

# BTI 2008 | South Korea Country Report

<b>Status Index</b>	1-10	<b>8.89</b>	# 10 of 125	
Democracy	1-10	8.85	# 11 of 125	➔
Market Economy	1-10	8.93	# 9 of 125	➔
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

The BTI is a joint project of the Bertelsmann Stiftung and the Center for Applied Policy Research (C•A•P) at Munich University.

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Please cite as follows: Bertelsmann Stiftung, *BTI 2008 – South Korea Country Report*. Gütersloh: Bertelsmann Stiftung, 2007.

## Key Indicators

Population	mn.	48.3	HDI	0.91	GDP p.c.	\$	19,598
Pop. growth <sup>1</sup>	% p.a.	0.4	HDI rank of 177	26	Gini Index		31.6
Life expectancy	years	78	UN Education Index	0.98	Poverty <sup>3</sup>	%	<2
Urban population	%	80.8	Gender equality <sup>2</sup>	0.50	Aid per capita	\$	-

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

2007 marks the twentieth anniversary of South Korea's transition to democracy. Despite a major financial and economic crisis in 1997 – 1998, the continuing challenges posed by North Korea, and recurring domestic scandals, democratic rule remained unchallenged during the period under review. South Korea, however, has not evolved into a liberal democracy. The country's political system is characterized by a concentration of power in the presidential office, especially when the party of the president holds a majority in the parliament. In the latter part of 2005, the governing Uri Party lost its majority, which it had held since 2004. Since then, the government has been dependent on the support of legislators from other parties. At times, the balance of power in parliament, coupled with the adversarial approach adopted by both government and opposition, has produced parliamentary logjams. President Roh Moo-hyun, who will have leave office in early 2008, has been on the defensive and might well go down in history as the South Korean president with the least significant accomplishments since the transition to democracy. Strong external demand, in particular from China, helped South Korea to overcome a minor economic slump caused by weak domestic demand in the aftermath of a credit card bubble. In 2006, domestic demand finally picked up again. Overall growth hovered between 4 and 5% in 2005 and 2006. While unemployment remained well below 4% in 2005 and 2006, job security has declined conspicuously since the economic crisis in the late 1990s. In 2005, 37% of the workforce was employed on a temporary basis, and 34% had been with their employer for less than a year. The average income of temporary employees averages only 60% of that of "permanent" employees. Growing income disparities (as reflected in a rising Gini coefficient) threaten the equitable growth pattern that has been a hallmark of Korea's economic development in recent decades.

## History and Characteristics of Transformation

South Korea has served as a model of economic development since the 1960s. Socioeconomic modernization eventually led to democratic change in the late 1980s. The foundation for a successful market economy was laid by the authoritarian regimes of Presidents General (rtd.) Park Chung-hee (1963 – 1979) and General (rtd.) Chun Doo-hwan (1980 – 1988). Democratic transformation did not begin until the mid-1980s. At that time, a strong opposition movement led by Kim Young-sam and Kim Dae-jung successfully mobilized urban workers, students, intellectuals and the middle class. The combination of the opposition leadership's skillful political management, political failures by the ruling elite, and external constraints set by the U.S. government and the upcoming Olympic Games, forced the ruling generals to open their regime in June 1987.

Roh Tae-woo won the presidential race in free and fair elections in December 1987. During his term (1988 – 1993), democracy became the only game in town. The success of transition to democracy was evident in 1993, when Kim Young-sam became the first civilian president after three decades of military dominance in politics. During his term (1993 – 1998), democratic reforms continued in civilian-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 2002, former labor lawyer Roh Moo-hyun became President. With Roh, a new generation of politicians entered the top echelons of South Korean politics and put an end to the rule of the so-called Three Kim – Kim Young-sam, Kim Dae-jung and Kim Jong-pil – who had dominated party politics since the 1970s.

South Korea's transformation into a full-fledged market economy occurred gradually. Major liberalization steps were undertaken in the 1980s, the early 1990s and most recently after the financial and economic crisis in 1997 – 1998. The key elements of state-led industrialization, which began in the 1960s, concentrated on strategic planning, government guidance of domestic economic actors, a selective approach to foreign direct investment and imports, and world market integration. A legacy of Korea's late and rapid industrialization is the pivotal position of the chaebol, or big business conglomerates, that have dominated economic activity ever since the 1970s.

