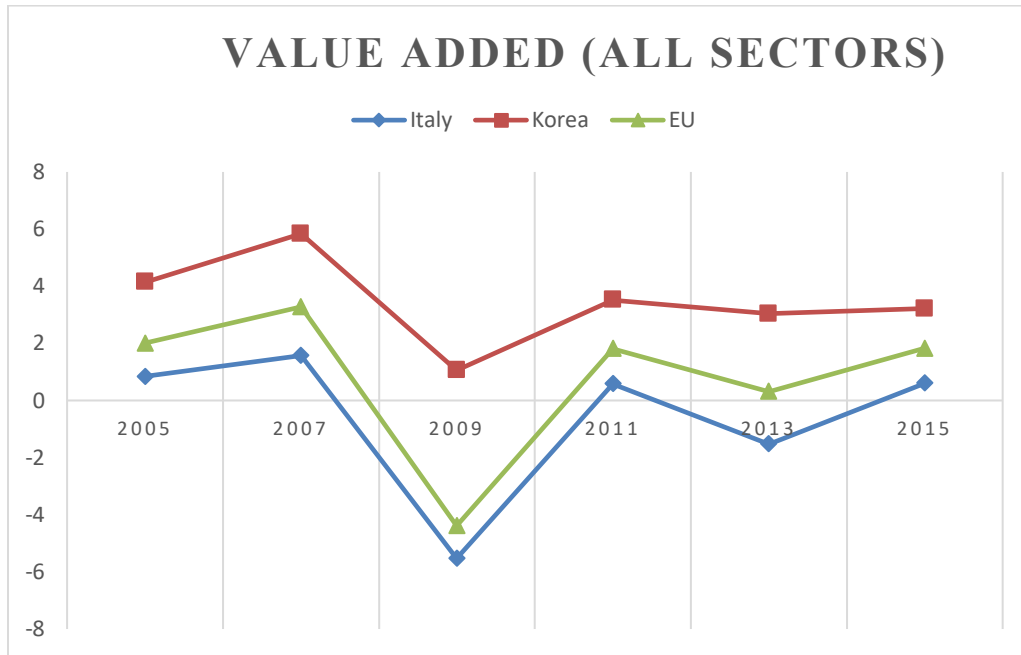


Figure 6 Italy vs. Korea (Value Added by Activity)

