

South Korea

Status Index (Democracy: 4.6 / Market economy): 4.6		9.2	Management Index		7.1
System of government	Presidential-Parliamentary democracy		Population	47.1 mill.	
Voter turnout	57.2 % (2000)		GDP p. c. (\$, PPP)	15,090	
Women in Parliament	5.9 %		Unemployment rate	4.1 %	
Population growth^a	1.1 %		HDI	0.879	
Largest ethnic minority	0.01 %		UN Education Index	0.96	
			Gini Index	31.6 (1998)	
<p>Data for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. Sources: National Statistical of the Republic of Korea; Bank of Korea; UNDP: Human Development Report 2003, New York/Oxford 2003.</p>					

1. Introduction

In December 1997, for the first time in Korean history, the opposition forced a change of governments in democratic elections. President Kim Dae-Jung, inaugurated in February 1998, took office at the height of a national currency and financial crisis that expanded into a true economic crisis over the next few months. The president's five-year term ended with the transfer of the office to the newly elected president Roh Moo-hyun in February 2003. Hence the period covered by this report largely coincides with Kim Dae-Jung's term of office.

The report indicates that in terms of the absolute achievement of goals, development has stagnated. But given the difficult political and economic conditions under which the relevant actors were attempting to manage transformation, it must be regarded as a management success, that the erosion of achieved standards in most of the evaluated areas has been prevented. Transformation advanced in several performance criteria. The outgoing decision-makers, however, also leave key tasks undone concerning the rule of law, stabilizing patterns of democratic representation and attitudes among the citizens, reforming the existing regularity of the market and competition, and assuring the sustainability of the economic development. The coverage of these problems will on a medium-term basis dominate the transformation process.

2. History and characteristics of transformation

The economic and political transformation processes did not proceed contemporaneously. The foundations of an economically and socially highly

functional regulation of the market and competition were already established under the authoritarian regimes of Presidents Park (1963–1979) and Chun (1980–1988). But democratic transformation did not begin until the early 1980s, with the transfer of power from President Park Chung-Hee to the clique of generals surrounding Chun Doo-Hwan and Roh Tae-Woo. After only a short time, this authoritarian regime came under internal political pressure. In the mid-1980s, opposition leaders Kim Young-Sam and Kim Dae-Jung were able to mobilize the urban middle class at the polls and to create an extraparliamentary civic alliance for action. Skillful political management by the opposition leaders, strategic missteps by the ruling elite and external influences (pressure from the United States, the upcoming Olympic Games) led to the initiation of democracy in June 1987. In free and sufficiently fair elections, the candidate of the ruling coalition, Roh Tae-Woo, won the presidency in December 1987.

Roh's election victory by no means turned out to be a setback for the further progress of transformation. With a representative of the former regime at its head, the government was quickly able to integrate the military into the democratic system. During the very first years of democracy this helped establish a pro-democracy consensus among the relevant political parties and the population, the majority of whom are politically conservative. This became clearly evident in 1993, when Kim Young-Sam became the first civilian to occupy the country's highest office after more than 30 years of politics dominated by the military. During his term (1993–1998), the most important reforms were completed or continued in the military and secret service, legislation on elections and political parties, the judicial system, and administration. Finally, the election of long-term dissident Kim Dae-Jung as president in December 1997 demonstrated that all relevant forces had been integrated into the political system.

The transformation toward a market economy of South Korea into an industrial emerging nation was completed by the mid-1980s as industrialization was successfully phased in, with an orientation toward the world market. This process was conducted under government-imposed development targets, and the domestic market was largely sealed off. State control of the allocation of resources in the export-oriented industrial sector, and the policy of establishing competitive export companies, had several effects: growing numbers of industrial workers, economic internationalization and the rise of large state-protected conglomerates (called *chaebol*), which dominate the economy.

The transition to democracy was completed in 1987–1988 amid an economic upswing on a high level of social modernization. It avoided impoverishing broad segments of the population and preserved a social distribution of income that was relatively well-balanced. The turn toward democracy did not interrupt the overall economic upswing at first. But in December 1997, the Korean economy was caught up in the wake of a regional currency and financial crisis (the “Asian crisis”). The consequence was a drastic deterioration in the valuation of the

Korean currency. Within a few weeks, the external value of the Korean currency deteriorated drastically. Accordingly, foreign currency loans to banks, companies and the state became around 60 % dearer.

