

# BTI 2014 | South Korea Country Report

	scale	score	rank	trend
<b>Status Index</b>	1-10	<b>8.66</b>	# 11 of 129	
Political Transformation	1-10	8.60	# 12 of 129	➔
Economic Transformation	1-10	8.71	# 7 of 129	➔
<b>Management Index</b>	1-10	<b>6.92</b>	# 10 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

Population	M	50.0	HDI	0.909	GDP p.c.	\$ 30800.5
Pop. growth <sup>1</sup>	% p.a.	0.5	HDI rank of 187	12	Gini Index	-
Life expectancy	years	80.9	UN Education Index	0.942	Poverty <sup>3</sup>	% -
Urban population	%	83.5	Gender inequality <sup>2</sup>	0.153	Aid per capita	\$ -

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The years 2011 – 2012 corresponded with the last two years of the Lee Myung-bak administration, which was succeeded by the Park Geun-hye administration in February 2013. Economically, this period was characterized by a strong recovery from the world economic crisis, but politically by an unusually long lame-duck period that saw few important institutional or policy changes. While President Lee's conservative Grand National Party (Hannaradang, or, following a 2012 name change, the New Frontier Party or Saenuridang) was able to defend its majority in the April 2012 parliamentary elections, Lee's effectiveness suffered in part due to internal party opposition led by Park, his successor. Lee's approval ratings during his last year in office fell to just 20%, undermined by unpopular policies and corruption scandals tied to his brother and mentor, who was sentenced to two and half years in prison in January 2013.

Politically, President Lee was often criticized for stalling and even reversing the consolidation and deepening of democracy. As the former chief executive officer of Hyundai Construction and a self-declared "economy president," he preferred top-down decision-making over deliberation, and favored business interests over those of workers and the economically less fortunate. Government-civil society cooperation deteriorated during his administration, and social, regional and generational gaps deepened. Official unemployment rates remain low, but young adults and the elderly in particular suffer from precarious working conditions and low incomes. High levels of private household debt and mortgages taken out to buy real estate at inflated prices, particularly in the Seoul area, are other major problems that the government has failed to deal with effectively.

South Korea emerged relatively well from the global economic crisis. This had to do with Korean banks' lack of involvement in dubious and unregulated financial products, and the strong export competitiveness of Korean manufacturers. The country followed pragmatic macroeconomic policies in combating the effects of crisis, including the OECD's largest fiscal stimulus package, low interest rates and a competitive exchange rate. The government and the central bank have shown little reluctance to use controversial measures such as exchange rate interventions

(“managed floating”) and capital controls to protect the country from being damaged by volatile international markets.

The business-friendly Lee administration further deepened market-oriented reforms. It implemented the EU-South Korea preferential trade agreements in 2011 and the South Korea-U.S. trade agreement in 2012. These trade agreements will over time further open the Korean economy to European and American goods, services and investment. On the other hand, the government was less successful in preventing further economic concentration. Big business conglomerates (chaebols) dominate the economy, and many markets are organized in a monopolistic or oligopolistic way. This has led to high prices and informal market restrictions, as dominant market actors prevent potential rivals from entering the market. The Korean Fair Trade Commission occasionally fines cartels, but has done little to prevent market concentration. Instead the Lee administration has tried to persuade chaebol leaders not to expand into new markets, not to increase prices and to treat suppliers fairly. Most South Koreans criticize the chaebol for a lack of restraint in this regard, and for using tools such as corporate social responsibility projects as no more than public relations campaigns.

Since the crisis, “green growth” has become a new buzzword in South Korea. The Lee administration deserves credit for having put environmental issues on the agenda, as this was previously a topic that played almost no role in the broader political discourse. Along with goals such as support for environmentally friendly technology, however, this drive encompasses controversial projects including the expansion of nuclear energy and huge construction projects such as the four-river restoration project and its construction of huge dams.

The evaluation is mixed as well with respect to foreign policy. The country’s relationship with North Korea deteriorated after the Lee administration reduced aid, including most humanitarian aid, for the northern neighbor. However, the South Korean government did successfully preserve peace on the peninsula overall, and received much praise for deescalating the situation following various provocations from North Korea including the shelling of the South Korean Yeonpyeong Island.

President Lee extended the country’s previously narrow foreign policy focus on North Korea, the United States and China. His administration’s slogan of “Kukgyuk” (literally, a country with a good character; more metaphorically understood, South Korea’s national brand) was manifested through the promotion of South Korea’s reputation and soft power in the world by hosting international events such as the G-20 meeting in November 2010, the OECD High-Level Forum on Aid Effectiveness in 2011 and the 2012 Nuclear Security Summit. South Korea has also substantially increased spending for development assistance, and has promised to increase spending further to 0.25% of GDP. The country’s search for a global role also reflects the broadening of South Korean business interests abroad. Access to resources (“resource diplomacy”) and the expansion of South Korean businesses into new markets were major goals of the last five years.

## History and Characteristics of Transformation

South Korea has served as a “model case” of economic development since the 1960s. The fundamentals for successful economic development as well as the origins of many later economic, social and political problems can be traced to the authoritarian military regimes of President Park Chung-hee (1961 – 1979) and President Chun Doo-hwan (1980 – 1988), both former generals. Socioeconomic modernization facilitated democratic change in the late 1980s and after decades of struggle against Japanese colonialism and authoritarian rule, South Koreans overthrew their military dictatorship in 1987. The strong opposition movement led by Kim Young-sam and Kim Dae-jung successfully mobilized the urban workers, students, intellectuals and the middle classes. Skillful political management by opposition leaders, political failures by the ruling elite, and external constraints imposed by the U.S. government and the upcoming Seoul Olympic Games forced the ruling generals to hold the first free and fair elections in 1987.

General Roh Tae-woo won the presidency in these first elections, held in December 1987, in large part because Kim Young-sam and Kim Dae-jung split the oppositional vote. During Roh’s term (1988 – 1993), the democratic cause gained irresistible momentum, and in the 1993 elections Kim Young-sam was elected as the country’s first civilian president after three decades of military dominance in politics. During his term (1993 – 1998), democratic reforms continued in areas including civil-military relations, electoral politics and the judicial system. Finally, the election of former dissident Kim Dae-jung as president in December 1997 demonstrated that all relevant forces had been integrated into the political system. In 2003, former labor lawyer Roh Moo-hyun became president. With Roh, a new generation of politicians entered the top echelons of South Korean politics, putting an end to the rule of the so-called Three Kims – Kim Young-sam, Kim Dae-jung and Kim Jong-pil – who had dominated party politics since the 1970s. Roh tried to deepen democracy by strengthening human rights, integrating civil society more deeply into the policymaking process, and reforming deeply conservative institutions such as the judiciary and the education system. He also sought to create a counterweight to the dominant power of conservative newspapers. Ultimately, he was seen by many South Koreans as weak and too progressive. He was also criticized for presiding over declining growth rates and for failing to address rising inequality sufficiently. In 2007, the conservative Lee Myung-bak, the former CEO of a construction company turned mayor of Seoul, easily won the presidential election. After 10 years of progressive rule, a new chapter in South Korea’s democratic development was thus opened as South Korea returned to conservative rule. During his tenure, Lee encountered serious political and economic challenges. He initially antagonized many citizens with unpopular and ill-communicated policy proposals, such as the opening of the South Korean market to U.S. beef imports without addressing health concerns over mad cow disease. Lee then had to face the effects of the global financial and economic crisis, which the South Korean economy in fact weathered better and emerged from sooner than did many other major economies.

