

South Korea

Status Index (Democracy: 8.90 / Market economy: 9.07)		8.99	Management Index		7.25
HDI	0.901		Population	47.5 Mio.	
GDP p. c. (\$, PPP)	17,971		Population growth¹	1.1%	
Unemployment rate	3.4		Women in Parliament	13.0%	
UN-Education Index	0.97		Poverty²	n/a	
			Gini-Index	31.6	
Source: UNDP: Human Development Report 2005. Figures for 2003 – if not indicated otherwise. ¹ Annual growth between 1975 and 2003. ² Population living below \$ 1 (1990-2003).					

A. Executive summary

This report will show that, throughout the review period, South Korea has made progress in its transformation to a more liberal democracy and market-based economy which allows South Koreans freedom of choice in both political and economic matters. Starting from a favorable basis of 13 years of democratic rule, a developed economy and high levels of human development, the years between 2001 and 2005 have witnessed several reform measures that deepened the country's economic and political transformation. The positive accomplishments of political transformation – such as a high degree of stateness, meaningful elections, the absence of undemocratic veto powers, stable democratic institutions and a vibrant civil society – have been preserved.

The institutional framework of market economy and legislation to guarantee the basic rules of its organization is in place. Levels of socioeconomic development are high, while currency, prices and economic growth are stable. Based on a well-developed education and research system, economic development is sustainable. Property rights are well defined and the welfare regime provides compensation for negative social side effects of the capitalist system. Levels of political violence and extremism are low.

However, deficits of democratic transformation still remain. Problems include the continuing weakness of the rule of law, corruption and illicit party financing and an unconsolidated system of political parties. Partisan bias, treating politics as a zero sum game and deepening left-right polarization among the political leadership and the general populace do not allow a sufficient degree of consensus-building and institutional efficiency of the democratic system. In the dimension of market

transformation, the welfare regime relies heavily on familial and informal structures; its coverage is limited and the system lacks a solid financial foundation. Other shortcomings include the high degree of economic dominance by big business (the chaebol) and the need for further reforms in the financial and corporate sectors. High private debts and export-dependency as well as the Korean currency's fluctuating exchange rate make economic growth somewhat vulnerable.

Shortcomings in the country's economic and, in particular, its political transformation are not rooted in structural constraints on governance, which in South Korea are relatively low in comparison to most other countries in the region and beyond. Rather, these shortcomings are clearly associated with management failures of the political elites. For the most part, deficits of transformation management must be attributed to the priorities, decisions and actions of the political elite. To some extent, however, their roots lie in cultural and historical issues. Nevertheless, South Korea clearly stands out as a success story of political and economic transformation in Asia and Oceania, a region that in recent years has suffered from deepening political conflicts, terrorism, faltering democratic transformation, unbalanced economic growth, deepening socioeconomic inequalities and devastating natural disasters

B. History and characteristics of transformation

South Korea is widely known as a success story of economic and democratic transformation that has taken place in the past three decades. Socioeconomic modernization between the middle of the 1960s and the 1980s eventually led to democratic change in the late 1980s. The fundament of a successful and working market economy was laid by the authoritarian regimes of Presidents General (retired) Park Chung-hee (1963–1979) and General (retired) Chun Doo-hwan (1980–1988).

The transformation to democracy 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. Skilful political management by the opposition leaders, combined with the ruling elite's political failures and external constraints set by the U.S. government and the upcoming Olympic Games forced the ruling generals to open their regime in June 1987.

In free and fair elections, General (retired) Roh Tae-woo won the presidential race in December 1987. During his term (1988-1993), a pro-democratic consensus emerged among the political leadership and the general populace. Democracy had become "the only game in town". The success of transition to democracy was evident in 1993, when Kim Young-Sam became the first civilian to be elected president in three

decades of military dominance in politics. During his term (1993–1998), democratic reforms continued in areas such as civil-military relations, electoral politics and the judicial system and in transitional justice. Finally, the election of former dissident Kim Dae-Jung as president in December 1997 demonstrated that all relevant forces had been integrated into the political system. In 2002, Roh Moo Hyun followed Kim as president. With Roh, a new generation of politicians entered the top echelons of South Korean politics and put an end to the rule of the so-called Three Kims – Kim Young-sam, Kim Dae-jung and Kim Jong-pil – who had dominated party politics since the 1970s. Following the political turmoil of the impeachment trial in fall 2003 and spring 2004, when President Roh was unsuccessfully impeached by the opposition-dominated parliament, Korean democracy became even stronger than it had been before.