South Korea was able to realize democratization during a high growth period based on a solid foundation of industrialization and social modernization. The avoidance of large-scale poverty, a fairly equal distribution of income, a well-developed social infrastructure and the emergence of a professional and effective public administration were positive legacies of the Korean developmental model that contributed to a smooth

political transformation. In addition, democratic transformation occurred during a period of high economic growth. In 1997, however, the contagion effect of the “Asian crisis” reached South Korea. Within a couple of weeks, the Korean currency devaluated drastically. Accordingly, the value of foreign currency loans held by private banks and companies skyrocketed. To escape the collapse of the Korean financial markets, the government turned to the IMF. An Economic Development Program prevented a collapse, but imposed painful reforms on politics, economy and society. Prompted by the Asian crisis, and in close cooperation with foreign donors, the government implemented far-reaching reforms in the banking and financial sector, the institutional hardware of the economy, corporate governance and the welfare system. While these reforms have helped to overcome the crisis, diminish corruption and broaden the formerly negligible social security net, challenges remain, especially with regard to rooting out corrupt exchanges in business and politics and bracing for the coming demographic juggernaut: the rapid aging of the population, a phenomenon that goes hand-in-hand with a declining fertility rate.

# Transformation Status

## I. Democracy

### 1 | Stateness

The state's monopoly on the use of force is not threatened or questioned by domestic actors. South Korea is involved in a territorial dispute over the Tokdo islet, which it controls but which is also claimed (under the name of Takeshima) by Japan. The dispute does however not threaten the integrity of the nation.

Monopoly on the use of force

A vast majority of the population supports the existence of South Korea as a nation-state and the country's constitution. However, there may still be radical splinter groups that continue to pay allegiance to North Korea. The existence of such groups is not a sign of citizenship disagreement, but rather an indication of ideological differences about the preferred type of political regime.

State identity

The state is defined solely in secular terms. Religious dogmas have no visible impact on politics or the law.

No interference of religious dogmas

The administrative structure of the Korean state is highly differentiated, and the bureaucracy is very professional and merit-based. E-government services have been introduced on a large scale in recent years. There are no regional or other enclaves ruled by non-state actors. Tax evasion by corporate and other actors remains a problem and has led to recurrent scandals.

Basic administration

### 2 | Political Participation

Elections at the national, regional and local level are held in a free and transparent manner. Though elections continue to be fairly cost-intensive for the political actors involved, the extent of money politics at election times has declined in recent years.

Free and fair elections

Elected rulers have the effective power to govern. There are no veto players without a constitutional basis.

Effective power to govern

The freedoms of associations and assembly are mostly respected. However, South Korea has not signed four of the basic conventions of the International Labor Organization (ILO), including two on the freedom of assembly. Moreover, despite ILO protests, the government has not recognized the Korean Government Employees Union, which was founded in 2001. It is also very difficult to call a strike that would be legal by official definitions. Such freedoms can also be restricted with respect to pro-North Korean activities that are subject to legal recourse on the basis of the National Security Law (NSL). In reality however, restrictions of the freedom of association and assembly on the basis of the NSL are marginal, especially compared to the situation in pre-democracy times.

Association /  
assembly rights

The freedom of opinion and the press are constitutionally guaranteed. These freedoms are also respected in practice, with the major exception of activities in favor of North Korea, whether real or imagined. The NSL can be and is used to prosecute persons advocating positions that are seen as favoring the North, thus undermining the legitimacy of the Republic of Korea (ROK) and its policies. The NSL leads to a certain degree of self-censorship on the part of the media and other actors. Information gathering by the media on government activities is also limited by the system of press clubs, which are attached to the various ministries. Media that are too critical of government actions can be excluded from individual press clubs. Most newspapers and news stations have a conservative outlook on political affairs. President Roh Moo-hyun has threatened to limit the market share of the major dailies, most of which are critical of him, but he has not followed this through. The conservative tendency of the daily newspapers has been somewhat balanced in recent years by alternative online news and information resources, including the online newspaper OhmyNews, which receives its articles from so-called citizen reporters.

Freedom of  
expression

### 3 | Rule of Law

The constitution of the ROK provides for substantial powers for the executive in general and the president in particular. The president can initiate legislation, issue decrees, and veto legislation. The power of the president is strongest when the governing party controls a majority in the unicameral parliament. This was the case under President Roh Moo-hyun between the parliamentary elections of April 2004 and fall 2005, when the governing Uri Party lost a number of by-elections. Since then, the Uri Party has depended on issue-specific support by parliamentarians from other parties to get legislation through.