South Korea's transformation into a full-fledged market economy occurred gradually. Major steps toward liberalization were undertaken in the 1980s, the early 1990s and again after the financial and economic crisis period of 1997 – 1998. Policymakers followed a sequence of consecutive steps toward industrialization and world market integration, making strategic planning, government guidance of domestic economic actors, and a selective approach to foreign direct investment and imports key elements of a state-led industrialization policy from the 1960s onward. A legacy of South Korea's late and "condensed" industrialization remains evident in the pivotal position of the chaebol, or big business conglomerates, that have dominated economic activity ever since the 1970s.

South Korea had the advantage of accomplishing its democratization during a period of strong economic growth based on a solid industrial base, thus establishing the foundation for a slowly improving social infrastructure. The lack of widespread poverty, a fairly equal income distribution, a well-developed social infrastructure, and the emergence of a professional and effective public administration were other positive legacies of the South Korean developmental model, all of which contributed to a smooth political transformation. However, economic and particularly financial liberalization also had problematic effects, as international lenders flooded the Korean market with cheap credit. In 1997, the Asian financial crisis reached South Korea, and international creditors largely withdrew their money. To escape the collapse of domestic financial markets, the government turned to the International Monetary Fund. At the government's request, an economic development program was signed by the IMF and the government. This controversial IMF program initially focused on the maintenance of high interest rates and austerity spending policy with the aim of restoring the confidence of international investors. However, this strategy failed, facilitating the expansion of the financial crisis into an economic and social crisis. Once the original policies were abandoned and debt restructuring was negotiated, South Korea was able to recover relatively quickly. The Kim Dae-jung government implemented far-reaching reforms in the banking and financial sector, the institutional structuring of the economy, corporate governance, the welfare system, and employment practices. These reforms helped overcome the crisis, diminish corruption and expand the hitherto negligible social security net, but also contributed to a widening of social disparities and an exacerbation of insecurities. Other challenges today include the persistence of corrupt practices in business and politics, the dominance of the chaebols in the economy, and demographic change including rapid societal aging and low fertility rates.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

In South Korea, the state's monopoly on the use of force is not threatened or questioned by domestic actors. A specific Korean issue is that both Korean states claim the whole peninsula as their territory. According to the South Korean constitution, "The territory of the Republic of Korea shall consist of the Korean peninsula and its adjacent islands" (Art. 3). In reality, however, South Korea does not control the territory of North Korea.

South Korea is involved in a territorial dispute over the Dokdo islet, which is controlled by Seoul but also claimed (under the name of Takeshima) by Japan. However, the dispute does not threaten the integrity of the nation. North Korea lays claim to territory controlled by South Korea in the Yellow Sea south of the so-called Northern Limit Line, including Yeonpyeong Island, which was shelled by North Korean artillery in November 2010.

The vast majority of the South Korean population supports the existence of the Republic of Korea (ROK) as a state, as well as the country's constitution as a foundation for governance. Minor radical splinter groups continue to pay allegiance to North Korea. South Korean citizenship is based on parental citizenship. Children born in South Korea to foreigners do not automatically receive South Korean citizenship. Naturalization is possible after five years of residence in South Korea, with the passage of a language test.

The state is defined solely in secular terms. Religious dogmas have no noteworthy influence on the legal order or political institutions. At the political level, President Lee Myung-bak (2008 – 2013), a Presbyterian church elder, was criticized by Buddhist orders for an alleged preferential treatment of Christianity, and particularly of fellow church members. Research performed by a Buddhist society found that the share of people regarding the influence of religion to have grown in politics has increased in recent years. Buddhist organizations have called for the passage of a

Question  
Score

Monopoly on the  
use of force  
10

State identity  
10

No interference of  
religious dogmas  
10

Religious Non-Intervention Act. Nevertheless, it has been reported that Lee's successor, Park Geun-hye, rejected this demand, saying that the matter had to be solved among religious leaders, not by passage of a law.

The administrative structure of the South Korean state is highly differentiated and efficient. The state provides all basic public services throughout the country. Access to health facilities, clean water and sanitation is guaranteed throughout the country.

Basic  
administration  
10

## 2 | Political Participation

Elections at the national, regional and local levels are held in a free and transparent manner. Though elections are still fairly cost-intensive for the political actors involved, and in some cases high slots on party lists have been sold to interested candidates, the extent of money-driven politics at election times has declined substantially in recent years. Accusations and investigations are often used as a means of questioning or undermining the reputations of potential political candidates.

Free and fair  
elections  
10

All electoral affairs are managed by the National Election Commission (NEC), an independent constitutional organ. The registration of candidates and parties at the national, regional and local levels is performed in a free and transparent manner. Individual candidates without party affiliation are allowed to participate in national (excluding party lists), regional and local elections. Candidates can be nominated by political parties or by registered electors. Civil servants are not allowed to run for elected offices, and must resign their positions in order to become a candidate.

The National Security Law (NSL) allows state authorities to block registration of "left-wing," pro-North Korean parties and candidates. There is no evidence that this had a real impact in the 2012 parliamentary elections, the 2010 local elections or the important Seoul mayoral election of 2011. However, deposit requirements for persons applying as candidates are relatively high, as are ages of eligibility for office.

Candidates' ease of access to the media depends on the type of media. The print media in South Korea remains dominated by three big conservative newspapers with a clear political bias. However, smaller newspapers that support the opposition do exist. Access to TV and radio is more equal, although government intervention increased under the Lee Myung-bak administration. In 2011, Freedom House downgraded its evaluation of the South Korean media environment from "free" to "partly free." In early 2012, reporters of the three main TV channels, Korean Broadcasting System (KBS), MBC and Yonhap Television Network (YTN), went on strike to protest political interference. The strike continued at least in part through June 2012.

Blogging and social networks have played an important role in South Korean politics and in the nation's broader Internet culture in recent years. The immensely controversial NSL also applies to online media. Nevertheless, the country is one of

the world's most active Internet societies, with almost universal access to the Internet and an increasing shift from the use of print media to online media (especially among the younger generations). The obvious conservative bias of mainstream newspapers is thus diminishing as a relevant factor in the assessment of fair media access during election campaigns.

One particular shortcoming with respect to free media access is the opaque character of South Korea's election law concerning support for candidates during a pre-election period of up to 180 days. Article 93 of this law states that, "No one shall distribute, post, scatter, play, or run an advertisement, letter of greeting, poster, photograph, document, drawing, printed matter, audio tape, video tape, or the like which contains content supporting, recommending or opposing a political party or candidate [including a person who intends to be a candidate] or showing the name of the political party or candidate with the intention of influencing the election, not in accordance with the provisions of this Act, from 180 days before the election day to the election day." Under some interpretations of this article, public expression of support of any kind for candidates or parties by non-party members would be illegal during the pre-election period. On 29 December 2011, the South Korean Constitutional Court ruled that Article 93 unconstitutionally restricted the expression of opinions on the Internet and on social networks, although it remains unclear how this ruling will affect other media or campaigning in general.