South Korea's transformation to market economy was already accomplished by the middle of the 1980s. Following a sequence of consecutive steps toward industrialization and integration in global markets, government guidance, "setting prices wrong" (in order to guide the flow of investments into target sectors of the economy) and strategic planning were key elements of state-led industrialization. Another distinctive element in the Korean process of late industrialization is the long-dominant position of the chaebol, or big business conglomerates, that have dominated the economic activity ever since the 1970s.

South Korea had the advantage of accomplishing democratization during a high growth period based on a solid foundation of industrialization and social modernization. The avoidance of large-scale poverty, a fairly equal distribution of income, a well-developed social infrastructure and the emergence of a professional and effective public administration were other positive legacies of the Korean developmental model, all of which contributed to the country's smooth political transformation. In December 1997, however, the contagion effect of the "Asian crisis" reached South Korea. Within a couple of weeks, the Won (the Korean currency) devaluated drastically. Accordingly, the value of foreign currency loans held by private banks and companies skyrocketed. To avert the collapse of the 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 government that prevented a collapse but imposed painful reforms on politics, economy and society. Prompted by the Asian crisis, and in close cooperation with foreign donors, the government implemented far-reaching reforms in the banking and financial sectors, the institutional framework of the economy, corporate governance and in the welfare system.

Since 1997, the governments of President Kim Dae-jung and Roh Moo Hyun have both initiated and implemented various measures to continue this process of strengthening institutions.

C. Assessment

1. Democracy

Democratic transformation in South Korea continued during the review process. Korean democracy has made progress over the past years, despite shortcoming, in particularly concerning political representation, rule of law, the effective and efficient working of the democratic institutions, and consensus building.

1.1. Stateness

Territorial borders, citizenship and the state's monopoly on the use of force are undisputed. Stateness and the political identity of South Korea are not effected by either the division of the country or the fact that the Korean peninsula is one of the last remaining bastions of the Cold War. Due to the absence of ethnic, linguistic, religious or other minorities, irredenta or "awakening nations" do not pose a threat to the state or nation-building in the south of the peninsula. The South Korean bureaucracy, even though to some extent characterized by over-regulation, corruption and politicization, is highly differentiated, efficient and provides a sound administrative base for political, social and economic development.

1.2. Political participation

There is universal active and passive suffrage, and elections are conducted properly. In fact, the two elections conducted during the review period – the presidential race in 2002 and the National Assembly elections in 2004 – were the fairest and most open elections in the country's turbulent political history. Elected governments obey the principles of free, fair and competitive elections and have the actual power to govern. In fact, the critical problem of Korean politics in the past four decades, which was enforcing civilian supremacy and eliminating the influence of veto powers (i.e. the military and intelligence community), was resolved during the terms of Presidents Roh and Kim Young-sam.

There remain, however, setbacks in asserting the fundamental political rights of association and freedom of assembly. These restraints are a result of authoritarian legacies – for instance, a restrictive interpretation of labor rights by the public authorities and the prohibition of left wing or pro-North Korean organizations under the notorious National Security Law (NSL). Ironically, the government in power and the political parties that support the incumbent administration are trying to abolish these legacies, particularly the NSL, but have failed so far due to severe resistance from opposition parties and the more conservative, anti-communist segments of the society. Since 1999, the number of rallies per year is consistently above 10,000, and these rallies are staged for a wide variety of political or social interests. The number of political and civic associations is increasing, and the number has reached a new peak in 2003-2004.

Restrictions on freedom of opinion and the press were evident in 2003, at the start of this review, but have improved since then. Today, the Korean media is outspoken in its criticism of the government and the political elite. The media represents a wide spectrum of political opinions, although the anti-communist restrictions related to the NSL still apply.

1.3. Rule of law

The rule of law remains a weak point in Korean democracy. It is true that in the past couple of years the judiciary has been freed from political interferences, yet the mechanisms of judicial review were still hampered by institutional obstacles, a restrictive judicial doctrine prevalent among judges, and unfavorable bureaucratic traditions. For various reasons, a working mode of checks and balances between the parliament and the presidency has not emerged.

