

# BTI 2012 | South Korea Country Report

<b>Status Index</b>	1-10	<b>8.73</b>	# 11 of 128	
Political Transformation	1-10	8.70	# 12 of 128	➔
Economic Transformation	1-10	8.75	# 7 of 128	➔
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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### Key Indicators

Population	mn.	48.9	HDI	0.897	GDP p.c.	\$	29004
Pop. growth <sup>1</sup>	% p.a.	0.3	HDI rank of 187	15	Gini Index		-
Life expectancy	years	80	UN Education Index	0.934	Poverty <sup>3</sup>	%	-
Urban population	%	81.9	Gender inequality <sup>2</sup>	0.111	Aid per capita	\$	-

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Grief, anger, relief and pride were some of the more intense emotions aroused by political and economic developments in South Korea in the 2009 – 2010 period. Grief and mourning were caused by the deaths of former presidents Roh Moo-hyun (2003 – 2008) and Kim Dae-jung (1998 – 2003). The suicide of Roh, who had been targeted by prosecutors for financial misconduct while in office, aroused an outburst of anger even beyond the ranks of his ardent supporters. Anti-government protests following on the heels of Roh's death again highlighted the political fissures that characterize today's South Korean society.

In a more positive vein, the financial and economic crisis, which hit South Korea with full force in fall 2008, proved less disastrous than feared. On the back of a full set of state-led anti-crisis measures, and helped to no small degree by leading business conglomerates' export-related successes, the South Korean economy rebounded in the latter part of 2009 and registered 6% growth in 2010 – much to the relief of ordinary citizens and policymakers. The Republic of Korea (ROK) also scored a diplomatic triumph when the country was chosen to host a high-profile G-20 summit meeting in 2010. Becoming the first Asian country to co-chair the G-20 provided many South Koreans with a sense of pride, as it symbolized full international recognition of the country's phenomenal rise from “rags to riches” in the course of just a few decades.

However, increasing income disparities are increasingly becoming a challenge for South Korea. Since 2003, both the upper- and the lower-income classes have expanded at the expense of the middle class. Arguably, factors such as population aging and rapid technological advances lie behind the most recent middle class declines. However, while South Korea long epitomized “growth with equity,” the share of the middle class had already begun to shrink in the early 1990s, a development that was accelerated by the 1997 – 1998 financial and economic crisis. In terms of the interdecile ratio as applied to household earning, the top 10% of South Korean

households now earn 4.7 times as much as the bottom 10%. The OECD average is 4.2. While South Korea is still far away from the kind of income inequality that can be found in parts of Latin America or other places, the widening income gulf is worrying, as it threatens to exacerbate rising levels of political discontent.

## History and Characteristics of Transformation

South Korea has served as a “model case” of economic development since the 1960s. Socioeconomic modernization facilitated democratic change in the late 1980s. The fundamentals of a successful and working market economy were laid by the authoritarian regimes of presidents Park Chung-hee (1963 – 1979) and Chun Doo-hwan (1980 – 1988), both retired generals. The 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 the urban workers, students, intellectuals and the middle classes. Skillful political management by the opposition leaders, political failures by the ruling elite, and external constraints imposed by the U.S. government and the upcoming Olympic Games forced the ruling generals to open their regime in June 1987.

In free and fair elections, Roh Tae-woo won the presidential race in December 1987. During his term (1988 – 1993), democracy became the only game in town. The success of the transition to democracy was evident in 1993, when Kim Young-sam was elected president as the first civilian to reach this office 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’s lackluster performance in office, coupled with economic growth perceived by many citizens to be suboptimal, paved the return to conservative rule in South Korea. Lee Myung-bak, the former CEO of a construction company turned mayor of Seoul, easily won the presidential election in 2007. After 10 years of progressive rule, a new chapter in South Korea’s democratic development was thus opened. During his first three years in office, Lee encountered serious political and economic challenges. At first, he antagonized many citizens with unpopular and ill-communicated policy proposals. 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 in 1997. Policy-makers 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 onwards. A legacy of South Korea's late and "condensed" industrialization remains 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 high economic growth based on a solid base of industrialization, thus establishing the foundation for a slowly improving social infrastructure. 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 other positive legacies of the South Korean developmental model, all of which contributed to a smooth political transformation. In 1997, however, the contagion effect of the "Asian crisis" reached South Korea. The value of foreign currency loans held by private banks and companies skyrocketed. To escape the collapse of the South Korean 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 prevented a collapse, but imposed painful reforms on politics, economy and society. Prompted by crisis, and in close cooperation with foreign donors, the 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. While these reforms helped to overcome the then crisis, to diminish corruption and to widen the hitherto negligible social security net, they also contributed to a widening of income disparities. Other, more current challenges pertain to the persistence of corrupt practices in business and politics, and a coming demographic juggernaut in the form of a rapid aging of the population that corresponds with a sharply declining fertility rate.

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

## Transformation Status

### I. Political Transformation

#### 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 is 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.

A vast majority of the South Korean population supports the existence of the ROK as a nation state as well as the country's constitution. Minor radical splinter groups continue to pay allegiance to North Korea. Ethnic, religious and cultural minority groups (insofar as they exist at all) are not denied basic political rights.

The state is defined solely in secular terms. Religious dogmas have no visible impact on politics or the law. However, current President Lee Myung-bak, a Presbyterian church elder, has been criticized by Buddhist orders for an alleged preferential treatment of Christianity, and particularly of fellow church members.

The administrative structure of the South Korean state is highly differentiated. The state provides all basic public services throughout the country. The administration is very efficient. South Korea is a very centralized state, and local administrative bodies depend significantly on the national level for financial and other support.