To avert looming insolvency and the collapse of the Korean internal financial market, the government turned to the International Monetary Fund. At the government's request, an "economic development program" was agreed upon that helped avert a collapse of the financial and banking sector, but also imposed painful reforms on the Korean state, the population and the corporate sector. Prompted by the Asian crisis, and in close cooperation with foreign actors, the country began making core reforms in the banking and financial sector, policies on competition, the organization of the economy, corporate governance, and—last but not least—the social safety net.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

In transforming its political order, South Korea has made progress in some of the areas under evaluation. There are still transformation shortcomings in areas of political representation and the rule of law. In the area of democratic stability, there is backsliding in some indicators, but not to an extent that threatens the system.

3.1.1 Political regime

(1) *Stateness*: There is no problem with state identity in South Korea. The state has an unrestricted monopoly on power. Defining citizenship and who qualifies as a citizen is not a politically relevant issue. All citizens have the same civil rights. There is separation of church and state. The political process is secularized. The country has a highly functional administrative system, public safety and order.

(2) *Political participation*: There is effective universal active and passive suffrage, and elections are conducted properly. The elected government obeys the principles of an open, competitive election process. It has the actual power to govern. There are no veto powers or political enclaves in the hands of the military. There are problems in asserting the constitutive rights of political organization and communication. The state-run and private media are subject to occasional influence from the government. Political and civil organizations can form freely, but union activity is subject to restrictions that violate international conventions on labor rights. Freedom of information, of opinion and of organization run up against limits where relations with North Korea are

concerned. Ethnic cleavages are of no importance to the dynamics of association in civil society, since South Korean society is ethnically homogeneous.

(3) *Rule of law*: Transformation deficiencies exist in checks and balances among the executive, legislative and judicial branches. If the president holds a parliamentary majority, power-sharing is impaired. This means that the Parliament has little say in political decision-making processes. In principle, the judiciary and the constitutional court are independent. But the Supreme Court's decisions that are particularly portentous for the political process show a tendency to shift the balance of power from the political decision-makers to the supreme court. Yet the judiciary's activities of supervision and verification are generally not annulled. Political and bureaucratic corruption are perceived as extensive in South Korea. Citizens consider combating these one of the most urgent problems of good governance.

As a rule, corruption is prosecuted under criminal law, and there is no immunity for members of the cabinet or members of the families of high elected officials. However, the battle against corruption is also used as a tool in disputes with political opponents. The threat of prosecution for corruption remains a means of intimidating political opponents and critics. Civil freedoms are affected to a minor degree by the lack of legal obligation of government action to legal standards, or by the bureaucracy's sometimes selective application of laws.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: Subject to the above reservations about the rule of law, democratic institutions are stable. Institutional efficiency is hampered when competing political majorities exist in Parliament and the executive branch. Such standoffs occurred frequently during the period under study. In these cases, the confrontational attitudes of the government and the majority opposition in Parliament—which shows little willingness to compromise—can result in political blockades initiated by either side. Normally, however, the relevant political and social actors accept democratic institutions and regard them as legitimate.

(2) *Political and social integration*: Problems with institutional efficiency are associated with the lack of stable patterns of organization for political representation. In past five years, it was still not possible for an organizationally stable party system to take firm root in this society. The moderately fragmented party system is still characterized by a low level of organizational stability, little ability to form party platforms, almost no anchoring within society, substantial weakness in social integration, focus on personalities and patronage, and a high level of voter volatility. Political parties from all camps pursue mainly conflict-oriented strategies, and focus unilaterally on their regional constituencies. The

relevant political parties are mostly personality-oriented voter associations with strong regional ties. They are one of the greatest obstacles to the consolidation of democracy.

South Korea has a well-differentiated landscape of interest groups, where labor and business associations dominate. While the union system suffers from a decreasing degree of organization, extensive fragmentation, and the competing federations' low internal ability to make and keep commitments, the large conglomerates dominate the business associations. Unions and business associations feature the organizational requirements for a high-conflict, non-concerted system of industrial relations. Accordingly, labor relations are full of conflict. The government's institutionalization of a tripartite mechanism to promote concerted action (1998) had only limited success. The ability of the state and social interest groups to cooperate remains unstable.