Elected rulers have the effective power to govern. There are no domestic veto players that lack a constitutional basis. However, the fact that the United States still exercises command over the South Korean military during times of war represents a partial exception to this fact.

Effective power to govern

10

The freedoms of association and assembly are guaranteed and in principle respected. However, demonstrations in South Korea require prior approval, which can be hard to come by.

Association / assembly rights

8

South Korea has not yet signed four of the basic eight conventions of the International Labor Organization, including two on the freedom of association and collective bargaining. Labor unions are allowed to operate in the private sector, but remain restricted in the public sector. Labor union members are frequently imprisoned and fined for organizing "illegal strikes" or for "obstruction of business." Businesses also sue labor unions for compensation for "lost profits" during strikes. Civil servants are also limited in their political freedom. On 23 May 2010, 183 teachers (most of them members of the Korean Teachers and Education Workers Union, KTU) were dismissed by the Ministry of Education, Science and Technology for allegedly joining the Democratic Labor Party (DLP), an opposition party, which is illegal for public servants under South Korean law. The dismissals were based on the fact that the individuals made private donations to the DLP. The authorities interpreted these



contributions as membership fees, despite the protests of the individuals concerned to the contrary.

The freedoms of opinion and the press are constitutionally guaranteed, but recent illiberal trends give cause for concern. With regard to the legal situation, restrictions on the freedom of expression concern activities expressing support for North Korea (real or construed). The National Security Law (NSL) is from time to time used to prosecute persons advocating positions that are seen as favoring the communist North (and thus undermining the legitimacy of the ROK and its policies). The NSL has also led to a certain degree of self-censorship on the part of the media and other actors. President Lee's governance style was usually compared to that of a CEO by his supporters, while being described as authoritarian by his opponents. Critics alleged that his administration sought to suppress opposition, through such means as influencing personnel policies at public broadcasters and changing the law to allow (conservative) newspapers and other corporations to expand into the broadcasting sector. The Lee government was accused of replacing or influencing the replacement of the chief executives of a number of major public broadcasters and media companies, including the KBS, the Korean Broadcasting Advertising Corporation, Arirang TV, Sky Life and YTN. Some of the new appointees are believed to be supporters of the government.

Freedom of  
expression  
7

Workers of MBC, one of the three major broadcasting stations, went on strike to protest against the alleged unfair programming dictated by executives. Interference by executives was suspected of being a masked form of government censorship. The Press Freedom Index published by Reporters Without Borders (RSF) ranked South Korea at 44th place worldwide in the 2011 – 2012 report, two ranks lower than 2010.

### 3 | Rule of Law

South Korea's constitution grants substantial powers to the executive in general, and especially to the president in particular. The president can initiate legislation, issue decrees and veto legislation. The president's power is strongest when the governing party controls a majority in the unicameral parliament. The parliament has the power to impeach the president. The judiciary provides a check to executive and legislative activities, and the Constitutional Court in particular has earned a reputation for independence. The prosecutor's office is often criticized for being misused for political purposes.

Separation of  
powers  
9

The South Korean judiciary is highly professionalized and independent, though not totally free from governmental pressure. In particular, state prosecutors are from time to time ordered to launch investigations (especially into tax matters) aimed at intimidating political foes or other actors not toeing the line. In 2011, the Presidential Commission on Judicial Reform (PCJR) recommended amending the Criminal

Independent  
judiciary  
9

Procedure Law so as to ensure the police had the authority to launch investigations independently. Many high-ranking members of the state prosecutor's office resigned in protest, and the then-attorney general resigned when the bill was passed, taking responsibility for having failed to prevent the bill's enactment.

Pressured by a popular anti-corruption movement launched in 1996, the South Korean government enacted an anti-corruption law in June 2001. In 2003, a general code of conduct for public officials went into force within central and local administrative organs and autonomous education authorities. The Korea Independent Commission Against Corruption, established under the Anti-Corruption Act, handles whistleblowers' reports, recommends policies and legislation for combating corruption, and examines the integrity of public institutions. The Public Service Ethics Act is designed to prevent high-ranking public officials from reaping financial gains related to their duties both during and after their time of public employment. Existing laws and regulations on the issue are generally effective in holding politicians and public servants accountable and in penalizing wrongdoing.

There is a perception that corruption increased during the Lee administration. In January 2013, Lee Sang-deuk, President Lee's brother, was sentenced to three years in prison for receiving bribes. In January 2013, President Lee was criticized for issuing special pardons to 55 convicted criminals, including close associates.

Civil rights conditions in South Korea have improved dramatically since the beginning of the democratization process in 1987. Basic civil rights are protected by the constitution. Although courts have been reasonably effective in protecting civil rights, and a Human Rights Commission was established in 2001, a number of problems remain. Moreover, observers tend to agree that the human and civil rights situation has in fact worsened somewhat since 2008. The National Security Law remains in place, outlawing activities that could be interpreted as "benefiting or praising" North Korea. In a 2011 report, Amnesty International criticized the fact that "the government [had] increasingly used vaguely worded national security, defamation and other laws to harass and suppress its critics."

For example, the government has investigated or arrested bloggers or social network users who have praised North Korea or posted pro-North materials. The attorney general declared a "war against fellow-traveling pro-North Korean left-wing elements." In September 2012, the police arrested Park Sang-geun for uploading a photo of himself that had satirical similarity to North Korean propaganda posters. Excessive use of police force has been an additional and frequent subject of complaint, as during the protests against U.S. beef imports, or the "Yongsan disaster" in which six people were killed during a clash between riot police and tenants refusing relocation during a construction project.

Prosecution of  
office abuse

7

Civil rights

8

Other serious issues include the inadequate protection of migrant workers and the imprisonment of conscientious objectors. On a more positive note, a moratorium on executions announced in 1998 has remained in place. However, an attempt to abolish the death penalty altogether failed in parliament in 2010, and a new initiative remained stalled in parliament as of the time of writing.

#### 4 | Stability of Democratic Institutions

South Korea's ensemble of democratic institutions is generally effective. During the period under review, President Lee Myung-bak and his party possessed a majority in the parliament that had been in place since 2008. Due to the concentration of power in the hands of the president and the governing party, opposition parties sometimes used undemocratic methods such as blockades and physical force to block decisions in the parliament. Another problem is the lack of independence accorded to local governments, as they depend on the central government for revenues. The central government often uses its leverage to intervene in local affairs.

Performance of  
democratic  
institutions

8

There is no substantial public support for nondemocratic alternatives to the current political system. The military was forced out of politics in 1993 by Kim Young-sam, the first civilian president, and has remained outside politics since. However, many people are concerned about the growing influence of large business conglomerates (chaebols) in major policymaking processes and even over judicial verdicts.