Question  
Score

Monopoly on the  
use of force  
10

State identity  
10

No interference of  
religious dogmas  
10

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 the party list have been sold to interested

Free and fair  
elections  
10

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.

Elected rulers have the effective power to govern. There are no veto players that lack a constitutional basis.

Effective power to govern

10

The freedoms of association and assembly are in principle respected. However, South Korea has not signed four of the basic eight conventions of the International Labor Organization, including two on the freedom of assembly. The government has repeatedly denied selected groups of employees the right to form unions. It is also very difficult to call a strike that would be legal by official definitions. Demonstrations also require prior approval, which can be hard to come by. In 2010, a U.N. Special Rapporteur expressed concern that the respect accorded to human rights, and in particular the rights to freedom of opinion and expression, has been diminishing since the massive demonstrations against the incumbent government in 2008. This situation was “primarily due to new and more restrictive interpretations and application of existing laws.”

Association / assembly rights

8

The freedom of opinion and the press are constitutionally guaranteed, but recent illiberal trends give cause for concern. With regard to the legal situation, restrictions to 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 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. More recently, government “attacks” on the media (as critics label the practices) have raised doubts as to the viability of the freedoms of press and expression in South Korea. President Lee’s governance style is usually compared to that of a CEO by his supporters, while being described as authoritarian by his opponents. Critics allege that his administration is trying 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 government has been accused of replacing or influencing the replacement of the chief executives of a number of major public broadcasters and media companies, including the Korean Broadcasting System (KBS), the Korean Broadcasting Advertising Corporation, Arirang TV, Sky Life, and Yonhap Television Network (YTN). Some of the new appointees are believed to be supporters of the government. Furthermore, critics of the Lee administration claim that since 2008 (when the current president was sworn in), the Public Prosecutor’s Office has been used to detain and question journalists critical of the government,

Freedom of expression

7

infringing on the professional autonomy of rank and file reporters and undermining the development of a free and independent press.

### 3 | Rule of Law

South Korea's constitution accords substantial powers to the executive in general and to the president in particular. The president can initiate legislation (via the State Council, effectively the country's cabinet), issue decrees and veto legislation. The president's power is strongest when the governing party controls a majority in the unicameral parliament (as has been the case since the 2008 parliamentary elections). Prosecutorial investigations are fairly independent. The judiciary provides a check to executive and legislative activities – the Constitutional Court in particular has earned a reputation for independence – though judges tend to avoid politically sensitive issues or even sometimes side with the government to advance their careers.

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 ordered from time to time to launch investigations (especially into tax matters) aimed at intimidating political foes or other actors not toeing the line. The usual computerized case allocation system was temporarily circumvented after the massive anti-government demonstrations in 2008, when relevant cases were steered toward a particular bench in the court. The chief judge of the Seoul District Court informally tried to influence the severity of the subsequent rulings. This judge was later reprimanded, but his appointment as a justice of the Supreme Court in early 2009 was not overturned. An impeachment motion against him failed later that year.

Independent  
judiciary  
9

The Constitutional Court has demonstrated its independence through a number of landmark rulings. Rulings by the Constitutional Court are accepted by all political actors. In early 2010, the Supreme Court decided in a split ruling that the death penalty in South Korea did not contravene the constitution.

Some prosecutors were charged with corruption in 2010.

Pressured by a civil 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

Prosecution of  
office abuse  
8

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.

Civil rights conditions in South Korea have improved dramatically since the onset of democratization. However, a number of problems remain. Among the most serious issues are the inadequate rights accorded in practice to 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 believed to be sympathetic to North Korea's communist ideology. On a more positive note, a moratorium on executions implemented in 1998 has remained in place.

Civil rights  
8

#### 4 | Stability of Democratic Institutions

The National Assembly remains in many ways an archetypical arena parliament. Adversarial relations between political parties often lead to parliamentary logjams. Parliamentary committees continue to play only a minor role in terms of sorting out positions and reaching compromises. Opposition parties frequently use their constitutionally enshrined 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, the price is recurring gridlock. Although President Lee Myung-bak and his party have possessed a majority in the parliament since 2008, repeated opposition boycotts brought the National Assembly to a standstill at various times in 2009 and 2010. Moreover, some votes forced by the governing majority led to turmoil and even outright brawls. In consequence, parliamentary productivity was low during these two years.

Performance of  
democratic  
institutions  
8

South Korea's justice system also has some problematic aspects. These include the lack of a comprehensive civil code, which means that even minor transgressions are viewed as criminal offenses. The vast power held by prosecutors is also problematic.

The central government tends to intervene in local affairs.

There is no substantial support for nondemocratic alternatives to the current political system. Unless dramatic developments occur (e.g., a rapid and chaotic unification with North Korea), all relevant political actors will continue to accept democratic institutions as legitimate. However, the massive anti-government protests occurring in Seoul in 2008 showed that a substantial number of citizens do not feel sufficiently represented by existing formal democratic institutions. Moreover, the fact that opposition politicians joined these rallies raises some doubt

Commitment to  
democratic  
institutions  
9



as to the unconditional acceptance of indirect (i.e., representative) democracy on the part of policymakers who happen not to belong to the majority in parliament.

## 5 | Political and Social Integration

Until the beginning of the new millennium, all major South Korean parties were essentially run by powerful individuals with strong regional links. Parties were founded, fused, renamed and dissolved largely at will, leading to a relatively high degree of voter volatility. The ruling Grand National Party, founded in 1997, is the only party that might today be considered to be institutionalized. Ideological polarization within the party system has remained limited due to the absence of genuinely extremist parties. Fragmentation within the system has also remained moderate since the onset of democratization. The jury is still out on whether the progressive-conservative cleavage that has become more visible in recent years will lead to a higher degree of institutionalization for parties and within the party system as a whole.