Separation of  
powers

The South Korean judiciary is highly professionalized and fairly independent, though not totally free from governmental pressure. State prosecutors are ordered from time to time to launch investigations (especially into tax matters) in order to intimidate political foes or other actors not toeing the line. The Constitutional

Independent  
judiciary

Court has underlined its independence through a number of landmark rulings, including a November 2005 decision on the constitutionality of the government's plan to build a new administrative town. Constitutional Court rulings are accepted by all political actors.

Pressured by a civil anti-corruption movement, which was launched in 1996, the Korean government enacted an anti-corruption law in June 2001. Two years later, in May 2003, a general code of conduct for public officials went into force at central and local administrative organs and education autonomy authorities. The Korean Independent Commission Against Corruption (KICAC), established under the Anti-Corruption Act, handles whistle-blowing reports, recommends policies and legislation for combating corruption, and also examines the integrity of public institutions. The Public Service Ethics Act is designed to prevent high-ranking public officials from enjoying financial gains related to their duties during and after their time of employment. The 2006 Transparency International country report on South Korea assesses the situation as follows: "As a top priority in the current reform agenda, the president has shown eagerness to address corruption during his term of office on the one hand and promote the governance and integrity of public officials on the other. Central government agencies have largely complied both with the president's request for action and with provisions for increasing public consciousness. However, constitutionally independent institutions such as the legislative and the judicial branches have not shown the same level of enthusiasm in addressing corruption [...]. Meanwhile, on the regional level, local autonomous institutions reveal serious problems in their governance and integrity, with significant increases in corruption. [...] Increasing concern remains over the lack of investigative authority of the KICAC, its limited authority and the ineffective nature of whistle blowing mechanisms, raising doubt over the applicability and efficacy of the Act. As for the Public Service Ethics Act, the provisions regarding assets registration and post-employment fail to provide clear guidelines, rules and standards that would discourage and ultimately prohibit officials from enjoying unfair financial gains." While the political will to root out corruption exists at the highest echelons of the state, much remains to be done in practice. Vigilant civic organizations regularly conduct surveys of how parliamentarians fulfill their duties. Blacklisted candidates running for office face problems in parliamentary elections. Though far from perfect, the blacklisting system has helped to increase problem awareness among voters. On the other hand, lawmakers that have been convicted for illegal fundraising and other illicit activities sometimes benefit from the presidential amnesties granted every year. In 2005, for example, six current and former members of parliament were granted amnesty by President Roh. Civil society groups and law experts in South Korea accused the president of abusing his power to grant amnesties.

Prosecution of  
office abuse

As noted by Human Rights Watch in its most recent country report (2004), “rights conditions in South Korea have improved dramatically over the past two decades.” However, a number of problems remain. Among the most serious issues are the inadequate rights of migrant workers, the widespread physical abuse of sex workers, the imprisonment of conscientious objectors, and the continuing use of the National Security Law to detain and imprison individuals considered sympathetic to North Korea’s communist ideology. On a more positive note, a moratorium on executions announced in late 1997 has remained in place.

Civil rights

#### 4 | Stability of Democratic Institutions

Adversarial relations between political parties led to parliamentary logjams on a number of issues in 2005 and 2006. Parliamentary committees continued to play only a minor role in sorting out positions and reaching compromises. Opposition parties used their constitutionally granted inspection and deliberation rights to keep the government in check, sometimes producing stalemates in parliament. While the current balance of power in parliament helps to check the executive, it also causes recurring gridlock. Korea’s justice system also has some problematic aspects, such as the lack of a comprehensive civil code, which means that even minor transgressions are treated as crimes. The vast powers granted to prosecutors are also problematic.

Performance of democratic institutions

There is no substantial support for nondemocratic alternatives to the current political system. Unless dramatic developments occur, such as a rapid unification with North Korea, all relevant political actors will continue to accept democratic institutions as legitimate.

Commitment to democratic institutions

#### 5 | Political and Social Integration

Up until the beginning of the new millennium, all major South Korean parties were basically run by powerful individuals with strong regional links. Parties were founded, joined, renamed and dissolved largely at will. It remains to be seen whether the progressive-conservative cleavage that shaped the outcome of the 2004 parliamentary elections will propel the institutionalization of parties and the party system, or whether loosening regional linkages will lead to even more fluidity in the party system.