Commitment to  
democratic  
institutions

9

#### 5 | Political and Social Integration

The South Korean party system is unstable, without deep social roots. Party organizations are weak, with comparatively few dues-paying members. Parties are organized around a small number of powerful individuals. They are founded, fused, renamed and dissolved largely at will, leading to a relatively high degree of voter volatility. The ruling New Frontier Party, founded in 1997, is the only party that might today be considered to be institutionalized, although it too changed its name in 2012 from the Grand National Party. Local party offices are outlawed by law, contributing to the fact that parties have only weak grassroots connections. Voter volatility remains limited. Regional fragmentation is a big problem, with the ruling party dominating the southeastern region and the opposition party dominating the southwest. On the other hand, ideological fragmentation and polarization within the party system is limited. In the 2012 presidential campaign, most observers judged that there were few differences in the election platforms of the two major candidates, excluding huge differences in proposed policy toward North Korea.

Party system

7

South Korea shows an average range of interest groups, reflecting most social interests. However, some powerful interests have privileged access to the corridors

Interest groups

8

of power. Business is well represented by networks of interlocking and sufficiently staffed interest groups. Labor unions are much weaker. The unionization rate, which has been on a downward slope since 1990, was 9.8% in 2011. Most unionized employees are male, and are concentrated in big companies. They mostly belong to company unions focused on bread-and-butter issues, while more politicized industry unions exist in only a limited number of sectors (e.g., for metal workers). Corporate interests are organized through a few high-level organizations connected to the conservative political establishment. Moreover, there are a growing number of civil society organizations (CSOs) with clear-cut political, religious, humanitarian, social or economic agendas. Personal networks link former pro-democracy and human rights activists within civil society and the political system. However, under President Lee, the access of “progressive” CSOs to the government was dramatically reduced. Similar networks on the conservative side of the political spectrum (often based on alumni ties or the intermarriage of prominent families) also link societal and political actors.

After toppling their military dictator in 1987, South Koreans have been engaged in a long struggle to achieve and deepen democracy, and regard their achievements as a source of pride. On a more cautious note, nostalgia for the high levels of economic growth under the military dictatorship of Park Chung-hee (1961– 1979) is on the rise. According to a recent publication by Shin Doh Chull, “While nearly every Korean (99%) prefers to live in a democracy, a much smaller majority of about two-thirds (66%) believes that democracy is always preferable to any other form of government and just one-half (50%) has an accurate understanding of the regime change that took place more than two decades ago. A minority of two-fifths (41%) is firmly willing to protect the current democratic regime from any future political crisis, a finding that could encourage pro-authoritarian Koreans to push for a reversal to authoritarian rule. Only one in eight Koreans (12%) is a fully informed and firmly committed defender of democracy-in-practice.”

Approval of  
democracy  
8

Reflecting the general vibrancy of South Korea’s civil society, there are many voluntary associations engaged in self-help activities. A substantial number of these groups are linked to religious organizations. Such self-help associations complement informal (often school- and university-based or regionally oriented) and often intensively used networks. Generalized trust among citizens is less well developed – according to the 2008 World Values Survey, South Korea scored lower than neighboring countries such as China, Japan or Taiwan with respect to interpersonal trust. Only 28% said that “most people can be trusted,” while 71% agreed with the statement that you “can’t be too careful.”

Social capital  
7

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

South Korea's rapid industrialization process from the mid-1960s onward was coupled with a fairly equitable distribution of income. According to the OECD statistical database, the Gini coefficient is 0.314 – still below the OECD average, but higher than in most European countries. The same database puts the share of poor people in Korea at 21% (measured as percent of the population with an income after taxes and transfers of below 60% of the current median income), which is substantially above the OECD average of 18%. South Korea was ranked 15th worldwide in the UNDP's 2011 Human Development Index (HDI, up from 25th place in 2006, but down from 12th place in 2010), and was ranked 11th in the Gender-related Development Index (GDI). A worrying trend is the rising share of irregular jobs with comparatively low salaries, a lack of job security and weak labor union organization. In addition, men are more likely to achieve regular employee status than are women. According to the National Statistical Office, for males as a share of the population above the age of 15, the employment rate increased from 71.2% in May 2010 to 71.6% in May 2013. During the same period of time, female employment increased from 49.2% to 49.7%.

Question  
Score

Socioeconomic  
barriers  
9

Economic indicators		2009	2010	2011	2012
GDP	\$ M	834060.4	1014890.1	1114472.0	<b>1129598.2</b>
GDP growth	%	0.3	6.3	3.7	<b>2.0</b>
Inflation (CPI)	%	2.8	3.0	4.0	<b>2.2</b>
Unemployment	%	3.6	3.7	3.4	-
Foreign direct investment	% of GDP	0.3	0.1	0.4	<b>0.4</b>
Export growth	%	-1.2	14.7	9.1	<b>4.2</b>
Import growth	%	-8.0	17.3	6.1	<b>2.5</b>
Current account balance	\$ M	32790.5	29393.5	26068.2	<b>43335.1</b>

Economic indicators		2009	2010	2011	2012
Public debt	% of GDP	33.8	33.4	34.2	<b>33.7</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	0.0	1.7	1.8	-
Tax revenue	% of GDP	15.4	15.1	15.6	-
Government consumption	% of GDP	16.0	15.2	15.3	<b>15.8</b>
Public expnd. on edu.	% of GDP	5.0	-	-	-
Public expnd. on health	% of GDP	4.0	4.1	4.1	-
R&D expenditure	% of GDP	3.56	3.74	-	-
Military expenditure	% of GDP	2.9	2.7	2.8	<b>2.8</b>

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 7 | Organization of the Market and Competition

South Korea's economy has been substantially liberalized over the course of the past two and a half decades, with the most recent wave of liberalization following the financial crisis of 1997. Still, government intervention in South Korea remains more prevalent than in most advanced economies. Prices can be freely set and the currency is fully convertible. However, many markets in South Korea are organized in a monopolistic or oligopolistic way, with cartels still dominating many sectors. The central bank frequently intervenes in the currency market in reaction to market volatility, seeking to maintain a competitive exchange rate.

There are few significant formal entry or exit barriers to domestic companies, and entry barriers to foreign companies have been significantly lowered since the 1990s. One often-reported exception is the de facto ban on small Korean breweries from selling their beer in the retail market. This gives Hite and OB, the two large Korean breweries, an effective monopoly in the Korean beer market. The European Union-South Korea preferential trade agreement entered into force in 2011, and the South Korea-United States preferred trade agreement (PTA) went into effect in 2012. These PTAs are expected to further open the South Korean market to foreign products and investment. To date, however, results remain controversial, and many have complained that the PTAs have increased importers' profits without reducing prices.

Market-based  
competition  
9

Profits can be freely used and transferred by domestic enterprises, but large-scale profits made by foreign enterprises selling domestic assets can create popular backlashes. Lawsuits involving foreign investors are often protracted. For example, the U.S. investment fund Lone Star has been involved in a (to date) eight-year lawsuit dealing with controversial acquisitions in South Korea as well as the tax-free repatriation of a significant quantity of profits.