Party system  
7

Levels of civic participation are quite low, as most citizens are reluctant to become involved in party politics.

Business and labor are well represented by networks of interlocking and sufficiently staffed interest groups. The unionization rate, which has been on a downward slope since 1990, stood at 10.1% in 2009. Most unionized employees belong to company unions, while more broad-based unions exist in 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. On the conservative side of the political spectrum, similar networks (often based on alumni ties or the intermarriage of prominent families) 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 bridge differences.

Interest groups  
8

Repeated surveys have shown that South Koreans overwhelmingly support the idea of democracy and its suitability for their own country. In a 2006 Asian Barometer survey, 94% of participants found democracy desirable, while 79% thought it suitable for South Korea. However, many citizens have misgivings about the actual performance of individual political institutions. While trust in political parties continues to be low, the authority of the office of the president has also visibly declined in recent years. Popular support for democracy, and in particular satisfaction with existing institutions, has declined in absolute terms since South Korea's democratic transition. Asian Barometer surveys reveal that the preference

Approval of  
democracy  
8

for democracy over its alternatives declined from 65% in 1996 to 43% in 2006. Satisfaction with democracy has also suffered a decline, going down from 55% in 1996 to 48% in 2006. Moreover, trust in existing democratic institutions has declined even more dramatically: Trust in the South Korean executive fell from 62% in 1996 to 26% in 2006, trust in the legislature from 49% in 1996 to 7% in 2006, and trust in courts from 70% in 1996 to 27% in 2006. Thus, while democracy as such might not be in trouble in South Korea, many citizens find the actual state of democracy quite troubling.

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) networks, which are often relied upon. Generalized trust among citizens is less well developed – according to 2005 results from the World Values Survey series, South Korea scored lower than neighboring countries such as China, Japan or Taiwan with respect to interpersonal trust. There is also no culture of trust-based interaction between capital and labor. Still, the number of labor disputes has declined substantially in recent years, going down from 462 such disputes in 2004 to 121 disputes in 2009.

Social capital  
8

## 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. However, the country's extraordinary growth trajectory came to a halt when the financial crisis that struck the country in 1997 developed into an economic crisis. Though the immediate crisis was quickly overcome, job security has declined significantly since that crisis. In 2010, temporary workers accounted for one-third of the entire workforce, around double the OECD average. In fact, South Korea exhibits the second-highest share of temporary workers (behind Spain) among OECD countries. The average income of temporary employees averages only 60% of that of "permanent" employees. The Gini coefficient associated with household income decreased marginally in 2010, but remains high overall, threatening the equitable development pattern that has been a hallmark of South Korea's economic "miracle." According to the OECD, rising inequality has contributed to a rise in the rate of relative poverty (less than 50% of median income) to 14.6% in the mid-2000s, well above the OECD average of 10.6%. According to the Korea Development Institute, the portion of households

Question  
Score

Socioeconomic  
barriers  
9

living in absolute poverty rose to 17.6% of the total in the first quarter of 2009, meaning that one in every six families has income below minimal living costs.

The unequal treatment accorded to South Korean women is reflected in various UNDP data sets. While South Korea ranked 12th in the 2010 UNDP's Human Development Index (HDI, up from 25th place in 2006) and 20th in the 2008 Gender-related Development Index (GDI), the country ranked only 61st (out of over 100 countries) on the 2009 Gender Empowerment Measure (GEM), which focuses on women's roles in economic and political life.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	1049236.0	931402.2	834060.4	<b>1014483.2</b>
GDP growth	%	5.1	2.3	0.3	<b>6.2</b>
Inflation (CPI)	%	2.5	4.7	2.8	<b>2.9</b>
Unemployment	%	3.2	3.2	3.6	-
Foreign direct investment	% of GDP	0.2	0.4	0.3	<b>0.0</b>
Export growth	%	12.6	6.6	-1.2	<b>14.5</b>
Import growth	%	11.7	4.4	-8.0	<b>16.9</b>
Current account balance	\$ mn.	21769.7	3196.7	32790.5	<b>28213.5</b>
Public debt	% of GDP	29.7	29.0	32.6	<b>30.9</b>
External debt	\$ mn.	-	-	-	-
Total debt service	\$ mn.	-	-	-	-
Cash surplus or deficit	% of GDP	2.3	1.6	0.0	-
Tax revenue	% of GDP	16.6	16.3	15.4	-
Government consumption	% of GDP	14.7	15.3	16.0	<b>15.4</b>
Public expnd. on edu.	% of GDP	4.2	-	-	-
Public expnd. on health	% of GDP	6.3	6.5	6.5	-
R&D expenditure	% of GDP	3.21	-	-	-
Military expenditure	% of GDP	2.6	2.8	2.9	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 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 occurring following the financial crisis of 1997. The basic market-economic parameters are intact. Prices can be freely set and the currency is fully convertible. There are no significant entry or 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 – a problem deepened by the credit crunch resulting from the recent global financial crisis – and in finding adequate employees. However, these problems are not or are only marginally due to government restrictions.

Profits can be freely used and transferred by domestic enterprises, but large-scale profits made by foreign enterprises selling domestic assets often create popular backlashes, which in turn can cause the government to intervene.

Government intervention in South Korea is still more prevalent than in most advanced economies.