Party system

Most civil society organizations in South Korea have a clear-cut political agenda. With the progressive Uri Party in power since 2004, it has become easier for many of these organizations to provide direct political input. Personal networks link many former pro-democracy and human rights activists, both in society and

Interest groups

the political system. On the conservative side of the political spectrum, similar networks, often based on alumni ties or intermarriage, link societal and political actors. Opposing collective interests tend to clash with each other, and there are no institutional devices or norms that might help to resolve these differences.

Repeated surveys have shown that South Koreans are overwhelmingly in support of democracy, even though many citizens have misgivings about the actual performance of individual political institutions.

Consent to  
democratic  
norms

Numerous active civil society organizations exist and make their weight felt in society and politics. The unionization rate, which stood at 10.4% in 2004, has declined in recent years. Most unionized employees belong to company unions; more broad-based unions exist only in some sectors (e.g., metal workers). Corporate interests are organized in a few high-level organizations connected to the conservative political establishment. There is no culture of trust-based interaction between capital and labor. Large numbers of strikes continue to plague South Korea and attempts to bring together opposing parties, most recently within the framework of a “tripartite commission” that included state representatives, have been unsuccessful.

Associational  
activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

South Korea’s rapid industrialization process from the mid-1960s onwards produced a fairly equitable distribution of income. The extraordinary growth trajectory of South Korea came to a halt when the financial crisis that struck the country in 1997 developed into an economic crisis. Even though the immediate crisis was quickly overcome, job security has declined conspicuously since the crisis. In 2005, 37% of the workforce was employed on a temporary basis. Thirty-four percent had been with their employer for less than a year. The average income of temporary employees averages only 60% of that of permanent employees. Though income disparities in South Korea are still lower than in many other developing and newly-developed countries, their recent rise – the Gini coefficient on household income rose from 0.296 in 1996 to 0.344 in 2004 – threatens the equitable development pattern that has been a hallmark of Korea’s economic “miracle.” Moreover, the discrimination that continues to face Korean women in the workplace and elsewhere is reflected in the fact that the country only ranks at 26th in the 2006 UNDP’s GDI.

Socioeconomic  
barriers

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	546,933	608,148	680,492	<b>787,624</b>
Growth of GDP	%	7.0	3.1	4.7	<b>4.0</b>
Inflation (CPI)	%	2.7	3.6	3.6	<b>2.7</b>
Unemployment	%	3.1	3.4	3.5	-
Foreign direct investment	% of GDP	0.4	0.6	1.4	<b>0.6</b>
Export growth	%	13.3	15.6	19.6	<b>8.5</b>
Import growth	%	15.2	10.1	13.9	<b>6.9</b>
Current account balance	\$ mn.	5,393.9	11,949.5	28,173.5	<b>16,558.5</b>
Public debt	\$ mn.	39,296	38,739	40,640	<b>40,125</b>
External debt	\$ mn.	-	-	-	-
External debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	3.8	1.8	0.1	<b>0.8</b>
Tax Revenue	% of GDP	15.2	15.8	15.1	<b>15.8</b>
Government consumption	% of GDP	12.9	13.3	13.5	<b>14.1</b>
Public expnd. on edu.	% of GDP	4.2	4.6	-	-
Public expnd. on health	% of GDP	2.7	2.8	2.9	-
R&D expenditure	% of GDP	2.5	2.6	-	-
Military expenditure	% of GDP	2.4	2.4	2.4	<b>2.6</b>

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security | The Asian Development Bank (ADB), Key Indicators of Developing Asian and Pacific Countries, Singapore

## 7 | Organization of the Market and Competition

South Korea's economy has been substantially liberalized in the past 25 years, with the most recent wave of liberalization occurring after the financial crisis of 1997. The basic parameters of the market economy are intact. Prices can be freely set and the currency is fully convertible. There are no significant entry and exit barriers to domestic companies and entry barriers to foreign companies have been significantly lowered since the 1990s. Smaller companies face difficulties in procuring finance and finding adequate employees, but this is only marginally

Market-based  
competition

due to government restrictions, if at all. Profits can be freely used and transferred by domestic enterprises; however, when foreign enterprises reap windfall profits by selling domestic assets, this often creates popular backlashes that can lead the government to intervene. The 2006 investigations launched against the U.S.-based Lone Star fund, which wanted to sell the Korean Exchange Bank to the local Kookmin Bank at a tax-free profit of around \$4.5 billion, serve as a reminder of remaining economic nationalism. Although there are no exact statistics, the Korean informal sector is said to be the largest among OECD countries. According to the International Confederation of Trade Unions, of the more than two million workers in the country's construction industry, 80% are irregular workers.