During the earlier part of the period under review, a lack of horizontal accountability and bypassing of the parliament by the president and his cabinet remained critical, but the situation changed after the inauguration of President Roh in February 2003. An imperial presidency was followed by ineffective presidency, when the majority of the opposition in parliament tried to impeach the president in the fall of 2003. The impeachment trial against President Roh literally paralyzed the government and brought policy-making to a standstill. The trial, however, turned out to be a victory for liberal democracy when the Constitutional Court, according to the constitution, ruled against impeaching the governing president. For the first time in the history of Korean democracy, a major conflict between the two branches of government was solved by a decision of the third estate, and all relevant political actors accepted the outcome.

Yet political and bureaucratic corruption, particularly illicit political funds and party financing, remains a problem for good governance. The level of corruption is significantly higher than those in other Asian countries (Japan, Singapore, Malaysia and Taiwan). As a rule, corruption is prosecuted under criminal law, and there is no immunity for elected officials, bureaucrats or their relatives. However, fighting corruption is still used as a political tool by the political camps. Civil liberties are not restricted and the human rights situation, including access to justice and freedom of belief, fulfills the criteria of a liberal democracy.

1.4. Stability of democratic institutions

Despite problems of a working mode of checks and balances, democratic institutions are relatively stable. The same is true for the administrative system and the judiciary. However, asynchronous majorities in parliament and government hamper the efficiency of the political institutions. Such a political gridlock occurred frequently during the period under review. Even though the basic democratic institutions are fully accepted by all relevant political actors, heightened left-right polarization and treating of politics as zero sum games continues to pose obstacles to institutional efficacy and political efficiency of the system of governance, particularly in the year 2003. Throughout the period of review, government and opposition both deserve their fair share of criticism for the inefficiency. Since 2003, a gridlock situation mostly resulted from a lack of personal leadership quality of the newly elected president and, simultaneously, the unwillingness of the major opposition party to accept its second consecutive defeat at the polls.

1.5. Political and social integration

Problems with institutional efficiency are associated with the lack of stable party organizations. This has been an on-going problem of Korean democracy and the situation has only slightly improved in the period of review. The 2004 parliamentary elections deepened the fragmentation of the moderately split two-plus party system, but in particular it intensified the ideological polarization between the center-left ruling Uri Party of President Roh and the conservative former ruling Grand National Party. Even though there have been various attempts to strengthen intra-party democracy, (efforts have been made toward more meaningful programmatic platforms), the party system still has relatively weak linkages in society, is factionalized, is focused on personalities rather than policies, and is characterized by a high degree of organizational instability that result in frequent splits and mergers among the parties. Accordingly, voter volatility remains high and connections to civil

society – even though they are getting stronger – are more personal than institutional. On the other hand, there is a quantitative and qualitative growth of civil society. There is also a closely-knit network of interest groups, which represent a broad spectrum of sometimes competing social interests. There are, however, deficits in cooperation and tolerance, particularly in industrial relations, and labor relations remain adversary. Civic associations show a strong willingness to work cooperatively and strategically. Moreover, they serve to diffuse democratic ideas and beliefs among the general populace, and contribute to the construction of social capital and trust among citizenry.

Although civil society is the bright side of Korean democracy, deficits of institutional and party system consolidation have a negative feedback among the population. On the one hand, consent to democracy is high among Koreans: according to 2001 Korea Democracy Barometer data (the latest publicly released dataset), 46% of South Koreans are strongly for democracy and 45% are somewhat for it, which together makes an overwhelming majority of 91% that favor democracy. For the first time since democratization, voter turnout improved in the general elections (the 17th in South Korean history) of April 2004 (59.98%) compared to the general elections of April 2000 (57.21%). On the other hand, citizens' institutional confidence, particularly with regard to political parties and parliament and the perceived procedural or institutional performance of democracy, were low during the period of review.

2. Market economy

2.1. Level of socioeconomic development

The key indicators show a high level of development in terms of the Human Development Index (HDI) (Singapore and Taiwan rank first and second), and amongst the group of transformation countries in Asia and Oceania, South Korea ranks third. The country's level of socioeconomic development permits adequate freedom of choice for all citizens. There is no fundamental social exclusion as a result of poverty, unequal access to education or deep-seated gender discrimination. Throughout the period of review, the country has been able to keep social disparities moderate, poverty levels low, and income distribution relatively equal. Even though the social impact of the Asian financial crisis was still visible, dramatic social faults were prevented. The existing inequalities in economic development in major regions of the country, however, could not be reduced.