Although there are no exact statistics, South Korea's 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, around 80% are irregular workers. Irregular workers also accounted for 55% of the nation's shipbuilders and 42% of steelmakers in 2008.

As a consequence of South Korea's "condensed" industrialization process, during which the formation of large-scale conglomerates, the so-called chaebol, was actively promoted by the state, there still is a high degree of industrial and market concentration. Government efforts to rein in the conglomerates have been haphazard since the 1990s, as the government has avoided putting too much pressure on enterprises that are in fact vital to the country's economic development. Regulatory reform was stepped up in the aftermath of the financial crisis of 1997. Overall, the South Korean government has steadily, if not always consistently, raised the country's competition regime toward global standards.

In May 2009, the Korea Fair Trade Commission (KFTC) reorganized its structure, creating a new Business Combination Division charged with the review of merger notifications. Previously, five different divisions had been responsible for reviewing mergers. As a consequence, the KFTC is now conducting closer examinations of the potential competitive impact of merger and acquisition (M&A) transactions, and applies particular scrutiny to potential vertical and conglomerate effects. One noteworthy decision was rendered in October 2009, when the KFTC prohibited the

Market-based  
competition

9

Anti-monopoly  
policy

9

acquisition of Paradise Group's duty-free shops by Lotte. This was only the fifth time that the KFTC had outright prohibited an M&A transaction.

South Korea has made efforts to further liberalize its trade and investment regime since the 1997 financial crisis. However, the tariff structure remains complex, with industrial tariffs being fairly low while agricultural tariffs remain fairly 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 recent years, South Korea has actively pursued bilateral trade deals. Agreements with Chile (2005), Singapore (2006), the European Free Trade Association (2006), ASEAN (2007) and India (2010) have already entered into force. Additional free trade agreements (FTAs) with the United States, the European Union and Peru had been signed as of late 2010, while seven more were under negotiation. Non-tariff barriers continue to affect some industries.

Liberalization of  
foreign trade  
9

South Korea's financial sector, which was hit hard by the recent global financial and economic crisis, started to show indications of recovery in mid-2009. Though South Korean bank profits fell by 57% year-over-year in the first half of 2009, the picture improved from the second quarter of 2009 onward. In addition, the share of bad loans, which reached nearly 1.7% in early 2009, declined to 1.2% in October 2009. The range of bad loans ranged from 0.6% with respect to loans to private households to 1.85% in the case of loans to small and medium-sized enterprises. South Korea's Financial Services Supervisory Commission aims at reducing the share of bad loans to below 1%, where it rested before the onset of crisis.

Banking system  
8

Furthermore, the minimum capital equity quota (the so-called BIS quota) of South Korean banks improved after the immediate stage of crisis had passed, rising from 10.9% in the third quarter of 2008 to 14.4% in the fourth quarter of 2010, well above BIS requirements. At the same time, external liabilities held by banks operating in South Korea decreased. While these had corresponded to 92% of the ROK's foreign exchange reserves in the third quarter of 2008, this went down to 68% in the first quarter of 2010. The total value of short-term obligations held by banks operating in South Korea also fell in the same period.

## 8 | Currency and Price Stability

In terms of exchange rate policy, South Korea's legally independent central bank (Bank of Korea, BOK) has for many years followed a broad strategy of a managed float combined with an inflation target. Inflation has remained low, with the consumer price index rising by an annual average of only 2.8% in 2009 and 2010. During the financial crisis of 2008 – 2009, the BOK's priorities shifted from price

Anti-inflation /  
forex policy  
9

stability to the stimulation of growth and the need to shore up financial markets. In several successive steps, the bank cut its policy interest rate by a total of 3.25 percentage points, to a record low of 2% reached in early 2009. The rate remained at this level for 16 months until the BOK raised the rate to 2.25% in July 2010 (and again to 2.5% in November), effectively signaling an exit from the stimulus-driven policy and a return to fighting inflation. The return to normalcy was also indicated by a termination of emergency measures such as providing foreign currency liquidity to the market and lifting a cap on soft loans to small and medium-sized enterprises.

On occasion, the BOK also intervened in foreign exchange markets in 2009 – 2010 with the aim of limiting the won's volatility and of increasing price competitiveness. Though formally independent, the BOK's policies tend to be closely aligned with the economic priorities of the government. Informal governmental pressure on the BOK is not unusual. In 2009, for the first time in 10 years, the government ordered a senior civil servant to attend the meetings of the BOK's Central Monetary Committee regularly to monitor discussions there.

The South Korean government resorted to pump priming in the face of the 2008 – 2009 financial and economic crisis. While the substantial stimulus packages arguably had the desired effect of stabilizing the economy and leading it back to a path of growth, spending growth exceeded revenue growth, inevitably also leading to a further rise in national debt. Overall national debt was predicted to reach around 43% of GDP at the end of 2010. This level is not per se alarming (the estimated 2008 OECD average was 75%) but the pace of debt accumulation has been remarkable: At the end of 2000, overall debt equaled 19.2% of GDP and in 1996, before the 1997 – 1998 Asian financial crisis, the corresponding figure stood at 5.7%. These figures do not include public enterprises such as the Korea Land and Housing Corporation.

As a consequence of the experience of the crisis in the late 1990s, the South Korean government has engaged in a more or less steady expansion of foreign exchange reserves in order to ensure a capacity to weather external shocks. At the end of 2010, external reserves amounted to \$201.22 billion, the sixth-largest such store of reserves worldwide.

## 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 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

Macrostability  
8

Property rights  
10

governing real estate have basically reflected international standards (e.g., restrictions on floor area ratios, environmental and height regulations).