As a consequence of Korea's "condensed" industrialization process, in which the state actively promoted the formation of large-scale conglomerates, the so-called chaebol, there still is a high degree of industrial and market concentration. Government efforts to rein in the conglomerates have been haphazard since the 1990s, since the government is afraid to put too much pressure on the very enterprises that are vital to the country's economic development. Regulatory reform was stepped up in the aftermath of the financial crisis of 1997. In 2005, the Korea Fair Trade Commission (KFTC) reached a consensus to abolish or reform 51 competition-restraining regulations based on regulations and notifications. The KFTC is also striving to promote competition in the industries currently undergoing deregulation (broadcasting, finance, energy, etc.) and the service industries (health care, medical care, education, etc.). Moreover, the KFTC is working on active cooperation with industrial regulatory bodies to prepare shared guidelines and set up consulting channels. Overall, the Korean government is steadily, if not always consistently, raising the country's competition regime towards global standards.

Anti-monopoly  
policy

Korea has made efforts to further liberalize its trade and investment regime since the 1997 financial crisis. The tariff structure remains complex though, with industrial and agricultural tariffs being fairly low. Out-of-quota tariffs apply to many other commodities. In late 2005, the Korean parliament ratified an agreement with nine rice-exporting countries that guaranteed the incremental opening of the domestic market for this commodity. Until 2014, the share of imported rice is to rise from 4% to close to 8%. Thereafter, the rice market is to be fully liberalized, though tariffs will still apply. In the past couple of years, Korea has been actively pursuing bilateral trade deals. Agreements with Chile and Singapore entered into force in 2005 and 2006, respectively.

Liberalization of  
foreign trade

The share of bad loans in the portfolios of banks operating in Korea has been reduced significantly in recent years, and all banks now meet the international standards set by the Basel accords. Banking supervision has been stepped up since the financial crisis of 1997. Foreign banks now play a prominent role in

Banking system

Korea's financial industry. Capital markets are open to domestic and foreign actors. Foreign actors held over 40% of the assets traded at the main Korean stock exchange at the end of 2004. Nevertheless, negative sentiments persist regarding large foreign holdings. A hostile takeover attempt of the tobacco and ginseng concern KT&G by U.S. investor Carl Icahn was rebuffed in early 2006. The credit card bubble in 2003 – 2004 showed how vulnerable the Korean financial system still is to self-induced shocks. Massive financial assistance was required to keep major domestic credit card companies afloat. Private indebtedness still remains high and will require constant attention by the authorities.

## 8 | Currency and Price Stability

In terms of exchange rate policy, Korea's legally independent central bank has for some years now followed a broad strategy of a managed float combined with an inflation target. Inflation has essentially remained low; the CPI rose by only 2.6% in 2005 (estimated at 3% for 2006). The central bank raised the base rate in five steps to 4.5% in August 2006 to prevent the slightly increased growth momentum of the economy from triggering inflationary pressure. It remains to be seen whether the central bank will resort to more neo-mercantilist measures to counter the recent substantial appreciation of the won. Informal governmental pressure on the central bank is any case bound to continue.

Anti-inflation /  
forex policy

Korea's national budget saw a moderate spending increase in 2005 (+9.5%) and 2006 (+6.5%), with above-average increases in the areas of research and social services. Spending growth inevitably leads to an increase in national debt. Overall national debt at the end of 2006 was predicted to amount to around KRW 280 billion, or 32% of GDP. This is not alarming per se, since the OECD average is above 76%. However, the rate at which South Korea has accumulated new debts is remarkable. In 1996, overall debt stood at 5.7% of GDP; at the end of 2000, that number had risen to 19.2% of GDP. Foreign exchange holdings have significantly increased since the financial crisis, reaching \$218 billion in April 2006. South Korea has adopted a more prudent approach to fiscal policy as a consequence of the shock of the 1997 financial crisis.

Macrostability

## 9 | Private Property

Private property rights are generally well-protected in South Korea, and expropriation is highly unlikely. However, legal proceedings on contractual matters can be slow. Skyrocketing real estate prices have led to a public debate about whether real estate should be regarded as a kind of public property that needs strict regulation. So far, however, official regulations governing real estate basically reflect international standards (e.g., restrictions on floor area ratio, environmental and height regulations).