The differentiation of the civil organizational landscape continues, albeit starting from a low level. Civil organizations show a strong willingness to work cooperatively and strategically. Moreover, these organizations are helping democratic ideas and practices become more firmly rooted in South Korean society. They not only integrate and help bridge social cleavages, but also serve as a social power for political moderation. Although civic organizations have been gaining momentum, in the past few years there has been a massive decline in satisfaction with democracy and in citizens' confidence in democratic institutions.

Support for democracy is still declining from a low level. The 57.2 % voter turnout in the April 2000 parliamentary elections was a historic low. Yet so far, this has not resulted in political successions that would directly call the constitutional framework of democracy into question. In the trials of former Presidents Chun and Roh under the previous administration of Kim Young-Sam, the relevant political forces have already supported a process of reconciliation addressing human rights violations under the authoritarian Fifth Republic (1980–1988).

3.2 Market economy

South Korea has made progress in transforming its economic order. There are deficiencies of transformation in the organization of competition, in restoring the health of the banking and capital markets, and in combating market concentration and the formation of oligopolies.

3.2.1 Level of socioeconomic development

The key indicators show a high level of development. Measured in terms of Human Development Index, the country's level of development permits adequate freedom of choice for all citizens. There is no indication of fundamental social exclusion on the basis of poverty or education, nor is there any indication of gender discrimination. Throughout the observation period, South Korea has been able to keep social disparities moderate, poverty low and income distribution relatively egalitarian. The crisis management policies of 1998–2000, however, have caused a slight deterioration of income in the lower income groups and a slight rise in inequality of income (1998–2000). Existing developmental imbalances among regions have not been reduced.

3.2.2 Market structures and competition

The foundations of a competition based on a market economy are safely assured. The dense regulation of the economy has been pruned back. But state policy on competition and development remains skewed in favor of the large conglomerates (chaebol). In restructuring the financial systems and the corporate sector, the government has repeatedly suspended general rules of play when it wished to. Existing anti-cartel legislation is not always applied even-handedly or impartially. Only the first steps have been taken to successfully combat fundamental problems in the corporate sector, such as undercapitalization, indirect cross-ownership and inadequate corporate governance.

Partially in response to pressure from the IMF and OECD, foreign trade has been liberalized. There are special provisions for some sectors, but they have been pared back. The banking and financial system, which was formerly politically regulated and undercapitalized, has continued to be restructured. Between December 1997 and June 2001, the government shut down or merged around one-quarter of the country's banking and financial-market institutions because of insolvency or inadequate capitalization. Nevertheless, they continue to carry a heavy burden of non-performing loans.

3.2.2 Stability of currency and prices

A consistent policy on inflation and currency was pursued during the period under study. The central bank's independence was strengthened. The government's fiscal and debt policies were oriented toward stability. Short-term foreign debt was reduced. Depleted foreign currency reserves have recovered. The IMF loans were repaid in August 2001, three years ahead of schedule.

3.2.4 Private property

Property rights and the acquisition of property are adequately defined. State companies have been privatized further over the past two years. But market concentration and the frequency of regulation of the economy remain greater than in most other OECD states.

3.2.5 Welfare regime

South Korea has a conservative welfare regime, with a strong emphasis on the familial and operational security components. Considerable efforts have been made in the past few years to expand social insurance systems in the areas of health, old age and unemployment. But in part because of demographic and social changes, and in part because of changes in the job market and professional life, an adaptation of the social welfare system and unemployment insurance is indispensable if social stabilization is to be achieved in the medium term. This also holds true for employment-policy measures to place newly unemployed workers in new jobs, as well as for establishing public incentives to expand vocational training. Thanks in part to growth and in part to government employment programs, unemployment was cut in half between 1998 and 2002 (second quarter). The discrepancy in labor-law standards and worker protections between large conglomerates and small or family businesses must be reduced.