South Korea has persistently enforced intellectual property rights since 2003.

Private enterprises are regarded as the engine of growth in South Korea. Full public ownership is largely limited to public utilities. Nevertheless, the state is involved in around a hundred state-run enterprises and investments. Ambitious privatization plans presented by President Lee Myung-bak's incoming administration had to be scaled down in the face of public opposition and falling stock prices. Still, in 2008 the government presented a list of 41 state-owned enterprises and investments that it plans to privatize or divest in the future. Inter alia, the state aims to privatize 25 state-run and state-owned enterprises (including the Korea Development Bank and the Industrial Bank of Korea), merge two and adjust the functions of two additional such enterprises. In July 2010, the government unveiled a long-awaited plan to sell its controlling stake in Woori Finance Holdings, South Korea's number-two financial services company. The government had taken control of Woori in 1998, and then restructured it into a holding company through consolidation with other financial companies.

Private enterprise

8

## 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 schemes for sickness, pensions, accidents and unemployment. However, entitlements are generally restrictively defined, covering only the bare minimum for a limited amount of time. Recently, the authorities have expanded the proportion of persons eligible for unemployment benefits. Social expenditures during the economic and financial crisis increased, but only on a temporary basis. Welfare spending in South Korea remains on a very low level overall.

Social safety nets

8

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 concerning the (mis)treatment of migrant workers. Refugees from North Korea receive initial guidance and benefits but are then basically left to their own devices.

Equal opportunity

8

Since 2005, the government has revised more than 300 laws with the aim of eliminating gender bias. A growing number of equal opportunity programs for women have been put in place, but much remains to be done in practice, for

instance with respect to enabling women to combine careers and motherhood effectively. Women are still starkly underrepresented in top private-sector positions, with women holding fewer than 2% of seats on corporate boards. The situation is particularly extreme in the banking sector, where almost no female executives can be found. The situation is slightly better in the public sector, where 30% of all new hires are reserved for women (with the exception of the police and the military). Women accounted for close to 11% of mid-level (but hardly any upper level) positions in 2009. It is thus no surprise that South Korea was ranked only 115th out of 134 countries in the 2009 World Economic Forum's index of gender equality.

## 11 | Economic Performance

South Korea weathered the financial and economic crisis, which hit the global economy with full force in 2008, better than many other major economies. Per capita income has again crossed the \$20,000 threshold. While the South Korean economy experienced negative growth of -5.1% in the fourth quarter of 2008, the first quarter of 2009 already saw signs of the slump's end. Effectively, the South Korean economy managed to grow – if only marginally – by 0.2% in 2009, while most other major economies experienced recessions of varying severity. In 2010, South Korea's growth rate of around 6% indicated a solid economic rebound.

That South Korea did much better than others in the face of the global crisis had in part to do with the government's massive economic stimulus package. In relative terms – that is, comparing the size of stimulus spending to the size of the overall economy in 2007– South Korea's fiscal stimulus was the second biggest such package among G-20 countries (3.6% of GDP compared to Russia's 4.1% and a G-20 average of 2.2%). The Samsung Economic Research Institute estimated that government spending alone boosted the South Korean economy by 1.5% in 2009. In other words, the ROK might have shrunk by -1.3% that year had it not been for the large-scale stimulus provided from state coffers.

In addition, South Korea benefited from a better than expected foreign trade performance. While exports declined substantially in 2009, imports shrunk even more, leading to a trade surplus of over \$56 billion. Both exports and imports picked up steam in 2010, in total surpassing 2008 trade levels and again registering a sizeable trade surplus of around \$50 billion. Current balances were also firmly in the black in both 2009 and 2010. The rebound of the economy did not, however, lead to the creation of many jobs. The unemployment rate, which stood at 3.2% in both 2007 and 2008, rose to 3.6% in 2009 (before declining to 3.3% toward the end of 2010).

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. Spending on the environment amounted to over 2.4% of GDP in 2008. In November 2009, the cabinet approved a plan to reduce carbon-dioxide emissions by 4% by 2020 as compared to 2005 levels. Mandatory standards have been introduced.

Under President Lee Myung-bak, “green growth” has in fact become a new guiding economic paradigm for South Korea. A National Strategy for Green Growth was announced in July 2009. Notably, however, this rubric subsumes not only investments in renewable energies and the like, but also plans to further boost nuclear energy and major construction projects. The South Korean government projects that environment-related spending will amount to 2% of annual GDP between 2009 and 2013. In 2010, the country’s top 30 conglomerates pledged to invest an estimated \$18.6 billion in environmental businesses between 2011 and 2013. In July 2010, the government also announced that the state-run Korea Finance Corporation would invest around \$1.25 billion in environmentally focused businesses via a new fund.

According to the OECD, the ROK could do more by further contributing to international environmental cooperation, by earmarking less revenue from energy-related taxes for transport infrastructure, by identifying environmentally harmful subsidies and strengthening the use of economic instruments, by integrating water quality and quantity management, by using pesticides and fertilizers more efficiently, by better integrating environmental concerns in energy and transport policies, by improving efficiency in energy and material use, and by increasing efforts to protect nature, biodiversity and the landscape.

The potential for improvement in terms of integrating sustainability concerns into government policy is also indicated by South Korea’s low ranking in Yale University’s Environmental Performance Index, which places the ROK below nations with economies of comparable size such as Australia, Turkey, Italy and Spain. In 2010, South Korea received a rank of 94th out of 163 countries in this index.