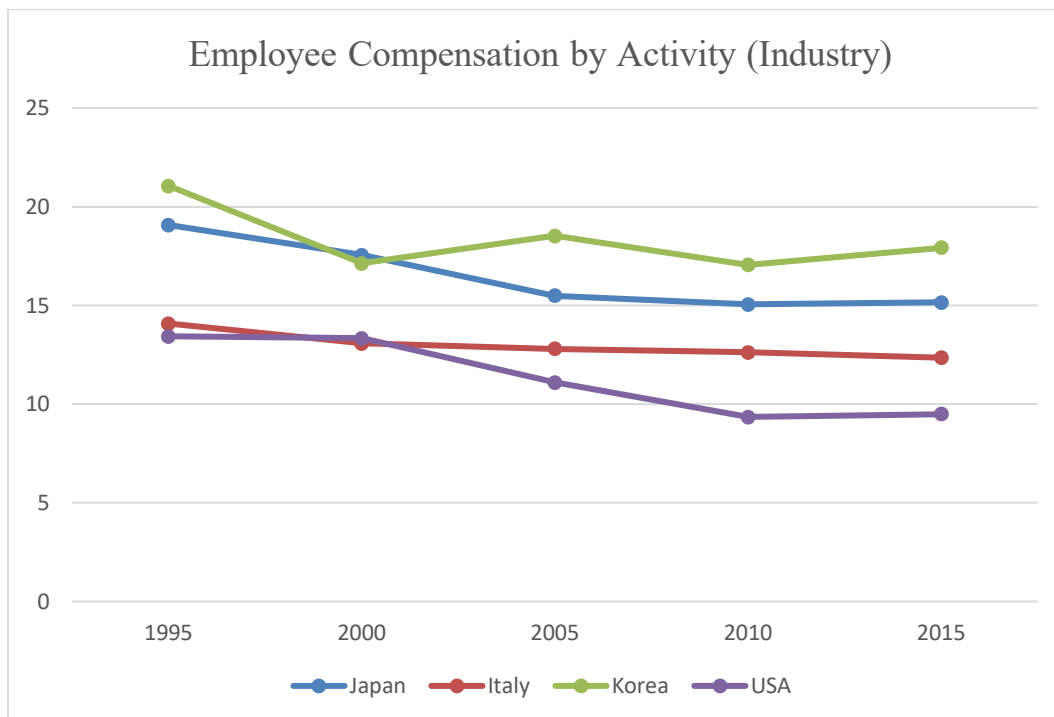


Figure 7 Italy vs. Korea (Wages Proportion to Value Added)

Credible Threats as Cultural Hypes: Italy vs. Korea

Both Italy and Korea are paradigmatic cases of utilizing credible threats in lieu of credible commitments in running their economies. “Credible commitments” is a popularized term to refer to the U.K. and U.S. style economies where the economy is run by firms with safeguards against transaction cost and inclination to opportunism between contractual partners in the market (see *inter alia* Coase, 1937; Williamson, 1983; North, 1990). On the contrary, when property rights protection by legal institutions of a country is not fully developed, economic actors rely on “credible threats” to protect their property rights and enforce contractual terms between partners in the market (see *inter alia* North, 1990; Gambetta, 1996; Oh, 1999; Varese, 2011; Oh and Varcin, 2002, 2010; Oh and Jun, 2016).

Credible commitments through institutional means, which include the cultural norms of a country, engender trust among economic actors who place confidence in the economic institutions and legal frameworks that are entrusted to protect one’s property rights and contractual terms that are also bounded by institutional means. Lack of such trust in the economy leads to institutional chaos, where economic actors find it enormously difficult not only to protect their own property rights but to enforce contracts that are not bound by institutional means as well. The price of distrust of the system, therefore, leads to the use of credible threats in the market to force contractual parties to do things that they would not otherwise do. A common means of credible threats is the use of violence, as is rampant in Mafia organizations (Gambetta, 1996; Varese, 2011; Oh and Varcin, 2002, 2010).

However, most writers of mafia enforcement point out high murder rates, high transaction costs, emigration of good social capital to other countries, and poverty (Gambetta, 1996; Varese, 2011). They take the view that under the institution of credible threats, the hindrance of massive economic development occurs as a price of distrust within the economic system. Therefore, if Korea and Italy have developed rapidly during the post-war years, they must have recovered trust within the economic system and fully restored credible commitments. I argue it differently. Credible threats can lead to massive economic developments and industrialization under a functioning mafia state (Oh, 2000; Oh and Varcin, 2002, 2010; Oh and Jun, 2016). As European experiences also indicate, states as mafia were necessary for modern state building, which led to massive economic developments (Tilly, 1985).

Although Italy has been fully democratic since 1946, many regard its political institution as imperfect, as the ruling Christian Democrats dominated the Parliament during the first republic (1946-1994) in a fashion similar to the Liberal Democratic Party in Japan (Koff, 2002). The result of an imperfect bipartisan system during the first republic and coalition governments during the second (1994-present) was rampant corruption that was deeply connected with the Mafia, an incident widely known as *tangentopoli* (Koff, 2002). In fact, the Italian level of corruption has been much higher than that of the Korean between 2005 and 2015, despite massive political reforms during the second republic (Fig. 8). Although the Italian reforms did not really work after 2005, the Korean efforts seem to have taken effect from the same year, making Korea the cleanest of all

mafia states in the sample. However, what differentiates Italy and Korea from Turkey or Indonesia is that the former two are highly developed economies, contrary to the predictions of the credible threats argument summarized above. What made developments possible in Italy and Korea, while other mafia states failed to accomplish or replicate such miracles?