3.2.6 Strength of the economy

After the crisis-induced deterioration in the macroeconomic fundamentals at the start of the period under study, the government's successful crisis management brought about macroeconomic stabilization. The adverse world economic situation slowed down economic development in 2001 and 2002. Economic growth is only partially consistent with economic potential. The unutilized residual growth potential is primarily a consequence of still-incomplete reforms in the financial and corporate sector, and of the slack world economy. These impede better utilization of growth potential under the country's primarily export-oriented growth model, which is based on large conglomerates. The performance of other macroeconomic data, after a recent recovery, has also been only moderately positive.

3.2.7 Sustainability

The basic outlines of a social safety net to compensate for poverty and other such risks are in place. Considerable efforts have been made to expand this net. There is high-quality, inclusive health care. Apart from the state safety net, there are also

close-knit private solidarity networks and providential mechanisms. Equality of opportunity and access to public services are available, in principle, within this minimally segmented society. But there are hardly any mechanisms to assist with the advancement of women, the disabled or the socially disadvantaged.

Women are at a significant disadvantage regarding access to higher education, income and public office. Reforms in family law have reduced gender-based discrimination against women in the legal system. Environmental awareness has grown in recent years among the society and lawmakers. But environmental concerns still tend to take a back seat to growth considerations. Korea has a well-developed state system of primary and secondary education, and a predominantly private university system. The state's expenditures for education at the end of the 1990s were 3.7 % of the gross national product, or 17.5 % of the total government expenditures, supplemented with large private contributions. Average expenditures for research and development in 1999–2000 averaged 2.7 % of GNP. There is a modern infrastructure.

4. Trend

(1) *Democracy*: Even before the period of this study, the criteria of a state monopoly on power, an effective administrative system, functional courts, and public safety and order were fully established. These have been maintained. The same applies to the indicators for elections and to the actual ability of democratically elected officials to govern. Progressive tendencies are apparent in citizens' options for organizing, the free activity of social organizations, and freedom of opinion and of the press. But some deficiencies remain. The enforceability of civil rights advanced.

In terms of mutual checks and balances among the executive, parliamentary and judicial branches, development has been stagnating and consolidation is not yet complete. Corruption remains widespread. The anti-corruption policy of the Kim Dae-Jung government has proved rather ineffectual. The stability of underlying constitutional institutions has been preserved without enhancing the governmental system's inadequate institutional efficiency. In fact, because of the political majority relationships that have usually prevailed, there has even been a tendency to backslide since the previous period.

The parties' achievements in political and social integration have remained low. Development of cooperative and consensus-oriented patterns for interaction between labor and business associations has stagnated. Civil interest groups and organizations have continued to advance, but arouse little breadth of citizen participation. The development of a civic culture supporting democracy has regressed. Surveys indicate there was a crisis of support and satisfaction during

the period under study, and that this crisis has recently intensified. The willingness of citizens to participate through conventional channels has receded.

(2) *Market economy*: The fundamental developmental indicators show slight improvement in an already high level of development during the period under examination. This also holds true for indicators of sustainability, while the change in the Gini index shows a slight increase in disparities of income.

Table: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP index	Gini index	UN Education index	Political representation of women ^a	GDP per capita (\$, PPP)
1998	0.854	0.847	0.82	31.6	0.95	4.0	13,478
2000	0.882	0.875	0.86	32.0	0.95	5.9	17,380

^a Percentage of women delegates in Parliament after 1996 and 2000 elections.

Sources: UNDP, Human Development Report, 2000, 2002,

<<http://undp.org/hdr2000.english/FAQs.html>>, <<http://undp.org/reports/global/2002>> [accessed Oct. 22, 2002].

The institutional environment for action based on a market economy has improved, but deficiencies in the organization of the economy and competition remain. The pace of reform slackened significantly during the period. Measured in terms of macroeconomic data, economic development lost momentum compared with the previous period. Yet in view of the crisis conditions at the beginning of this period, the data indicate that the state's development policy has achieved significant success.