South Korea’s expenditures on education (7.4% of GDP in 2009) are well above OECD average. A large part of these costs are borne by private households; families spend vast sums on the education of their children. According to the Bank of Korea,

Environmental  
policy  
8

Education policy /  
R&D  
10

despite a stagnant economy and rising unemployment, household spending on education exceeded KRW 40 trillion (\$38.5 billion) for the first time between the fourth quarter of 2008 and the third quarter of 2009.

In terms of R&D investment (3.2% of GDP in 2007 according to OECD data), South Korea is among the world's leaders. There are a number of problems with this record, however: 1) Much of the private investment on education is spent on expensive cram schools; 2) research cooperation between universities and enterprises is rare; 3) many South Korean universities suffer from quality problems; 4) South Korean universities are in general not very attractive to foreign researchers and students, 5) there is a mismatch between employers' demands and the skills provided by universities; and 6) there is not much interest in life-long learning.

## Transformation Management

### I. Level of Difficulty

Structural constraints on governance in South Korea are relatively low, except for the perpetual challenges posed by North Korea. In terms of territory, the ROK is a fairly compact nation, with nearly half 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, with per capita income on a purchasing power parity basis estimated at \$29,792 in 2010. South Korea is not deeply affected by natural disasters or pandemic infections, and the total number of people living with HIV/AIDS was estimated to be 13,000 in 2007. The number of officially registered cases reached 6,120 in 2008. The country was hit by a wave of foot-and-mouth disease at the end of 2010.

Structural  
constraints  
1

According to the 2010 U.N. education index, 75% of South Korea's population has at least secondary education, while during the first decade of the 21st century, 96% of the school-age population attended tertiary education.

South Korea boasts what is perhaps the most vibrant civil society in Pacific Asia. Civil society organizations (CSOs) have taken an active oversight role in monitoring and assessing the activities of government and companies. However, most CSOs focus on domestic issues, with little activity addressing transnational issues. Tellingly, South Korea's most well-known activists on the international stage have been farmers protesting against the liberalization of South Korea's trade regime. Large-scale demonstrations against restarting U.S. beef imports in 2008 underlined CSO mobilization capabilities. South Korea has no culture or tradition of generalized trust and/or compromise-oriented settlements between opposing groups. Confrontations between groups (especially in the context of labor disputes) can become militant at times.

Civil society  
traditions  
6

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 in social gaps has raised public concern, and might develop into a more genuine cleavage. The question of how to deal with North Korea divides the population, and overlaps with generational differences. It remains to be seen whether this division will develop into a structural cleavage

Conflict intensity  
2

affecting politics in the long term. Due to family traditions such as respect towards seniors and hierarchical structure of the society, intercultural marriages face severe, sometimes violent challenges.

## II. Management Performance

### 14 | Steering Capability

South Korea's political leadership is committed to constitutional democracy, notwithstanding recent attempts by the Lee Myung-bak administration to provide the state with greater control and monitoring rights (e.g., monitoring of cell phone calls and Internet activities, prohibition of mask-wearing during demonstrations). The government is able to prioritize political activities and follow long-term political agendas. Such agendas can, of course, be embedded in broader ideological frames (e.g., a basic belief in the efficiency of market-based solutions and schemes, as in the case of the current Lee Myung-bak administration).

The high dependence of the South Korean economy on global capital and trade linkages and the pronounced domestic role of large-scale conglomerates to some extent limits the array of policy options available to South Korean governments, though not decisively (except perhaps in times of deep economic crises). Vested interests are powerful in some areas (such as agriculture), where they limit the scope of reforms but not the process of reform per se. There is no clear-cut status-quo/reform divide separating ministries or other national agencies. The government is generally committed to the idea of a social market economy, and seeks to expand the existing social network, state resources permitting.

While the government is committed to constitutional democracy and the market economy, the implementation of reform measures in these areas are made difficult or inconsistent at times by partisan or even adversarial politics in the parliament, and the tendency to yield to public pressure and short-term requirements. Under the current Lee Myung-bak administration, for example, public opposition among other factors has led comprehensive privatization plans to be scaled back, large-scale infrastructure-related projects (e.g., the Four Rivers Project) to be rearranged and rescheduled, and plans to move substantial parts of the national administration to a new location in central South Korea to be abandoned. Parliamentary gridlock, caused by opposition boycotts and other factors, also significantly reduced legislative output in 2009 and 2010.

Question  
Score

Prioritization  
9

Implementation  
8

Orthodoxy usually prevails when it comes to the assessment of past policies in South Korea. Changing policies that are linked to the identity and interests of political actors is still seen as the equivalent of defeat. The prevailing partisan and more often than not adversarial approach to party politics buttresses this attitude. Major shifts in policy are usually the result of a change in government, though incumbent governments are no longer able to ignore popular attitudes. Arguably, the painful experience of the 1997 – 1999 Asian financial crisis provided South Korean policymakers with some important lessons, a fact that contributed to their relatively swift and decisive action in the face of the more recent global crisis.

Policy learning  
7

## 15 | Resource Efficiency

Government and public corporations employed 7% of the South Korean workforce in 2005, the lowest share of any OECD nation. Nearly 97,000 new public servants were hired during President Roh Moo-hyun's (2003 – 2008) administration. Nevertheless, public employment in South Korea is still substantially below the OECD average (as a percentage of the workforce), as is government spending as a percentage of GDP. Public debt has risen in recent years, particularly due to the stimulus spending aimed at fighting the effects of the 2008 – 2009 financial and economic crisis; however, this debt remains at manageable levels. Public debt stood at 36.9% of GDP as of late 2010, excluding public enterprises such as the Korea Land and Housing Corporation. With few exceptions, civil servants are hired, promoted and paid in line with transparent and merit-based standards. The office of the Ombudsman of Korea has the authority to conduct investigations into grievances submitted by members of the public. However, the current system does not provide the office with the statutory authority to open investigations on its own initiative. Likewise, recommendations issued by the Ombudsman lack the legal authority to compel compliance by the government agency under review.