2.2. Organization of the market and competition

The institutional ‘hardware’ for a competitive market-based economy is solidly in place. South Korea made significant progress in restructuring the financial, including higher profitability, and improved recapitalization and lowered Non-Performing-Loans ratios. Most of the improvements were made within the institutional and regulatory framework, but included also elements in the ‘software’ of the financial system, such as risk management and financial system monitoring.

The privatization and sale of government-owned banks and public enterprises continued and the restructuring of low profitable financial institutes developed; however, challenges remain. The government implemented measures to reduce corporate sector vulnerability, to improve corporate governance, and to reduce the economic power of the chaebol. Restructuring efforts in the corporate and banking sectors have resulted in greater economic flexibility and adaptability of firms.

However, further improvements must be made in corporate governance, accountability and transparency. The corporate landscape has changed considerably during the period of review, partly as a result of government reforms. However, the chaebol is still clearly dominant at the cost of small and medium-sized enterprises. The causes for the latter are partly rooted in incoherent implementation of existing anti-cartel legislation by the government bureaucracy, but are partly associated with the fact that de-concentration must proceed smoothly to avoid negative externalities. The central bank (Bank of Korea) enjoys a sufficient degree of autonomy in its relationship with the president and the cabinet.

South Korea’s foreign trade policy is now mostly liberalized, with uniform, low tariffs and few state interventions regarding free trade. There is foreign capital access to Korea (FDI), and Korean firms have free access to international financial markets. Regulations regarding mergers and acquisitions of Korean firms by foreign companies have been relaxed. This relaxation contributed to a significant increase in FDI and foreign acquisitions of Korean firms –a new trend in the previously closed corporate sector of Korean economy.

2.3. Currency and price stability

On the monetary front, core inflation remained within the target range of 2.5-3.5% (except for in 2001). Meanwhile, the full CPI increased in 2001 and 2003 by 4.1% and 3.6%. Among the cost-push factors were rising oil and agricultural prices and higher fees for some services. Korea, however, succeeded in lowering the rate of

inflation in subsequent years. The Bank of Korea maintained an expansionary monetary policy stance throughout 2003-2004 in an attempt to lift private consumption. Budget deficits remained within the target range, and in 2002 Korea was the only economy in Northeast Asia to run a budget surplus –notwithstanding a significant increase in public spending in connection with the World Cup and the Asian Games. The country's public debt stood well below 25% of the GDP, despite Korea's external debt reaching its highest level since 1998 in the middle of 2003. Much of the debt increase was in private, long-term liabilities, mainly in the form of bond issuance. The high level of private debts raises concerns about an economic downturn, but the general picture shows the government's fiscal and debt policies following a consistent stability orientation throughout the period of review. The won's exchange rate is increasingly market determined, with occasional intervention by the government. The recent devaluation of the dollar against the won and the Japanese yen's appreciation against the won are matters of concern.

2.4. Private property

South Korea's market economy is overwhelmingly based on private ownership. Property rights and the regulation of property are adequately defined. The privatization and sale of government-owned banks, investment and trust companies made progress since 2001. Market concentration and overregulation, however, remain higher than in most other OECD member countries.

2.5. Welfare regime

South Korea has a conservative welfare regime, and its emphasis on family and company welfare prevents poverty from becoming a serious concern. Considerable efforts have been made in the 1990s to expand health, old age and unemployment insurance. Whereas the National Health Insurance provides universal coverage, the National Pension Plan still covers less than 50% of the workforce.

The Asian financial crisis has irreversibly changed the parameters of public social policy in Korea. Social change, particularly the rapidly rising elderly dependency ratio, decreasing numbers of multigenerational households, and an increasing rate of single households, have considerable long-term implications for social welfare and social protection. The current national pension scheme is projected to be financially inadequate to meet future demands.

The current health care system also requires major revamping to enable it to meet future financial needs and to provide better services. However, the government's measures to place health insurance on a solid financial base thus far have failed. Solid economic growth and public employment programs contributed to a decreasing unemployment rate during the first part of the period of review.

Toward the end of the period of review, Korea's labor market deteriorated with regard to the number of unemployed workers and the unemployment rate both on a rising trend. In particular, the unemployment rate among youths and for those under 30 is of great concern. South Korea's society is characterized by a relatively equal distribution of income and fair access to education, occupation and other life opportunities.

Generally speaking, social and public institutions are able to compensate for gross social differences. Although women have equal access to higher education, they face de facto discrimination in the labor market, in terms of wages, and occupational status. Gender discrimination is not, however, a legal or religious question, but a matter of social life in a post-Confucian society.