Table: Development of macroeconomic fundamentals (1998-2002)

	1998	1999	2000	2001	2002 (2/4)
Growth of GDP in %	-6.7	10.9	9.3	3.0	6.3
Export growth in %	-2.8	8.6	19.9	-12.7	5.1
Import growth in %	-35.5	28.4	34.0	-12.1	7.8
Inflation in % (CPI)	7.5	0.8	2.3	4.1	2.7
Unemployment in %	6.8	6.3	4.1	3.7	2.9
Budget deficit in % of GDP	-5.0	n/a	-1.3	n/a	n/a
Current account balance in billion \$	40.3	24.4	12.2	8.6	18.2

Sources: Bank of Korea, Domestic Economic Developments (Sept 2002)

<http://www.bok.or.kr/bokis/bokis/html_view?curren> [accessed 22/10/2002]; Bank of Korea, Principal Economic Indicators, <http://www.bok.or.kr/index_e.html> [accessed Oct. 22, 2002].

5. Transformation management

5.1 Level of difficulty

A high level of economic and social development, the basic market-economy structures available, a very high level of education in Korean society, a lack of ethnic and religious conflicts, low polarization of the conflict over income distribution, an efficient administration of the state, and the state's monopoly on power provided good conditions for continuing transformation at the start of the period. In terms of structural socioeconomic conditions that dominate the political process for the long term, the level of difficulty of transformation must therefore be considered low. There was likewise a fundamental consensus on democracy before the evaluation period.

The expansion and stabilization of democratic transformation was impeded by the country's limited previous experience with civil society, democracy and the rule of law. Moreover, domestic and world economic conditions were unquestionably difficult during this period. While the South Korean process of transformation began under positive social and economic conditions and difficult political ones at the end of the 1980s, transformation during the 1998-2003 period had to take place under conditions of economic crisis within a democracy whose basic traits were firmly established, but that still remained deficient and unconsolidated.

5.2 Reliable pursuit of goals

The South Korean government's strategy for economic reform was by and large determined, concerned about cushioning social costs and mindful of clear strategic priorities (economic recovery and expansion of democracy). But it was not successful in every regard. Basically, the government was concerned with reassuring the expectations of domestic and foreign business actors, and coordinating individual macroeconomic targets with one another. In general, the relevant actors in the decision-making process maintained their commitment to the transformational goal of a consolidated market-based democracy.

Under Kim Dae-Jung, previous administrations' legacy of neglected economic reforms became a topic of broad public discussion for the first time. Unlike previous periods, the government has recognizable long-term strategies whose political goals were formulated with input from social groups and organizations, and were presented with transparency. There was a consistent strategy mix between attempting to preserve regulatory patterns considered functional and dismantling outmoded patterns of intervention.

The choice of strategy in terms of democratic transformation was less persuasive. Here neither the government nor the opposition was willing to work cooperatively. Short-term, self-interested strategies dominated over considerations of a medium- to long-term policy of expanding democracy. Shifting political majorities, the labile nature of the governing two-party coalition and the upcoming presidential elections (December 2002) made the government's transformational strategy increasingly vulnerable to abrupt changes of course.

5.3 Effective use of resources

The government makes effective use of available staffing and organizational resources for its transformation policy. Cutbacks have been evident in regard to the recovery of the financial market and banking sector and the restructuring of the corporate sector. Public funds have not always been used efficiently or effectively in supporting bad loans, troubled banks and conglomerates facing insolvency. But apart from these exceptions, the reform policy was implemented effectively. Public services are by and large ready for further steps toward economic development, although further deregulation is needed in a wide range of economic sectors. There are deficiencies in providing state-run social services.

The institutional framework for a successful policy of combating corruption is already largely present, although legal reforms are still needed to reinforce the political independence of tax authorities and public prosecutors. The existing rules have not always been applied firmly and impartially. Available cultural resources, such as the society's strong willingness to take personal responsibility and organize on its own, were utilized. But resorting to established cultural and social traditions has by no means been exclusively positive for economic and political transformation, since this was associated with a tendency toward hierarchic thinking, suppression of opposition, nepotism and the instrumentalization of the law. The regression of democratic stability—less consolidation at the intermediary level and an erosion of attitudes supporting democracy—is the fault not of the government alone, but of all relevant actors in the political parties.