Efficient use of  
assets  
8

Despite moves toward decentralization undertaken in the 1990s, South Korea remains a fairly centralized polity with power concentrated in the executive. Provincial governments, although to some extent having their own functions, 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 do not have their own court, prosecution, police or education systems. The high degree of centralization allows for largely coherent implementation of policies. Likewise, interministerial squabbles do not affect overall policy-making in a substantial manner.

Policy  
coordination  
9

In South Korea, private individuals and public officeholders convicted of corruption can face harsh sanctions that can include both jail terms and fines. Asset declarations made by top-level public officials are published in a national public gazette. These are available in public libraries, and are widely reported in the press. Persons convicted of taking bribes are also barred from holding public office. Further sanctions can include disqualification from bidding for public projects. South Korea is also one of the few countries in Asia to criminalize active bribery by foreign officials. Authorities are entitled to search bank accounts and seize documents when investigating corruption charges. Whistle-blowing is encouraged by providing high rewards and by reducing or waiving penal and disciplinary sanctions against whistle-blowers who were themselves engaged in corruption. Informants can remain anonymous and information given is treated confidentially, with the disclosure of informants' names an act subject to penalty.

Anti-corruption  
policy  
8

Nevertheless, despite strengthened government and continuous CSO anti-corruption activities, corruption levels are still perceived to be high in South Korea. Such perceptions have been bolstered again in recent years by high-profile cases involving businessmen and politicians. For example, Moon Kook-hyun, the leader of the Creative Korea Party, lost his National Assembly seat in October 2009 when the Supreme Court sentenced the CEO-turned-presidential candidate to a suspended eight-month jail term. Under South Korea's election law, legislators automatically lose their seats if sentenced to a jail term or fined KRW 1 million, around \$850. Moon had been charged with selling a high slot on the party's 2008 general election candidate list for KRW 600 million (around \$480,000).

With respect to dealing with corruption in business, the recurring presidential amnesties provided to CEOs convicted on such charges raise questions as to the sincerity of the government's determination not to tolerate illicit business behavior.

## 16 | Consensus-Building

All major political actors in South Korea subscribe to the goal of maintaining a constitutional democracy, even though some authoritarian practices can be witnessed within individual political organizations. All political actors also agree on the need to uphold the market economy, though there is variation as to how political actors define social justice, often seen as a prerequisite to a functioning and sustainable market economy. Social justice is defined differently by unions and their political representatives on the one hand, and corporate lobbying organizations on the other.

Consensus on goals  
10

There are currently no anti-democratic veto actors in South Korea. The question of whether an unforeseen major crisis – for instance, a chaotic unification with the North – might give rise to anti-democratic activities by potential veto actors (including the military) is less clear.

Anti-democratic  
actors  
10

Ethnic, class and regional conflicts per se did not figure prominently in South Korea during the 2009 – 2010 period. However, increasing income disparities have in recent years led to intensive public discussions on the causes and consequences of this phenomenon. Real estate speculation has become an especially emotional topic as middle-class individuals and households find it increasingly difficult, especially in highly urbanized areas, to finance self-owned apartments or houses.

Cleavage /  
conflict  
management  
8

The conservative government of President Lee Myung-bak has reacted to this rise in public anger by making the creation of a “fair society” a key government aim. However, many citizens do not take the promises associated with this drive at face value, particularly as several candidates for high political office have had to rescind their candidacies in the face of real-estate, wealth-related or other scandals, including some involving abuse of office or other positions to receive preferential treatment for themselves or their relatives.

Youth unemployment has emerged as a serious matter of concern.

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(-making). Representatives of civil society were given high-profile posts in the cabinet and on advisory commissions. President Lee Myung-bak’s administration has not continued this inclusionary approach, but has rather exhibited a more or less pronounced top-down approach to policy-making. Moreover, a number of progressive CSOs, such as the Human Rights Commission, have faced increasing difficulties in securing government support and funding.

Civil society  
participation  
6

The ghosts of the past continue to haunt South Korea, both in terms of domestic affairs and bilateral relations (especially with Japan). The past can be a hot-button issue, as opinions – for example, about the authoritarian Park Chung-hee era (1961 – 1979) and its legacy – diverge sharply.

Reconciliation  
7

While recent attempts by private organizations to compile lists of collaborators during the Japanese colonial period are in principle necessary and useful, examinations of the past and present-day politics sometimes become intermeshed. The ongoing debate about collaboration shows that the colonial past serves not only to conjure up “mythical stories of timeless struggle and redemption” but can also be used as a political football in South Korea. Under President Lee Myung-bak’s conservative administration, there has also been less public financial support available for private sector activities aimed at unearthing past crimes and

misdemeanors. Efforts at historical reconciliation are almost absent within society. Historical conflicts are sometimes even used for domestic political argumentation. Interaction between opposing viewpoints on these weighty issues is rare.

Reconciliation is an ongoing process rather than a definite end point. It needs to be perceived as a long-term strategic goal both by government and non-governmental elites. This is not yet the case in South Korea. A truly bipartisan approach at reconciliation remains a long-term goal, but seems for now unattainable. Recurrent problems with dealing with the past do not bode well for the future, as the (perhaps) biggest challenges – how to deal with past injustices in North Korea, and how to assess the North’s political history – are yet to come.