Property rights

Private enterprises are regarded as the engines of growth in South Korea. Public ownership is by now largely limited to public utilities. There were no new major privatizations in 2005 and 2006.

Private  
enterprise

## 10 | Welfare Regime

Since the late 1990s, South Korea has undertaken a number of steps towards a social security system, which includes public insurance programs covering sickness, pensions, accidents and unemployment. Entitlements are narrowly defined and cover only the bare minimum for a limited amount of time. Recently, the authorities have expanded the proportion of persons eligible for unemployment benefits. Out of the estimated 1.3 million “working poor” in South Korea, only 300,000 receive welfare benefits.

Social safety nets

In principle there is no discrimination on the basis of race, religion, gender or ethnicity. In reality, however, migrant workers, handicapped persons, refugees from North Korea, and women all face difficulties in terms of legal protection from abuse, access to job opportunities and/or just and equitable payment. The public is slowly becoming more aware of problems concerning the mistreatment of migrant workers. Refugees from North Korea receive guidance and benefits upon their arrival, but then they are basically left to their own devices. There are an increasing number of equal opportunities for women, but much remains to be done in practice (see special report).

Equal opportunity

## 11 | Economic Performance

Fueled by strong exports and consumption, Korea enjoyed a growth rate of about 6% from early 2005 until early 2006, while inflation declined to 1.5-2%. Since then, the economy has slowed. Still, the IMF estimates that GDP growth in 2006 will reach 5%, the best result since 2003. Macroeconomic data were solid for the period under review, and unemployment remained low, although official statistics tend to understate actual unemployment levels. Prices also remained fairly constant. Public debt remained at manageable levels and Korea boasted sizeable trade surpluses.

Output strength

## 12 | Sustainability

The government has strengthened environmental laws in recent years. Korea has also reduced emissions of major air pollutants, such as sulfur oxides, and has improved water quality and waste recycling. Spending on the environment now amounts to over 2% of GDP. Much remains to be done though. In fall 2006, the

Environmental  
policy

OECD called on Korea to 1) strengthen its international environmental cooperation, particularly with regard to ozone layer protection, greenhouse gas emissions and marine issues; 2) carry out a green tax reform, identify environmentally harmful subsidies and strengthen the use of economic instruments; 3) integrate water quality and quantity management, fully implement its water reform and use pesticides and fertilizers more efficiently; 4) better integrate environmental concerns in energy and transport policies, and improve efficiency in energy and material use; and 5) increase efforts to protect nature, biodiversity and the landscape, both as assets for recreation and tourism and for the provision of services such as flood protection.

South Korea's expenditures on education (7.1% in 2002) are well above the OECD average. A major part of these expenditures is borne by private individuals (2.9% of GDP in 2002); families spend vast sums on their children's education. With its investment of 2.9% of GDP, Korea is among the leading countries in R&D. There are problems, though; 1) much of the private investment on education is spent on cram schools; 2) research cooperation between universities and businesses is scarce; 3) Korean universities are not very attractive for foreign researchers and students' and 4) there is not much interest in life-long learning.

Education policy  
/ R&D

# Transformation Management

## I. Level of Difficulty

The structural constraints on governance in South are relatively low. In terms of territory, South Korea is a fairly compact nation, with nearly half of the population and economic activity concentrated in the greater Seoul area. Living standards are similar to those in a number of other OECD member states. Per capita income, taking into account purchasing power parities, was estimated at \$21,850 in 2005 (higher than in Portugal but lower than in Greece or New Zealand). South Korea is not much affected by natural disasters or epidemic disease; there were approximately 13,000 people living with HIV/AIDS in 2005. In the 2006 U.N. education index, South Korea ranked 26th with a score of 0.912, again higher than in Portugal but lower than in Greece or New Zealand. South Korea also scores well in terms of stateness and rule of law in this report, averaging above 8.5.

Structural  
constraints

South Korea boasts what is perhaps the most vibrant civil society in Pacific Asia. Civil society organizations have taken an active oversight role in monitoring and assessing the activities of both government and companies. Most civil society organizations focus on domestic issues, and there is not much activity with regards to transnational issues. South Korea's most well-known activists on the international stage are farmers protesting against the liberalization of Korea's trade regime. South Korea has no culture or tradition of trust and compromise-oriented settlements between opposing groups. Confrontations between groups, especially labor disputes, can become militant at times.