5.4 Governance capability

The policy for economic reform was vigilant and wise. Action was taken quickly; existing institutions were expanded and evolved. Since the programs are well-anchored in the administration and in society, there is a good prospect that the reform process will continue, although reforms have often had to be pushed through against the opposition of powerful economic groups, rather than in consensus with them. In terms of economic transformation, the political actors from the various camps have largely proved willing to learn. The way in which

democratic transformation has been managed, however, cannot be rated so positively. In their domestic-policy actions, the actors in all political camps lacked the flexibility to adjust to the altered balances of power, and seemed unwilling to learn from the failure of the conflict-oriented strategies of the past.

The government's ability to organize domestic-policy reform was gradually constrained by the absence of an absolute political majority, the attitude of international actors toward the South Korean government's most important reform project (improving relations with North Korea), and corruption scandals close to the administration. Since late 2001, the government has been a lame duck in anticipation of the December 2002 presidential elections. During the first half of the period under review, the government worked to open up greater leeway in domestic-policy management by drawing diffuse, unorganized interests into the political decision-making process more than had been the case before. In the second half it was no longer really able to do so. As the elections approached and after the government lost its parliamentary majority in 2000, it also lost its clear domestic policy line.

5.5 Consensus-building

All major political and social actors agree on the goal of the reform (a market-based democracy), although their ideas about how to get there vary considerably. There are no actors with anti-democratic veto powers. Opposition parties and large conglomerates can employ parliamentary majorities or economic power to create de facto blockades for market-economy reform processes. All this remains within limits that are allowable in democracies. The policy of throwing up blockades has slowed down reforms, but is not an expression of fundamental dissent about the direction of development toward a socially cushioned, reform-oriented market economy.

A greater degree of willingness to cooperate with social forces is evident in the government-initiated institutionalization of neocorporatist ways of harmonizing interests among the unions, business associations and the state. Numerous NGOs are trying to exert an active influence on the management of economic and social policy. In the April 2000 parliamentary elections, civic groups had a massive influence on the political agenda.

The government continues to move circumspectly in dealing with economic problems, has been very aware of cooperating with associations and other intermediary organizations, and announces realistic time frames and standards of measurement for success, in contrast to the previous administration's populist promises. Yet its strategies for political reform must be viewed less positively. To avoid jeopardizing the economic-policy consensus within the governing coalition, President Kim Dae-Jung's ruling MDP party has been forced to make

considerable concessions to its conservative partner, the ULD. The persistence of deficiencies in regard to the National Security Act, the hesitant opening of domestic-policy debate about North Korea, and the government's faltering will to act against political corruption in its own ranks all have much to do with the need to treat the coalition party with kid gloves. This strategy has been understandable in that it served to maintain the political majorities needed to continue the economic reforms.

The same cannot be said about other shortcomings. The Kim Dae-Jung government also counted on capitalizing politically on regional identities and conflicts, and showed little inclination to grant a stronger voice to Parliament. In a pinch, political resistance was eliminated using strategies that bordered on the unconstitutional, or even clearly violated the principles of a constitutional state under the rule of law. Here, as in its retention of old confrontational strategies toward the opposition, there were sometimes considerable contradictions between the government's reform rhetoric and its actual deeds. To be sure, the opposition's unbending resistance, often lacking sufficient objective political justification, has frequently left the government few alternatives if the reform process was not to be brought to a halt. Actors in the key political roles were unable to mitigate the intensity of the central social lines of conflict—the contrast between the governments and the issue of how to deal with North Korea. At the same time, these conflicts pose no threat to the cohesion of the state and society.

5.6 International cooperation

The net improvements in economic transformation since 1997 are associated with greater cooperation with external actors (the IMF, the Asian Development Bank, the Western donor community). The crisis strategy of the Kim Dae-Jung government is based principally on coordinating its reforms closely with the International Monetary Fund. The government shows a strong willingness to meet requirements strictly and to make very effective use of the resources provided by international actors. Without the cooperation offered by these external actors, as well as the South Korean government's credibly communicated readiness to cooperate, it would probably not have been possible to restore economic calm.

This holds true despite all justified criticism of the IMF's initial misperceptions. By contrast, as far as the democratic transformation process is concerned, the role of external actors must be considered negligible. With an eye to economic reforms, the government made well-focused, efficient use of international aid. Despite some irritations, bilateral relations with Japan steadily improved during the period. South Korea proved itself a reliable, cooperative partner in its dealings with other regional powers and in the context of regional and international organizations.