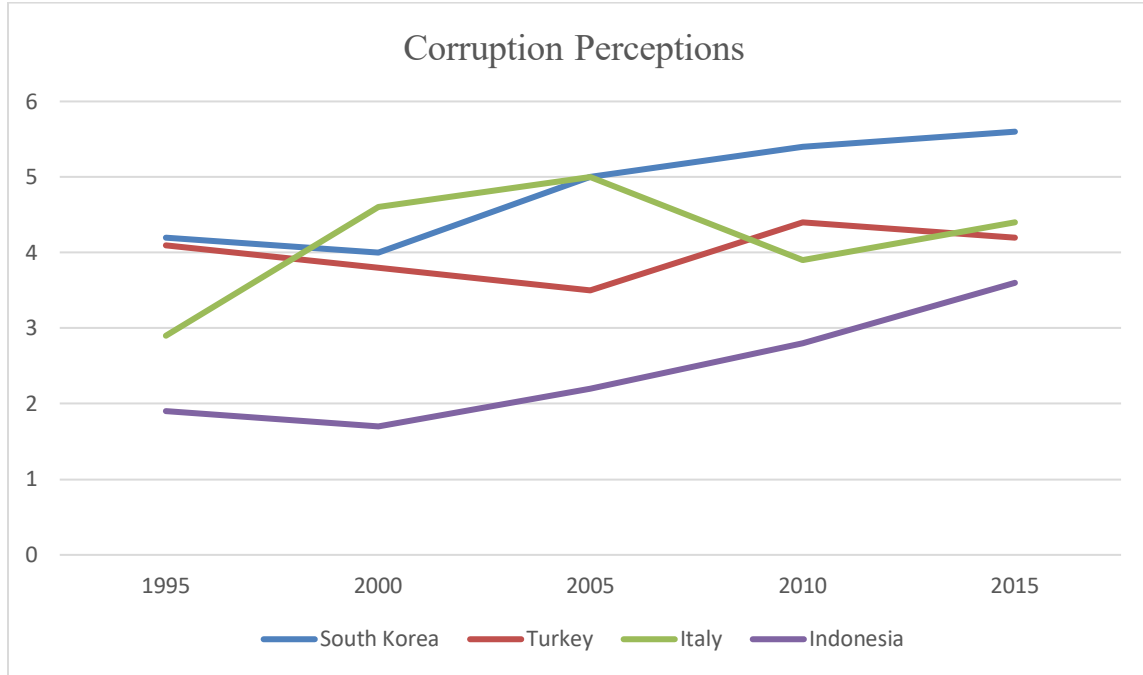


Figure 8 Transparency International Corruption Perceptions Index

Key institutional factors of massive economic development under the mafia state is “rent sharing.” Unlike creating individual wealth without adding new wealth to GDP through both legitimate and illegitimate lobbying (i.e., rent-seeking), rent-sharing increases both group wealth (e.g., monopolies) and GDP through extortion (or other illegitimate bribery) to promote and realize group interests. Typical predatory states that maximize extortion through rent-seeking or cronies would abandon one community for another when state revenues run out. In order to compensate the lost territory and revenue, they would migrate into an adjacent territory in a similar fashion to herds of cattle in search of new fields for grazing (e.g., migratory predatory states) or they might keep expanding into new territories (imperialist predatory states).