Civil society  
traditions

There are no deep-seated religious or ethnic cleavages in South Korean society. Regional fault lines have become weaker (in terms of development disparities) but still affect electoral politics. The recent rise of social discrepancies has raised public concern and might develop into a more genuine cleavage. The question of how to perceive and how to deal with North Korea divides the population and overlaps with intergenerational differences. It remains to be seen whether this division will develop into a structural cleavage affecting politics in the long term.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

There is no doubt that the political leadership of South Korea is committed to constitutional democracy; a return to pre-democratic structures of governance is out of the question. Corruption and clientelism do contradict the formal setup of the political system from time to time, but they do not undermine it in structural terms. The “how” of constitutional government, especially the question of whether to introduce a cabinet system, does occasionally create political controversy. The government is committed to the idea of a social-market economy and is trying to expand the existing social network, state resources permitting.

Prioritization

While the government is committed to constitutional democracy and market economy, two forces continue to hamper the implementation of reform measures: first, partisan, if not adversarial, politics in the parliament, and second, yielding to public pressure and short-term requirements. There are however currently no important reform items on the political agenda that would affect the political system and the overall framework of the economy in a decisive way. The only exception to this is the discussion about the abolition of the National Security Law, which, for the moment, has become inextricably entangled in partisan strife.

Implementation

Orthodoxy usually prevails when it comes to assessing past policies. A change of policies that contradict the perceived identity and interests of political actors is still seen as defeat. This partisan approach to party politics reinforces this attitude. Major shifts in policy are usually the result of a change in government, popular attitudes that can no longer be ignored by the incumbent government, and/or external shocks and pressure.

Policy learning

### 15 | Resource Efficiency

The Korean government maintains a neutral stance to fiscal policy. Total public employment as a percentage of the workforce is well below the OECD average, as is government spending as a percentage of GDP. Public debt has been rising in recent years but is still at manageable levels (see section 8.2). Civil servants are, with few exceptions, hired, promoted and paid in line with transparent and

Efficient use of assets

merit-based standards. The office of the ombudsman of South Korea has the authority to conduct investigations on grievances submitted by the people. However, the current system does not grant any statutory authority to open investigations on its own initiative. Likewise, recommendations for corrective measure issued by the ombudsman of South Korea toward the relevant government agency are not legally binding.

Despite decentralization measures undertaken in the 1990s, South Korea remains a fairly centralized polity with power concentrated in the executive. Provincial governments, although they have 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 decisions and funding for their roles and functions, organization and personnel, and budgets. Their main function is to implement centrally determined policies and programs as directed by central government ministries and agencies. Local governments do not have their own judicial, prosecution, police, or education systems. The high degree of centralization allows for consistent policy implementation. Likewise, inter-ministerial squabbles do not affect overall policymaking in a substantial manner.

Policy coordination

Despite strengthened government and continuous civil society organizations, attempts to root out corruption (see section 3.3 for details), corruption is still believed to run high in South Korea. In the 2006 Corruption Perception Index by Transparency International, South Korea ranked 42nd out of 163 countries, two places lower than in the 2005 report. It may be the case, however, that intensive media coverage of recent scandals have influenced these results, which therefore do not reflect more recent developments. In its most recent (2006) report on South Korea's national integrity system (NIS), Transparency International concludes that "[f]or the political leadership, proclaiming engagement in the fight against corruption, especially in the public sector, has become a norm rather than an exception. Current legislation regarding anti-corruption mechanisms remains focused on the public sector, while legislative and voluntary efforts are increasingly concentrating on the non-public sector as well. Korea's NIS continues to undergo rapid transition. Over a relatively short period of time, it has achieved significant improvement in governance and integrity through political leadership and public demand."

Anti-corruption policy

## 16 | Consensus-Building

All major political actors in South Korea subscribe to the goal of maintaining a constitutional democracy as conceptualized by the BTI, even though there are still authoritarian tendencies within political organizations. All political actors also agree in principle to the aim of establishing a socially responsible market

Consensus on goals

economy, guaranteeing not only free markets and property rights, but also principles of social justice, responsibility and sustainability. There is some disagreement among political actors about what the last three principles actually mean; for example, social justice is defined differently by unions and their political representatives and corporate peak organizations.

There are currently no anti-democratic veto actors (as conventionally defined) in South Korea. Whether an unforeseen major crisis, such as a chaotic unification with the North, would give rise to anti-democratic activities by potential veto actors (including the military), is an altogether different question.