Regionally, because of its consistent policy of *détente* with North Korea, the government can be considered reliable and predictable—something that cannot be said without reservation for its partners in foreign-policy alliances during the period. The resulting inconsistencies in foreign policy toward North Korea were not the fault of the South Korean side. It remains to be seen whether the new government after February 2003 will be willing to continue these policies between the Koreas and toward Japan, or whether there will be an abrupt change of policy.

6. Overall evaluation

This report arrives at the following concluding evaluations:

(1) *Baseline conditions*: The starting conditions for transformation have been rated as positive overall. Even before the observation period, the country had functional and in some cases very effective market-economy structures. Although the basic issue of state and national identity is still unresolved, a highly capable state was already in existence, and the nation did not have to be “invented” from scratch. On the other hand, there was an absence of traditions favoring the rule of law, civil society and democracy. Yet in previous decades, close contact with Western countries, a modern educational system, an already differentiated society and the diffusion of values had already created fertile ground for the growth of such traditions.

During the period under evaluation, transformation proved to be a combination of promoting democratic transformation and managing the economic crisis, as well as inaugurating the first cautious steps toward a third transformation of the state and the nation—with the aim of reunification. The power constellation in which the old regime stood against a democratic opposition was penetrated early. In its place, there arose the “normal condition” for democracy, with a government loyal to democracy and an opposition loyal to the system.

(2) *Current status and evolution*: Democratic transformation evolved only a short distance. The political decision-makers were not able to qualitatively broaden democratic transformation. In all, consolidation has stagnated and significant deficiencies in the consolidation process remain. Despite some backsliding, there are no evident internal threats to democracy. The backsliding primarily concerns political representation, the institutional efficiency of the governmental system, the rule of law and citizen support for the democratic system.

Transformation toward a market economy evolved further. The political decision-makers were able to stabilize macroeconomic development. The basic structures for a system of a market economy were improved. Yet the economic transformation into a high-performance social market economy is not complete. Although most indicators reveal that crisis management was successful, the most

important structural reforms in the way the market economy is organized all remain unfinished.

(3) *Management*: The conclusions regarding the actors' relative management performance are ambivalent. During the period under study, the economic transformation process gained in reliability, speed and prospects for success compared with the period before. Management strategies succeeded in organizing a broad pro-democracy consensus in society, communicating measures for economic reform of macroeconomic stabilization, cooperating with outside actors and (especially significant for the longer range) redefining relations with North Korea. But these successes are countered by weak management performance in domestic-policy reforms and the uncertain results of macroeconomic reforms.

7. Outlook

Overall, the transformation picture is a positive one. It underscores the estimation of many observers report that the South Korean transformation has essentially succeeded. These transformational successes are quite significantly a product of the transformation achievements of "internal" actors. The strategic key tasks for democratic and market-oriented reforms over the medium term lie in the rule of law, the institutional efficiency of the governmental system, stabilizing patterns of democratic representation and attitudes, continuing reforms in the organization of the market and competition, and safeguarding economic development in a sustainable way.

In strengthening the rule of law and civil rights, legal reforms are indispensable: insulating public prosecutors and the tax authorities from the influence of the government, amending the National Security Act, reforming labor legislation. We must also wait and see whether relatively new institutions (the administrative courts, the National Commission on Human Rights) are able to act independently within their own functional areas. In regard to enhancing the institutional efficiency of the governmental system, reforms that have been under discussion for some time now—streamlining the presidential government system (eliminating the institution of a prime minister confirmed by Parliament) or changing over to a fully parliamentary system—will remain in the public eye.

Other reform tasks that can be accomplished only by consensus among the political actors include a reform of the electoral system and party financing, in order to increase the organizational stability of parties and combat illegal party financing. The management of the political elites will play the decisive role in whether South Korean democracy can solve its most urgent problems. The challenge here will ultimately lie in a change of generations and attitudes within the political elite. The urgent priorities in economic transformation continue to be

achieving recovery in the financial and banking sector, restructuring the corporate sector, and revising and expanding state-regulated social security systems.