2.6. Economic performance

During the period of review, Korean economy experienced a growth in GDP between 8.5% and 4.8%. Growth was led by a sustained increase in fixed investments and exports; there was also higher private consumption. Domestic capital formation and equipment investment sharply increased between 2001 and 2003. Exports and imports grew steadily and contributed to a solid current account balance surplus. Korea experienced a recession in the first half of 2003 when growth in GDP fell by more than half to 3.1% in 2003 from 7.0% in 2002. Private consumption, which boosted GDP growth in 2002, was hit by credit difficulties as a consequence of increasing household debts. Both private consumption and business investment did not recover at full strength in 2004. The devaluation of the dollar against the won hit Korean exports hard, and labor unrest in 2004 also had a negative impact on the possibility of a strong recovery of economic growth. Subject to these reservations, however, the development of macroeconomic fundamentals points to a positive economic dynamic with medium to high GDP growth, a moderate unemployment rate, a relatively low inflation (CPI-based), reasonable budget deficits, and a positive current account and low public debt.

2.7. Sustainability

There has been a new awareness concerning environmental issues in recent years among citizens, lawmakers and the government. Not least because NGOs and other civic organizations engaged in environmental issues received stronger support from the public and established close relations with the Kim Dae-jung and Roh Moo Hyun administrations. The relevance of ecological issues in policy-making has gained acceptance in recent years; for example, South Korea signed the Kyoto Protocol in 2002.

The education system in South Korea is well developed with a modern infrastructure. Starting in the 1990s, South Korea became an international research and development hub. In 2003, the country was ranked among the top ten countries in the world in terms of patents granted by the US Patent and Trademark Office, and second in Asia after Japan. Next to Japan and Singapore, the country has the third largest number of scientists and engineers in R&D (per million population) in Asia. Korea continuously invests three percent of its GDP in R&D and spends about 6.5-7.0% of its GDP on education; the government's share is about 60% of the total expenditure on education, or between 3.0 and 3.8% of the GDP, which amounts to 30-35% of total public expenditure. In 2001 Korea was ranked ninth in the Technology Index Rank of the World Economic Forum's Growth Competitiveness Index.

3. Management

3.1. Level of difficulty

During the period of review, the following provided low structural constraints on governance: a high level of socioeconomic development, a developed institutional hardware of market economy (albeit with shortcomings), a good economic performance, a very well-developed system of education and research, a professional bureaucratic apparatus, the lack of any ethno-religious conflicts or irreconcilable conflicts based on social disparities in income and political status, and strong stateness. As a post-Confucian society, Korea's traditions of civil society, rule of law and democracy are weak, however, South Korean society experienced 13 years of democratic rule before the start of the review period. Social and political developments throughout the pre-review period led to changes in the socio-political "enabling environment" that allowed democracy, constitutionalism and civil society to grow between 2001-2005. There is one caveat: that is, the deepening polarization between left and conservative or anti-communist segments of the general populace and the political elite. Even though the political elite's lack of flexibility and their

failure to contribute to reconciliation and consensus-building have aggravated this cleavage in recent years, cultural and historical issues lie at the root of the present day polarization.

Profile of the Political System

Regime type:	Democracy	Constraints to executive authority:	2
System of government:	Presidential-parliamentary	Latest parliamentary election:	15.04.2004
		Effective number of parties:	2.3
1. Head of State:	<i>Kim Dae-jung</i>		
Head of Government:	<i>Suk-Soo Kim</i>	Cabinet duration:	05.10.2002- 26.02.2003
2. Head of State:	<i>Roh Moo-hyun</i>		
Head of Government:	<i>Kun Goh</i>	Cabinet duration:	27.02.2003- 24.05.2004
3. Head of Government:	<i>Lee Hae-chan</i>	Cabinet duration:	25.05.2004- present
Type of government:	<i>unified government</i>	Parties in government:	1
		Number of ministries:	22
		Number of ministers:	22
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = $1 / (\sum p_i^2)$; p_i is the share of parliamentary mandates controlled by party i. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>			

3.2. Steering capability

The government's strategy of economic reforms was by and large determined by the choice of confrontational tactics at some points of the review process, and by the lack of clear strategic priorities during the later part of the period of review, but hampered by weak political leadership. Even though the political leadership is clearly committed to democracy and a socially responsible market economy, opposition forces, civil society groups and, sometimes, the ruling party have placed short-term interests or ideological principles above a strategy of pursuing long-term goals of political and economic transformation.