Anti-democratic veto actors

As stated above, there are few prevalent or potential cleavages in South Korean society. Regional cleavages have been instrumentalized for partisan electoral purposes, but conflicts have not escalated. Whether policy vis-à-vis North Korea will evolve into a deep-seated cleavage that might give rise to escalating tensions remains to be seen.

Cleavage / conflict management

The progressive government that has ruled South Korea since 2003 takes civil society organizations seriously and has made repeated attempts to incorporate their ideas into official policy. Members of civil society have been given high-profile posts in the cabinet and in advisory commissions. Of course, civil society organizations do not always agree with government policy which, especially in times of divided government, has to take into account a multitude of factors, including the positions of minor parties.

Civil society participation

The ghosts of the past still continue to haunt South Korea both in domestic and international relations, especially with Japan. Talk of the past can be a hot-button issue; for example, public opinion about the authoritarian Park Chung-hee era (1961 – 1979) and its legacy diverges sharply. While recent attempts by private organizations to compile lists of collaborators during the Japanese colonial period – a complete lexicon of collaborators is to be published in 2007 – are in principle necessary and useful, examinations of the past and present-day politics sometimes become intermeshed (e.g., in terms of “personnel” matters: the leader of Korea’s biggest opposition party is the daughter of Park Chung-hee). The 2005 debate about collaboration shows that the colonial past cannot only be used to conjure up mythical stories of timeless struggle and redemption (witness the attempts by North Korea to foster a pan-Korean national consciousness), but can also be used as a political football in South Korea. A truly bipartisan approach at reconciliation remains a long-term goal that seems unreachable for now. Recurrent problems in dealing with the past also do not bode well for the future; the biggest challenges – such as how to deal with wrongdoings in North Korea and how to assess the North’s political history – are yet to come.

Reconciliation

## 17 | International Cooperation

South Korea no longer receives official development assistance (ODA) and has paid back emergency funds provided by the IMF and others after the 1997 financial crisis. South Korea has hosted a number of international development conferences and has expanded its own ODA. Such assistance is still miniscule in relative terms (0.06% of GNP in 2004) and small in comparative terms (Japan provided over forty times as much ODA in 2004 as South Korea).

Effective use of support

Commercial risk ratings have improved substantially since the financial and economic crisis of 1997 – 1998. The South Korean government, for its part, is seen as a reliable and trustworthy partner at the international stage. The country's positive international reputation was underlined in late 2006 when former South Korean foreign minister Ban Ki-moon was chosen as the new secretary general of the UN.

Credibility

South Korea actively participates in regional and inter-regional initiatives and in institutions at the regional level such as APEC, ASEAN + 3, ARF, ASEM, and the six-party talks on North Korea. South Korea is also actively engaged in expanding monetary cooperation in East Asia and in negotiating a host of bilateral free trade agreements. South Korea's geographical position (the peninsula is surrounded by major regional powers) acts as a spur for South Korean attempts to speed up both regionalism and regionalization in East Asia and the broader Asia Pacific. For domestic reasons, South Korean governments do not always resist the temptation to play the "history card" in relations with Japan.

Regional cooperation

## Strategic Outlook

South Korea should aim to consolidate its constitutional democracy and social market economy, pursue sustainable development, minimize social tensions and discrepancies, and maintain a favorable regional and international environment.

To achieve these overarching goals, reform-oriented actors in South Korea should make efforts to: reduce the adversarial character of relations between political parties; refrain from using constitutional stipulations, including those concerning the impeachment of the president and the inspection of government entities, for partisan purposes; invigorate the workings of the National Assembly and its committees; refrain from politicizing the judiciary; penalize instances of corruption in public and private institutions; keep public debt at manageable levels; bolster the social security net, especially with regards to unemployment insurance and welfare benefits; prepare the pension system for the challenge of a rapidly aging society; foster sound banking practices and competitive capital markets; reduce market and industry concentration; refrain from neomercantilist and nationalistic impulses in economic policy; overcome discrimination against women in the workplace and in society; provide for a family-friendly environment; strengthen the rights of migrant workers; improve the living conditions of handicapped people; limit real estate speculation; reduce remaining development differences between individual regions; differentiate between coming to terms with the past from present-day politics; strengthen environmental protection; pursue a bipartisan approach vis-à-vis North Korea; work towards relations with Japan based on common interests; expand Overseas Development Assistance; support global initiatives aimed at environmental protection and transnational justice.