Monopoly regulation in South Korea falls within the jurisdiction of the Korea Fair Trade Commission (KFTC), based on the Monopoly Regulation and Fair Trade Act of 2009.

Anti-monopoly  
policy  
8

During South Korea's "condensed" industrialization process, the formation of large-scale conglomerates, the so-called chaebols, was actively promoted by the state. Indeed, state policy used to be aimed at limiting competition rather than enforcing it. A high degree of market concentration remains today, and has even increased in some sectors since the 1997 – 1998 crisis. For example, since the merger of Hyundai and Kia, one Korean car maker controls more than 80% of the country's car market. Government agencies such as the Fair Trade Commission try to rein in the conglomerates, but market-oriented reforms have so far had little effect on the massive concentration of economic power. At times, market-oriented reforms such as shareholder rights and bankruptcy regulation have even facilitated further concentration.

On the other hand, the slow but continuous opening of the South Korean market to foreign products has increased competition. For example, the entry of the iPhone into the South Korean market expanded consumer choice beyond the products of the two major domestic phone makers, LG and Samsung. However, other phone makers remain excluded, mostly due to technical requirements and other non-tariff barriers.

South Korea has made efforts to liberalize its trade and investment regime further since the 1997 financial crisis. During the period under review, bilateral preferential trade agreements with the European Union (2011) and the United States (2012) entered into force. Trade negotiations with Japan and China are currently under way. However, the tariff structure remains complex, with industrial tariffs levels being fairly low while agricultural tariffs remain high. Out-of-quota tariffs apply to many other commodities. Non-tariff barriers have been substantially reduced, but still exist in some areas, as in the case of standards and certification requirements, and restricted access for foreign-owned companies to specific "sensitive" industry or service sectors. In general, however, the low market share held by foreign products in many South Korean markets is not due to formal barriers.

Liberalization of  
foreign trade  
9

The South Korean financial system is highly differentiated, and largely follows international standards such as Basel II. Major South Korean banks are far above the Bank of International Settlements (BIS) capital adequacy ratio. Smaller banks and

Banking system  
8

financial institutes are far less prudent, and numerous saving banks went bankrupt in 2012. In May 2012, the Korean Financial Services Commission (FSC) ordered six-month operational suspensions for four savings banks as part of an investigation into the country's secondary financial institutions. This step was taken after the discovery that these banks had a BIS ratio of under 5%. The FSC is a government agency reporting to the Prime Minister's Office, but it delegates much of its financial regulatory functions to the Financial Supervisory Service (FSS), which is constituted as an independent public entity. The FSC and FSS are relatively effective in overseeing banks. No major South Korean bank failed during the global financial crisis. However, the use of the BIS ratio as an international standard failed to prevent the savings bank crisis, or to detect the savings banks' weak financial positions before they failed.

The South Korean stock market remains extremely volatile, with a huge number of transactions indicating a short-term orientation and speculative investor attitude. A major source of potential instability is the high amount of private household debt, particularly related to mortgages. In 2011, private household debt reached 75% of GDP and 163% of disposable income.

South Korea remains vulnerable to sudden reversals of capital flows, as was demonstrated during the world financial crisis. In early 2009, the South Korean currency almost collapsed, and was stabilized only through a currency swap agreement with the U.S. Federal Reserve.

## 8 | Currency and Price Stability

South Korea's central bank (Bank of Korea, BOK) is legally independent, and has an inflation target of 2% – 4%. The BOK has been quite successful in achieving its target, although in 2011 inflation was slightly above target at 4.2%. Understandably, the focus since the 2008 crisis has been on reviving economic growth and preventing deflation, with little concern for inflation. In 2012, the government was accused of changing its measurement of inflation in order to meet the target.

With respect to exchange rate policies, the central bank follows a managed floating strategy. It frequently intervenes in currency markets in order to prevent excessive volatility, but also – more controversially – to maintain a competitive exchange rate for exporters.

South Korea's fiscal policies appear sound, at least on the national level. The country has one of the OECD's lowest levels of public debt and public expenditure. The official debt-to-GDP ratio is only 32%. However, some researchers argue that huge amounts of government debt are hidden in state-owned companies; indeed, according

Anti-inflation /  
forex policy

9

Macrostability

8



to estimates by the Naumann Foundation in Seoul, the total amount of government debt could be as much as three times the official figure.

During and since the 2008 world economic crisis, the government has been remarkably pragmatic in abandoning what traditionally had been very conservative fiscal policies, implementing the OECD's largest fiscal stimulus in an attempt to sustain economic growth. Nevertheless, overall government spending remains low in South Korea compared to other OECD countries. With a maturing economy and aging society, the government will almost inevitably have to take over more social responsibility, particularly with respect to social security and education. The focus of government spending on infrastructure projects and business subsidies in recent years represents a problematic trend. This "corporate welfare" generates short-term growth at the expense of a long-term debt burden. Criticism of big construction projects like the Four Rivers Restoration as a waste of taxpayers' money has increased over the last two years.

On the local level, budget problems have worsened largely due to prestige construction projects that lack economic benefits. For example, Incheon, Korea's third-largest city, ran into financial difficulties in early 2012.

## 9 | Private Property

Private property rights are generally well protected in South Korea, and expropriation is uncommon. However, legal proceedings relating to contractual matters can be slow. Skyrocketing real-estate prices have led in recent years to a public debate over whether real estate should be regarded as a kind of public good, whose use needs to be regulated restrictively. To date, however, official regulations governing real estate have basically reflected international standards (e.g., restrictions on floor area ratios, environmental and height regulations). South Korea has strict intellectual property laws, but enforcement can be difficult. The pirating of software and media content remains widespread.

Property rights  
10

Private enterprises are regarded as the engine of growth in South Korea. In the World Bank's 2013 Doing Business report, South Korea climbed one rank to 8th place. Full public ownership is largely limited to public utilities. The state is involved in around about a hundred state-run enterprises and investments. Under the Lee government, a clear privatization agenda was scaled back due to the global crisis. In July 2010, the government unveiled a plan to sell its controlling stake in Woori Finance Holdings, South Korea's second-largest financial services company. However, the plan was not implemented, and as of the time of writing, the sale had been rescheduled for 2013. The government took control of Woori during the financial crisis of 1997 – 1998. Privatizations are often criticized for being tainted by a lack of transparency and corruption. They often go hand in hand with massive protests and long legal struggles.

Private enterprise  
8

For example, the U.S. Lone Star fund bought the privatized Korea Exchange Bank in 2003, even though many experts believe that it was not eligible to do so under South Korean law. Lone Star has been involved in numerous lawsuits since.

## 10 | Welfare Regime

Since the late 1990s, South Korea has undertaken a number of steps toward the development of a social security net which includes public insurance programs for sickness, pensions, accidents and unemployment. However, entitlements are generally restrictively defined, covering only the bare minimum for a limited amount of time. Medical treatments covered by the health insurance program require high copayments. Welfare spending in South Korea remains at a very low level overall. The welfare system covers a huge share of the population, but is not comprehensive in covering important risks. According to the OECD statistics, public health spending (including mandatory private spending) in 2009 (the last year data was available) was 4.1% of GDP – which is above the world average but remains much lower than in most comparable high-income countries.