## 17 | International Cooperation

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. In 2010, South Korea officially joined the OECD’s Development Assistance Committee (DAC), the first former aid recipient to do so. However, South Korean ODA remains miniscule in relative terms (0.1% of gross national income in 2009, the DAC member average in that year being 0.5%), and also small in comparative terms (South Korea provides the lowest ODA volume of any of the 22 DAC members). Due to its solid macroeconomic fundamentals, South Korea did not ask for emergency funds from the IMF at the height of the recent global financial and economic crisis of 2008 – 2009, as it did during the 1997 Asian financial crisis.

Effective use of  
support  
10

Commercial risk ratings for South Korea have improved substantially since the financial and economic crisis of 1997 – 1998, the perpetual threat from North Korea notwithstanding. International recognition of South Korea as a reliable and trustworthy partner on the global stage was perhaps best symbolized by South Korea’s successful bid to become co-chair of the G-20 in 2010 and to host the G-20 summit in Seoul in November of the same year.

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 Asia-Europe Meeting (ASEM), and the six-party talks on the issue of North Korean nuclear weapons development. South Korea is also actively engaged in expanding monetary cooperation in East Asia, and has actively (and successfully) pursued a host of bilateral free trade agreements. In 2008, President Lee formulated the goal of Kukgiok (literally, country with a good character), seeking to promote South Korea’s reputation and soft power in the world by means such as hosting

Regional  
cooperation  
9



international events such as the November 2010 G-20 meeting, and increasing spending for development assistance.

On the other hand, the ruling government was elected on a platform which insisted on the principle of reciprocity in dealing with North Korea. In recent months, the relationship with North Korea has deteriorated dramatically, as the Lee administration has reduced aid to the North while the North has tested long-range missiles and conducted a nuclear test in 2009. Although there is no doubt that North Korea's aggressive policies of "blackmailing" South Korea, Japan and the United States constitutes a danger to stability and peace on the Korean peninsula and within East Asia at large, "being tough" on North Korea and reducing humanitarian aid has also contributed to further deterioration in the relationship between the two states.

Finally, for domestic reasons, South Korean governments do not always resist the temptation to play the "history card" in relations with Japan, though President Lee Myung-bak's administration has so far largely refrained from doing so.

## Strategic Outlook

South Korea's political and economic situation looked substantially better at the beginning of the second decade of the 21st century than it did just two years before. The massive protests faced by President Lee Myung-bak particularly during his first year in office have not reoccurred on a similar scale, and the president's popularity rating, which hit rock bottom in 2008, improved markedly from 2009 onwards. This improvement is linked to South Korea's successful handling of the effects of the global and financial economic crisis, which hit the country in the latter half of 2008. In 2010, per capita income (on a purchasing power parity basis) returned to nearly \$30,000, and South Korea is now the world's seventh-largest trading nation (and the 13th or 14th largest economy overall).

This is not to say that everything is well. South Korea's internationally highly competitive business conglomerates remain a mixed blessing, crowding out smaller companies and contributing to a skewed job market at home. North Korea continues to present numerous challenges to South Korea's security and prosperity, especially now that the North is engulfed in a power transition. The prospect of having to absorb North Korea in the more or less distant future is no less daunting than ever before. The domestic political climate remains tense, with hardly any communication, let alone cooperation, taking place between the government and the opposition. As a consequence, parliamentary politics has been reduced to ritualistic confrontations. South Korea's political system contains increasingly professionalized politicians, but little actual policy dialogue. Meanwhile, South Korea's welfare system is increasingly creaking under the triple assault of a rapidly growing number of senior citizens, an extremely low fertility rate and a rising national debt.

The integration of women and increasingly also young university graduates into the job market also presents a serious challenge. The post-crisis rebound of the South Korean economy did not go hand in hand with substantial gains in terms of new jobs. The unemployment rate rose to 3.6% in 2009, where it remained in 2010. Youth unemployment reached 8.1%. "Jobless growth" has emerged as a problem in South Korea. Moreover, of those who are employed, around 40% do not have regular, full-time jobs – a high share among OECD countries. With manufacturing companies increasingly moving jobs out of the country, especially to neighboring China, an industrial-sector decline looms on the horizon. Overall, social disparities are growing in South Korea, in part between those in regular employment – especially those whose high-paying jobs at business conglomerates enable them to own property – and those who lack such assets. Growing unease over the prospect of an increasingly two-class society is compounded by the perceived unequal treatment before the law accorded to the wealthy, powerful and well-connected. The fact that prominent corporate CEOs convicted of crimes are usually pardoned after a short period of time, and that ethical misconduct and other irregularities are regularly

unearthed among prospective cabinet members has led trust in the country's political and business elite to decline even further, as well as to an erosion in the sense of prevailing fairness.

Against this background, the process of ongoing political and economic transformation in South Korea demands that attention be paid to the following 10 priority issues: 1) improving government communications vis-à-vis the opposition and the populace at large; 2) turning the National Assembly (and its committees) from an arena into a real working parliament; 3) showing no leniency with respect to corruption in public and private institutions; 4) demonstrating that everyone receives equal treatment before the law; 5) assisting the growth of small and medium-sized enterprises and increasing productivity in the service sector; 6) bolstering the social security net, especially with regards to unemployment insurance and welfare benefits; 7) preparing the pension (and the tax) system for the challenges associated with the world's most rapidly aging society; 8) actively working to do away with discrimination against women in the workplace; 9) forging a bipartisan approach vis-à-vis North Korea; and 10) laying the (financial and other) foundations for eventual unification between North and South Korea.