Italy, like pre-war Japan, chose the option of the imperialistic state, until the option ran out in 1945. Therefore, with the absence of the options of migration or imperialism, the only possibility of sustaining the mafia state on a long-term basis without drying up its revenue is through massive GDP growth. If this were not possible, as was the case of the Rhee regime in Korea, the predatory state would be supplanted by another one via military coup (e.g., vicious cycles of coups as in Latin American and African developing states). Even in post-war Italy, a military coup attempt was uncovered in 1970 at the downturn of the Italian economy in the late 1960s, in an incident known

as Golpe Borghese or Operation Tora Tora (Stille, 1995). It goes without saying that the Sicilian Mafia was deeply involved in the fascist military coup attempt.

In post-war Italy and Korea, rapid GDP growth through rent-sharing was done by harnessing labor productivity and introducing rapid technological innovation, while big firms pursued monopolies by lobbying the state. In other words, monopolies like chaebols in Korea and the focal firms in Italian small firm networks (SFNs) had to create national wealth through both L and T factors and pay off exponentially growing amounts of extortions to the mafia state. For example, the estimated value of bribes paid annually in the 1980s by Italian and foreign companies bidding for large government contracts reached four billion dollars (Koff, 2002: 2). The total amount of bribes collected by the presidential office between 1987 and 1992 in Korea was \$460 million (Park, 2014).

As explained above, Italy relied on both L and T factors (i.e., high L) for rapid GDP growth, whereas Korea mostly banked on the T factor (i.e., high industrial value added). In the long run, therefore, stable institutions of rent-sharing with sustainable growth would engender trust among the predatory state, big business groups and clusters, and workers qua consumers. This is an important economic lesson most economic theories of institutions and credible threats tend to obliterate.

If rent-sharing had created enormous economic development amid high levels of corruption in Italy and Korea, it would also mean that businesspeople and government officials had enjoyed a cultural hype of misbehaving while making lots of money. It is similar to Tiger Woods, who made windfalls while enjoying his own game of golf. As living standards of workers also increased substantially during this period, both Italian and Korean workers would have also felt similar cultural hypes. The cultural hype under credible threats is further consolidated and reinforced through network condensing between various interest groups. If Siemmel's (1950) famous term, *tertius gaudens* (a third party that benefits from a conflict between two others) under credible commitments could be a good person (i.e., *tertius iungens*) who resolves problems of the other two for a universally beneficial business deal (Burt, 1995; Obstfeld, 2005), the *tertius* under credible threats would be an evil persona who takes large sums of bribes by introducing credible threats as the resolution to the problem between two others. The dense networking under the credible threats is, therefore, a result of rent-sharing that requires networking a variety of people for exchanges of favors, protections, and bribes. This is widely observed in present-day China as well in the form of *guanxi*.

The chaebol families in Korea and focal firms in Italian SFNs are known for acting as *tertius gaudens* by developing dense social networks or *guanxi*. They are the juggernauts of massive economic development amid widespread corruption. Boari (2001:14) thus writes:

Perhaps the most distinguishing feature of a focal firm is its embeddedness in a large set of relationships with firms and institutions. Relationships are both numerous and varied, involving a large number of transactions in different value-chain activities, and with

reference to different parts, components, and operations. A focal firm displays relationships with other organizations and institutions outside the cluster and internationally. These ties are strategically pursued and used by focal firms to create business opportunities, to escape from inertia, and to foster change.

If both Italy and Korea had similar political economic institutions of credible threats that led to enormous economic growth with cultural hypes, what made them different in terms of competitiveness in the last two decades?

Cultural Pride and Learning Motivations: Italy vs. Korea

According to Krugman (1994), the thrill of competitiveness is the generation of a cultural hype among capitalists and working-class people without actually bringing economic well-being or causing real wage increases that would surely lead working class people to rising standards of living. However, as we saw in the previous sections, at least Italy and Korea have enjoyed cultural hypes that produced not only rising standards of living but increased global competitiveness as well. Therefore, the question is really about competitiveness: why is Italy falling behind Korea? Even as competitiveness is a cultural hype, it does facilitate economic growth and economic well-being despite widespread corruption under the institution of credible threats. The key question in need of exploration is whether competitiveness is positively related to culture and corruption, and if so, how.