The welfare state has become an important electoral issue in the last two years, particularly during the 2012 presidential election campaigns. However, discussions generally focused on individual targeted measures rather than the creation of a more comprehensive welfare state overall. Recent controversy was sparked by the quality of free meals provided to low-income families (mainly for children and the elderly), for example. The city of Seoul announced in January 2013 that the number of elderly citizens in low-income brackets who were eligible for free meals had increased by 10.9% as compared to 2012 (to a total of 22,358 persons). The provision of free meals to students regardless of their parents' income levels was a controversial issue in the 2011 elections.

In principle, there is no discrimination on the basis of race, religion, gender, age or ethnicity in South Korea. In reality, however, migrant workers, handicapped persons, refugees from North Korea, women and young professionals face difficulties in terms of legal protection from abuse, access to job opportunities, and/or obtaining just and equal wages. The public is slowly becoming more aware of problems with regard to the (mis)treatment of migrant workers. Refugees from North Korea receive initial guidance and benefits, but are then basically left to their own devices.

University tuition costs are very high, preventing students from poorer families from attending good private universities, while the number of students at public universities remains very low.

Women have a tertiary enrollment rate of just 72% that of males, and remain underrepresented in government positions and private companies. Although a female

Social safety nets

8

Equal opportunity

8

president was elected for the first time in December 2012, by the time of writing she had proposed only two female members for her cabinet. According to the Korea Herald, women account for a mere 9.1%, or 272 of the total 2,993 directors at the country's 288 public institutions. More than half of these agencies have no women in executive roles. Only 5.6%, or 16 agencies, are run by female chief executive officers. In private companies, the gender bias is even stronger. In 2011, the share of women in the boardrooms of the 100 largest corporations was just 1.48 %. It is thus no surprise that South Korea was ranked only 108th out of 132 countries in the 2012 World Economic Forum's (WEF) index of gender equality. However, the situation seems to be improving slowly, as indicated by the fact that South Korea was ranked 115th out of 134 countries in 2009 in the WEF index.

In January 2013, a group of lawmakers began pressing for a statutory quota for women directors at public institutions, seeking to break the glass ceiling. Rep. Chung Mong-joon of the ruling Saenuri Party and 61 other legislators have proposed a bill requiring state-run corporations and other public organizations to raise the ratio of women on their boards to 15% in three years and 30% in five years.

## 11 | Economic Performance

South Korea is a high-income country with a per capita GDP of \$30,000 (PPP), and is a member of the OECD. The country weathered the 2008 financial and economic crisis and its aftermath better than did many other major economies. In 2010, South Korea had a growth rate of around 6%, indicating a solid economic rebound. The rate dropped to 3.6% in 2011, and 2.2% in 2012 as calculated by the OECD Economic Outlook. The same report also forecast economic growth rates of 3.1% in 2013 and 4.4% in 2014. South Korea enjoys relatively low unemployment rates and low levels government debt. Unemployment rates were about 3.4% in 2011 and 2012. However, experts believe that the unemployment rate for the younger generation is over 20%. Unfortunately, many employees and self-employed individuals suffer from precarious working conditions and stagnant wages. Given South Korea's high level of development, government tax revenues are very low, totaling about 15% of GDP in 2010. Another weakness is the low level of foreign long-term investment, with FDI totaling just 0.4% of GDP in 2011.

Output strength  
9

## 12 | Sustainability

The South Korean government has strengthened environmental laws in recent years. The country has also reduced emissions of major air pollutants such as sulfur oxides, and has improved water quality and waste recycling. Substantial investments have been made in renewable energy research. Under President Lee Myung-bak, "green growth" was in fact made into a guiding economic paradigm for South Korea. A

Environmental  
policy  
8

National Strategy for Green Growth was announced in July 2009. Notably, however, this term as used domestically subsumes not only investments in renewable energies and the like, but also controversial issues such as increased reliance on nuclear power and major construction projects like dams. The Four Rivers Restoration Project is a “green” project promoted by President Lee Myung-bak since late 2008. In the last two years, however, many problems have emerged. In 2011, the Board of Audit and Inspection raised serious doubts about the safety of the project, the efficacy of water quality management, and the feasibility of maintenance. South Korea’s ranking at 43rd place in Yale University’s Environmental Performance Index indicates significant potential for environmental-policy improvement. In sum, despite efforts at improvement, environmental concerns are frequently subordinated to economic growth.

On a positive note, South Korea was chosen as home to a new United Nations fund to manage billions of dollars to help developing nations fight climate change. The Global Green Growth Institute (GGGI) has received the status of an official international governmental organization.

South Korea’s expenditures on education are well above the OECD average, but a large share of these costs are borne by private households.

South Korean R&D expenditure has grown by an average of 9.6% since 2008, marking the second-highest such rate worldwide, the National Technology and Science Commission reported in 2012. The government’s R&D budget increased from KRW 11.1 trillion in 2008 to KRW 16 trillion in 2012. South Korea is now the seventh-largest R&D investor in the world, spending more than 3.74% of GDP on R&D, according to a statement on the commission’s website.

Education policy /  
R&D  
10

## Transformation Management

### I. Level of Difficulty

Structural constraints on governance in South Korea are low, aside from the perpetual challenges posed by North Korea. North Korea challenges the legitimacy of South Korea as a nation. In terms of territory, South Korea is a fairly compact nation, with nearly half the population and economic activity concentrated in the greater Seoul area. Living standards are comparable to those in a number of other OECD member states, with per capita income on a purchasing-power parity (PPP) basis estimated at \$30,286 in 2011. South Korea has not been strongly affected by natural disasters or pandemic infections, and the total number of people living with HIV/AIDS was estimated to be 9,500 in 2009. The number of officially registered cases reached 8,544 in 2012.

Structural  
constraints  
1

According to the World Bank indicators, 75% of South Korea's population has completed at least a secondary education. During the first decade of the 21st century, 96% of the school-age population attended tertiary education.

Despite its rather recent origins, South Korea's civil society is one of the most vibrant in Pacific Asia. South Koreans have actively struggled for democracy for decades, and successfully toppled their military dictatorship in 1987. Since that time, civil society organizations (CSOs) have taken an active oversight role in monitoring and assessing the activities of government and companies. Most CSOs focus on domestic issues, with little interest in internationalization. Access by CSOs to formal state decision-making processes often depends on their loyalty to the government. Another weakness of South Korea's civil society is the lack of any meaningful political party organization. Labor unions are fairly strong in large companies, but are concentrated on bread-and-butter issues, with little ambition to change society more broadly.

Civil society  
traditions  
6

South Korea's society is dominated by personalized networks with little generalized trust and/or compromise-oriented settlements between opposing groups. Labor disputes in particular are often characterized by militant action.