There are several examples of this approach: the opposition-forced impeachment trial against President Roh in 2003-4; the treating of politics as a zero sum game by both opposition and ruling parties; the untamed politics of labor unions and die hard left-wing student groups; the populist and highly personalized style of governance of President Kim Dae-jung in the earlier part of the review process and the apparent difficulties of President Roh to adjust his way of thinking and behavior to the new role the former dissident lawyer had to play after his inauguration as the country's

head of government and the state in 2003. Consequently, the governments in office during the review period – the Kim Dae-Jung administration from January 2001 to February 2003, and the Roh Moo Hyun administration since February 2003 – had only limited success in implementing their announced political reform goals. Both governments were more successful in implementing economic reforms, although the aforementioned qualifications apply.

While all relevant segments of the political leadership are committed to democracy and a market economy, the political elite demonstrated a limited willingness or inability of political learning and flexibility. However, after the several political dramas at the beginning of President Roh's term, political opponents returned to a more bipartisan style of politics in 2004.

3.3. Resource efficiency

The government makes efficient use of available economic and human resources for its economic and social policies. Reforms of the financial markets, banking sector and corporate sector have been by and large planned adequately and implemented effectively. The government bureaucracy is relatively small and lean and personal expenses are kept low. Public service is reliable and of good quality, and the public administration is highly professional by any reasonable standard, although further cuts of red tape regulations are necessary. Taxpayer's money and other financial resources are used efficiently, albeit under the shadow of persisting corruption. Budget deficits and state debt are low and due not exceed a manageable level. During the period of review, central government expenditures and revenues were about 20% of GDP according to the Asian Development Outlook. The so-called local autonomy, in place since the mid-1990s, (actually, decentralization is a more appropriate term) remains underdeveloped. Strengthening local autonomy remains on the agenda, particularly improving fiscal autonomy of local administration.

The institutional framework of governance in South Korea provides for a high degree of coordination of conflicting political objectives that can be implemented into a coherent policy. However, the negative aspect of this highly centralized planning and decision-making is concentration of power within the inner circle of the presidency; intra-governmental lacunae do occur, but do not exceed a manageable level. Curbing corruption remains an important issue. An elaborate institutional framework for combating corruption is in place, but the rules are not always applied firmly and impartially.

3.4. Consensus-building

All major political and social actors agree on the goal of a market-based, liberal democracy, and recognize the need to reform, although their ideas about details and how to get there vary. There is no politically relevant actor with anti-democratic veto power, but opposition parties, ruling parties, (big) business, labor unions, and some civic associations have made attempts to block specific reform steps. For instance, opposition parties have used their legislative majority in the past to paralyze the political process *de facto*, while worker's organizations or student groups sometimes use illegal tactics to push their agendas. With a few minor exceptions, this remains within manageable and tolerable limits. However, last minute political maneuvers in 2003 and the first part of 2004 by opposition parties had a negative impact on governability and the country's economic and political stability. Even though these incidents demonstrate a lack of consensus-building throughout the transformation process in Korea, they are not signs of fundamental dissent concerning the direction of development toward democracy and market economy.

However, there are also positive signs for successful consensus-building. A greater degree of willingness to cooperate with social organizations and civic associations is evident throughout the review period. Compared to the situation in the 1990s, conflicts between workers and management have decreased. Numerous NGOs successfully play a proactive and important role in the political debate, especially in environmental, social and legal affairs. Elections in recent years (2002, 2004) have seen a remarkable rise of "cyber democracy" and proactive agenda setting by civic associations. Between 2003 and 2005, the political leadership refrained from employing a populist style. Instead, in accordance with the government's slogan of "participatory government", citizen engagement was actively encouraged, which also contributes to the build-up of social capital in low trust Korean society.

Yet this positive evaluation must be carefully considered. There is a strong trend of deepening political polarization among South Korean society in terms of North-South Korean relations and anti-communism versus strengthening the open society. Although these frictions have not escalated into an irreconcilable conflict, deepening left-right polarization indicates that the political leadership has failed to reconcile the historical grievances caused by the Korean War and the partition of Korea. To some extent, this conflict has replaced the regional conflict between the Honam and Yongnam regions as the most salient conflict in society. An important step forward to national reconciliation and rehabilitation of the human rights violations of the authoritarian past was the establishment in 2004 of a truth commission that focuses on abuses by the National Intelligence Service under military rule.