In this case study, I will only map out some basic fundamentals that made Korea differ from Italy over the recent years of their respective developmental trajectories. During the post-war economic miracles in Italy (1950s-1970s) and Korea (1960s-1990s), cultural hype worked differently. Italy regained its cultural pride through the miracle, making people uphold and respect their cultural values and traditions (Baranski and West, 2001). Although Korea also gained a new type of cultural confidence, it had to be secured by abandoning their own cultural values and traditions. For an economic miracle to be realized, Confucian culture was thought to be a hindrance and the nation had to embrace Western science and culture thoroughly and quickly to expedite economic growth (Lie, 1998). Therefore, Koreans had a different mindset from Italians: Koreans developed a cultural hype of learning new and Western things (i.e., forward learning), whereas Italians insisted on preserving and developing their traditional values and culture (i.e., retrospective learning).¹

However, what did not change among Koreans in their forward learning effort was the Confucian-style work ethic. The method of learning remained the same, whereas the subject of learning has radically and drastically changed. For Italians, nothing has really changed: the work ethic or the subject of learning. Therefore, it is expected that Koreans can supersede Italians when the former catches up the latter. What determines the speed of catching up is the intensity and

longevity of the cultural hype of forward learning. The reason the Chinese are rapidly catching up the West in terms of Western knowledge and culture is also the Confucian work ethic (Baumann et al., 2016).

Discussion

The comparison of Italy and Korea presented in this paper produces several theoretical implications about competitiveness. First and foremost, the term competitiveness is more than a cultural hype or thrill, as it has a reinforcing effect on GDP growth. Although competitiveness may not have real economic substance in the form of a real wage increase, competitiveness is an important cultural element in economic development. Cultural hypes cause enthusiasm among workers and consumers so that they can make added-value contributions to the economy. Furthermore, genuine GDP growth through domestic competences in terms of high labor productivity or technological innovations (or both) fueled export growths in the form of competitive advantages, as the postwar miracle cases of Italy and Korea demonstrate. Most importantly, the case comparison between Italy and Korea reveal that Korea has maintained cultural hypes longer than Italy due to liberation (1945), military dictatorships (1961-1979 and 1980-1987), and democratization (1987-now). Political reforms, therefore, do create cultural momentums of sustainable growth, unlike short-lived economic reforms that are introduced more often than political reforms under the slogan of competitiveness (Oh and Koh, 2016).

Second, the institutions of credible threats explain far better than the institutions of credible commitments the growth patterns of Italy and Korea during the post-war years. The key problem of Korean and Italian style economic growth is the rapid GDP growth amid high levels of corruption in the form of bribes paid to government officials and politicians. I call this form of economic growth a form of economic development under the mafia or predatory state. Forms of corruption become cultural hypes of economic growth if growth really occurs (i.e., enjoying real wage increases while misbehaving). Although corruption has been traditionally thought of as a major hindrance to sustainable growth, our cases show that corruption can be a motivational source of technological innovation and/or labor productivity hikes, if credible threats are used by the predatory state to induce an increasing rent sharing scheme between the state and business owners. Rent is shared between them in a fashion to induce sustainable growth (i.e., maximizing the pie the state and business owners share), although it is not shared with the lower echelons of society (i.e., class polarization with no trickling down effect).

Third, culture plays an important role in boosting one nation's competitiveness by providing it with learning motivations. In the catching up mode, countries like Korea face a question of rapidly learning new knowledge from more advanced countries like Japan and the US. Learning cannot be induced without cultural traditions of emphasizing forward learning (i.e., learning for future rewards). Korea is an excellent example of a learning culture based on Confucianism that has promoted forward learning of advanced Chinese culture during the pre-

modern era and Japanese modernization since the 1900s. It was much easier for Koreans to change their learning focus from the Japanese to the West since 1945. Although modernization and Westernization have changed Korea drastically, one thing that remained relatively unchanged is the presence of strong familial and social pressures on young adolescents to enter tertiary education. Despite the enormous mental stress these children undergo, appeals of filial piety (i.e., unconditional respect of their parents) have worked as a strong incentive for harsh discipline in education in Korea, leading to very productive and submissive labor forces in the urban areas. Until Korea is considered by the majority as a global leader in culture and intellectual capacity, forward learning will have to continue as a national fate (Park and Abelmann, 2004).