Religiously or ethnically motivated violent conflicts are rare. The peaceful coexistence of multiple religions has been a factor facilitating democratic consolidation in South Korea. There are few violent incidents rooted in social

Conflict intensity  
2

conflicts, particularly given the country's vibrant tradition of demonstrations and labor disputes. Fights between demonstrators and riot police can be vicious, with excesses on both sides. Politics in South Korea tend to be confrontational, up to and including violent clashes between parties in the parliament. However, violence generally tends to be limited, and at times even merely symbolic.

## II. Management Performance

### 14 | Steering Capability

Strategic planning remains an important factor in South Korean governance. The content of this strategic planning has changed dramatically over the last half-decade, from an earlier concentration on democratization, market-oriented reforms and the expansion of social security to a focus on economic growth, business-friendly policies and "green growth." Given the strengthened position of the president and his comfortable majority in parliament, the political context for strategic planning has improved compared with that facing the Roh administration. Compared to previous administrations, the Lee government was much more pragmatic, but also much more oriented toward the short term. Instead of being concerned with long-term goals, President Lee viewed the government as operating in a manner similar to that a company, and reacted pragmatically to challenges with the aim of remaining competitive in the process of economic globalization. Within the presidential office, there is a secretary to the president for executive planning and management as well as a senior secretary to the president for national future.

There are conflicting views as to the efficiency of the Korean government during the last two years. Some say that efficiency increased due to the more authoritarian and hierarchical character of the new government as compared to the discursive and ultimately hesitant approach of Lee's predecessors. Due to the strong conservative majority in the parliament, the government found it easier than previously to get bills through the parliament. On the other hand, others argue that accomplishments in the last two years have been meager compared to Lee's original plans, and that faster implementation came at the price of less legitimacy and greater social costs. The Citizens' Coalition for Economic Justice (CCEJ), an NGO, conducted a survey in early 2012 asking experts for their assessment of the Lee administration. They concluded that the Lee administration accomplished "less than 40% of its promises."

More importantly, many of Lee's major policies, such as the Grand Canal Project, have triggered substantial criticism and opposition. In the case of the new administrative city (Sejong City) that was built in South Chungcheon Province, Lee

Question  
Score

Prioritization  
9

Implementation  
7

initially supported the project, then opposed it, and ultimately had no choice other than to accept it due to the broad support for the project in his own party. Ministries will move to the new city between 2012 and 2014.

The government's ability to engage in policy learning is high, but institutional learning is far more limited. Non-governmental academic experts have considerable influence on government decision-making. Most observers believe that the influence of expert commissions decreased somewhat under the Lee administration, as he abolished many of the expert commissions established by his predecessors.

Policy learning  
7

International and supranational developments that affect Korea directly can trigger rapid and far-reaching change. For example, Korea reacted to the global financial and economic crisis with decisive action and large-scale government intervention. This was a remarkable difference from the (partly IMF-imposed) focus on austerity and exchange rate stabilization during the 1997 – 1998 crisis. Global standards play a crucial role for the South Korean government. Reports and criticism issued by international organizations such as the OECD or the IMF, or by partners such as the United States or the European Union, are taken very seriously. The degree of adaptability, however, depends to a large extent on compatibility with domestic political goals. For example, the South Korean government is relatively less responsive to global standards in the field of labor rights or the reduction of non-tariff barriers.

## 15 | Resource Efficiency

Government and public corporations employed 5.7% of the South Korean workforce in 2008 (the latest data available), the lowest share of any OECD nation. General government disbursements, at 31% of GDP, were also the lowest in the OECD. Public government debt has risen in recent years, particularly due to the stimulus spending aimed at combating the effects of the 2008 – 2009 financial and economic crisis; however, this debt remains at manageable levels overall. The official debt-to-GDP ratio in South Korea is just 32%. Some researchers argue that huge amounts of government debt are hidden in state-owned companies. As noted above, Friedrich Naumann Foundation in Seoul estimates that the total amount of government debt could be as high as three times the official figure.

Efficient use of  
assets  
8

On the local level, budget problems have become worse mostly due to prestige construction projects that lack economic benefits. In 2010, Seongnam City was the first South Korean government forced to declare a moratorium on its debt payments. In early 2012, Incheon, Korea's third-largest city, ran into financial difficulties.

Despite moves toward decentralization undertaken in the 1990s, South Korea remains a fairly centralized polity with power concentrated in the president's office. Provincial governments, although having their own functions to some extent, basically serve as an intermediary between the central and municipal governments. Local governments depend heavily on the central government for funding and guidance. Their main function is to implement centrally determined policies and programs as directed and guided by central government ministries and agencies. Local governments lack their own court, prosecution, police and education systems. The high degree of centralization allows for largely coherent implementation of policies. Likewise, frequent interministerial conflicts do not affect overall policymaking in a substantial manner, because of the hierarchical structure of government. Within the government, the finance ministry, with budget planning authority, clearly dominates. However, the fragmentation of government activities is a frequent subject of criticism, as ministries often fail to coordinate activities within given policy fields.

Policy  
coordination  
9

Vigilant civil society organizations regularly conduct surveys of how parliamentarians fulfill their duties. Candidates running for office that have been "blacklisted" by the results of these surveys face problems in parliamentary elections. Though far from perfect, the blacklisting system has helped to increase voters' awareness of problems. However, lawmakers who have been convicted for illegal fundraising or other illicit activities sometimes benefit from the presidential amnesties that are granted every year. In January 2013, President Lee pardoned 55 imprisoned criminals, some of them his own close associates. On 29 February 2008, the Anti-Corruption and Civil Rights Commission (ACRC) was created through the merger of the Ombudsman of Korea, the Korea Independent Commission against Corruption and the Administrative Appeals Commission. Before February 2012, ACRC commissioners were appointed exclusively by the president, a provision that critics had argued undermined its independence. As a consequence of legislative reform, the president's prerogative to appoint the members of the commission is now limited to 9 out of 15 commissioners, whereas of the remaining six (non-permanent) members of ACRC, three are appointed by parliament and three by the Chief Justice of the Supreme Court, respectively. ACRC has no power to investigate corruption scandals. The prosecutor's offices that hold this power are not free of corruption in their own right. Proposals to create an independent institution to be in charge of corruption scandals involving high-ranking officials, including prosecutors, failed due to resistance on the part of the prosecutor's office and some conservative politicians.

Anti-corruption  
policy  
7



## 16 | Consensus-Building

All major political actors in South Korea subscribe to the goal of maintaining a constitutional democracy, although some authoritarian practices can be witnessed within individual political organizations. All political actors also agree on the need to uphold the market economy.

Consensus on goals  
10

There is no visible activity by or any indication of anti-democratic veto actors in South Korea.

Anti-democratic  
actors  
10

South Korea's political leadership is relatively effective in curbing ethnic, class and regional conflicts. Increasing social inequality might in the future exacerbate conflict. Regional cleavages seem to have grown deeper, especially with the 2012 presidential election. Kyungsang Province traditionally supports the Saenuri Party while Jeolla Province votes for the Democratic United Party. Choongchung remains more balanced than the other two provinces. The election also had a dividing effect between age groups; a majority of the younger generation in their 20s and 30s voted for the Democratic United Party candidate, while most of the older generation in their 50s and 60s supported the Saenuri Party candidate.

Cleavage /  
conflict  
management  
8

The administrations of progressive presidents Kim Dae-jung and Roh Moo-hyun (1998 – 2008) took the influence of civil society organizations seriously, and sought to incorporate their ideas into official policy and policymaking processes. Representatives of civil society were given high-profile posts in the cabinet and on advisory commissions. President Lee Myung-bak's administration did not continue this inclusionary approach, but rather exhibited a more or less pronounced top-down approach to policymaking. CSOs without a conservative worldview subsequently had difficulties in accessing the government and even in obtaining financial support. Independent labor unions have had a particularly hard time, while employers' organizations find access much easier.

Civil society  
participation  
6

The history of colonialism and dictatorship continues to haunt South Korea, both in terms of domestic affairs and bilateral relations (especially with Japan). Issues related to collaboration with Japan during colonial times, the period before and during the Korean War including the Jeju Massacre of 1948 – 1949, and the authoritarian Park Chung-hee (1961 – 1979) and Chun Doo-hwan eras (1980 – 1988) and their legacy (particularly the 1980 Gwangju Massacre) remain largely unresolved. Many of those who committed crimes under the military dictatorship have not to date been brought to justice.

Reconciliation  
7

Under President Lee Myung-bak's conservative administration, the level of public financial support provided for private-sector activities aimed at unearthing past crimes and misdemeanors decreased. For example, the Truth and Reconciliation

Commission was disbanded in 2010, as planned when it was created in December 2005. Critics claimed that the commission was shut down because the government was uncomfortable with scrutiny of the country's past. Others, including the commission's president, argued that the body was not cost effective, and that it should therefore cease work. The closure of the commission means that thousands of incidents, ranging from executions to the wartime killing of refugees, will not be investigated, and that South Koreans wrongly accused of crimes against the government may lose their only chance to clear their name.

The prospect of dealing with the massive human rights violations in North Korea after a possible reunification represents another important future challenge, but so far remains unresolved.

## 17 | International Cooperation

South Korea is well integrated into international organizations including the OECD and the G-20. Advice by international organizations plays an important role, and South Koreans pay particular attention to international rankings. The country works hard to implement international standards in most areas. However, in some areas such as international labor standards and anti-global-warming measures, South Korea has shown itself hesitant to meet international best practices.

Effective use of  
support  
10

South Korea no longer receives official development assistance (ODA). It has hosted a number of international development conferences and has provided its own ODA to other nations. South Korea became an official member nation of OECD's Development Assistance Committee (DAC) in 2010. It hosted the OECD high-level forum on aid effectiveness in 2011. A declared goal of the government is to increase the amount of official development assistance provided to 0.25% of gross national income by 2015.

South Korea is considered to be a very credible partner by the global community. It is a member of the United Nations, the WTO, the IMF, the World Bank, the G-20 and many more of the most important international organizations. In 2012, South Korea was elected as a non-permanent member of the U.N. Security Council. It is seen as an "emerging middle power," and many believe that the country will play an important role as a bridge between the developing and developed world. On the other hand, South Korea has been the target of some complaints, for example by the ILO and human rights groups such as Amnesty International. The country is also involved in numerous WTO dispute-settlement cases.

Credibility  
10

South Korea actively participates in regional and interregional initiatives, as well as in institutions at the regional level such as the Asia-Pacific Economic Cooperation (APEC), ASEAN + 3, the ASEAN Regional Forum (ARF), the Chiang Mai Initiative,

Regional  
cooperation  
9

the Asia-Europe Meeting (ASEM), and the six-party talks on the issue of North Korean nuclear weapons development. With the opening of the Trilateral (Korea, China, and Japan) Cooperation Secretariat in April 2012, the three neighboring states seemed to evince a more cooperative mood than was previously the case. In the past, South Korea has been one of the main driving forces behind regional cooperation, but its enthusiasm has been more muted in the last two years.

The relationship with North Korea has deteriorated dramatically in recent years. The Lee administration reduced aid to the North, while the North tested long-range missiles and conducted a nuclear test in 2009. North Korea further announced its intention to hold a third nuclear test in early January 2013. China has announced that it would cut its aid to North Korea if the nuclear test is carried out, marking a break in China's usual practice of public support for the Pyongyang government. There is no doubt that North Korea's aggressive policies of blackmailing South Korea, Japan and the United States constitute a danger to stability and peace on the Korean peninsula and within East Asia at large.

Regional cooperation has also been undermined by territorial disputes with Japan and China. In 2012, a few days before Korea's Independence Day (from Japanese colonization), President Lee visited Dokdo Island, a territory controlled by Korea but also claimed by Japan. He was the first serving president to visit the island. While there was considerable speculation as to the real intention of President Lee's visit, the dominant theory was that he wanted to make a strong argument against Japanese's claim to the territory, which came a few days before Lee's visit.

## Strategic Outlook

In February 2013, the newly elected conservative President Park Geun-hye was inaugurated. She was voted into office with a majority of 51.6%, as opposed to 48% for her opponent. Her party also controls the parliament and she has little internal opposition. This will give her more power than any of the previous presidents in recent years. In addition, as a consequence of their defeat, the opposition Democratic Party is in crisis and will probably be dissolved and reconstituted. Park ran on a platform focused on improving the welfare state, and it is expected that she will also be more active in engaging North Korea. Opponents fear that she will rule in an authoritarian way and prevent further investigations into crimes committed during the military dictatorship, particularly during the rule of her father General Park Chung-hee from 1961 until his assassination in 1979. However, few expect a return to dictatorial rule given the strong popular support for a democracy won after decades of struggle against Japanese occupation and military dictatorship.

Economically, South Korea appears sound, with a strong export industry, a well-educated workforce and high levels of investment in R&D. The country is ready to produce many of the products increasingly in demand, ranging from IT technology to “green products” such as solar panels and batteries for hybrid cars. Even in saturated markets such as those for automobiles and ships, South Korea remains strong, although the outlook is less good due to competition from China. Other sectors of the economy have less optimistic outlooks, including the oversized construction sector and the expansion of nuclear energy. There has been a push to export nuclear power technology, despite a widespread skepticism about the future of this industry. The country’s (non-state) finances remain an Achilles heel, due to high private-household debt levels and inflated real-estate prices in a market that is largely frozen due to the small number of current transactions.

At the social level, the challenge will be to bridge the increasing gap between the rich and the poor, regular and irregular workers, the young and the old, and the southeastern and the southwestern regions. The president-elect has announced plans to expand the welfare state, and many hope she can accomplish the transformation of South Korea into a modern welfare state, though it has the second-lowest level of social spending in the OECD today. This will be not easy, as she will have to win support for the tax increases necessary to this transformation.

On the international stage, South Korea will become more important as a member of the U.N. Security Council, the G-20 and an emerging donor in the field of development cooperation. In the East Asian region, South Korea could play an important role as an engine for regional integration, but expectations are low due to the rising levels of nationalism and territorial disputes in the region.