In the recovery mode, however, countries like Italy and Japan often take a retrospective learning posture, believing that they can and should recover the previous glories of economic development and global domination of their culture and power. Retrospective learning allows quick recoveries of their past intellectual capacities while allowing quick catch up of new knowledge at the same time. Pride exists among these Italians, who strongly believe that their culture is inferior to none, even as countries as the UK, France, Germany, and the US have stolen their place as global leaders in economic, intellectual, and cultural matters. Therefore, when the economy slowed down in the 1980s, Italians and Japanese didn't really demonstrate their cultural hypes again for forward learning. Instead, their cultural pride about their nostalgic past of the 1960s appeared in many different TV dramas and movies to reinforce their cultural pride (Hama, 2007; Monteleone, 1992). Nonetheless, both Italy and Korea emphasized competition and education among children who have to break into the densely networked society with high power distance. After all, rent sharing occurs only within a network that is protected by the predatory state.

Although this case study is limited by not being able to provide any panel data on different sets of countries where economic growth and competitiveness were fueled by corruption and cultural hypes, these two cases reveal some of the peculiar tendencies within the post-war capitalist system that harnessed economic growth and competitiveness despite widespread forms of corruption. I argued that the key to this seeming contradiction was culture.

Conclusion

This study began with one conundrum: that of how Korea could catch up with Italy in terms of economic growth and competitiveness. Measured by competitiveness and innovation indexes, Italy is clearly falling behind Korea in the 21st century, while GDP per capita between the two countries is now rapidly closing ground between one another. If we consider value added in all industries and real wages earned by workers, all of which is closely related to competitiveness, Korea clearly is running ahead of Italy. The only difference was working hours, where Italian workers worked far shorter than their Korean counterparts for the same amount of economic output. This may indicate that Italian productivity is far higher than Korea, although it is not clear why wages are falling in Italy despite this rise in productivity.

Another riddle was why both Italy and Korea realized economic miracles despite widespread forms of corruption. I tried to put these countries in the context of the rent-sharing economy, where corruption actually leads to GDP growth through labor productivity increases or innovations (or both). Italy achieved both, whereas Korea could achieve innovativeness with medium labor productivity. This scenario is possible only under the institution of credible threats that are exerted by predatory states. Under this system, the state and business owners will share rent by exchanging favors and protections, whereas the lower echelons of society won't be able to participate in the sharing scheme. Class polarization and worker exploitation are expected to be high in these countries, despite high levels of competitiveness and GDP growth.

Finally, I tried to explain why culture is important in competitiveness studies since my last challenge was to understand why Korea continues to do better than Italy in competitiveness. In both cases of Italy and Korea cultural hypes in the form of "enjoying increasing wealth while misbehaving" occurred widely among state officials, business owners, and consumers. Even workers experienced hypes temporarily as their real wages swelled substantially. Cultural hypes were, however, short-lived in Italy, where cultural pride in the form of remembering the past was more intense than in Korea, where cultural pride of learning new things was far more important than nostalgia. As long as Koreans won't stop investing in learning new things in the near future, it is unlikely that Italy can recover its earlier competitiveness over Korea. Further studies are expected to substantiate some of the germane issues discussed and analyzed in this paper.

Notes

1. For forward and retrospective learning, see inter alia Crossan et al., 1999; Crossan and Berdrow, 2003; Oh, 2009, 2011, 2012).

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