3.5. International cooperation

South Korea is a credible and reliable partner in international and regional politics. In the period of this review, the government closely cooperated with external donors in order to achieve economic recovery from the financial crisis of the late 1990s. The government repaid the IMF loans in August 2001, three years ahead of schedule. The government demonstrates a strong willingness to meet its obligations resulting from international law and bilateral treaties.

The current government actively supports the “war on terror”. After several months of delay, on February 13th, 2004 the South Korean Parliament approved a plan to deploy 3,000 troops to Iraq. The troop dispatch, added a strong combat force to the 465 Korean military medics and engineers who have been in Iraq since May 2003. This decision was made despite strong opposition at home, and gave a strong boost to United States-ROK relations, that in recent years had suffered from disagreements on the North Korea issue and rising anti-Americanism in South Korea.

Despite some frustrations, bilateral relations with Japan continued to improve during the period of review. Regionally, Korea participates in the relevant forums and organizations of mutual cooperation. Moreover, the Roh government continued its predecessor’s so-called “sunshine policy” on North Korea.

4. Trend of development

4.1. Democratic development

Before 2001, South Korea enjoyed a firmly established state monopoly on the use of force, a professional public administration, a working judicial system, good quality public services and public order and stable democratic procedures and institutions. These favorable conditions were maintained during the period of review.

Rule of law, strength of civil society, freedom of opinion and of the press and political participation of the citizenry developed from January 2001 to January 2005. However, some deficits of democratic transformation remain. In terms of mutual checks and balances among the executive, parliamentary and judicial branches and an efficient mode of interaction between the legislative and executive branch of government, consolidation is not yet complete.

Corruption remains a problem for good governance. The stability of underlying constitutional institutions has been preserved without enhancing the governmental system's inadequate institutional efficiency. The political party system has made only minor progress toward representative consolidation of Korean democracy; it remains one of the weakest elements of the democratic system. A civic culture supporting democracy has stabilized.

4.2. Market economy development

Recent basic indicators of social and economic development show for most criteria concerning human development, gender equality, education levels and per capita income a slight improvement in an already high level of development. The one exception is income distribution, which is measured in terms of the Gini index. Recent empirical data illustrates a minor decline in income inequality.

Table 2: Development of socioeconomic indicators of modernization

	HDI	GDI	GDP index	Gini index	UN Education index	Political representation of women ^a	GDP per capita (\$, PPP)
1999	0.888	0.882	0.84	0.316 (1998)	0.95	4.0	15,712
2002	0.875	0.868	0.86	0.320 (2000)	0.97	5.9	16,950

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

Sources: UNDP, Human Development Report, 2001, 2004,

<http://hdr.undp.org/reports/global/2001/en/pdf/back.pdf>;

<http://hdr.undp.org/reports/global/2004/>; ESCAP, Economic and Social Survey of Asia and the Pacific 2002 (New York: United Nations, 2002).

The institutional framework of a market economy improved during the period of review; but again, one has to keep in mind that South Korea already had a fairly well developed institutional hardware before 2001. As a result of far-reaching economic reforms between 1999 and 2001, the pace of reform slowed down significantly during the period. Institutional reforms shifted from a phase of fundamental, sometimes harsh implementation to adjustment and strengthening.

Measured in terms of macroeconomic data, economic development in the latter part of the review period lost its momentum compared with the first part of the period. Yet the data indicates that development policies have achieved significant success, particularly if the empirical data is compared with the respective data for the immediate pre-review period 1998-2001. In terms of the criteria of the BTI 2006,

economic development improved considerably between 2001 and 2005, at least quantitatively, as an average growth rate of GDP of more than four percent suggests. Qualitatively, growth was primarily driven by exports and domestic consumption. However, unlike most other countries in Asia and Oceania, economic development in Korea is supported by a solid social and economic infrastructure, which provides sustainability.

Table 3: Development of macroeconomic fundamentals (2000-2004)

	2000	2001	2002	2003	2004 ^b
Growth of GDP in %	8.5	3.8	7.0	3.1	4.8
Export growth in % ^a	21.2	-14.0	7.9	20.9	21.0
Import growth in % ^a	36.2	-13.4	7.7	18.1	22.0
Inflation in % (CPI)	2.3	4.1	2.7	3.6	3.1
Investment in % of GDP	28.3	27.0	26.1	29.4	30.0
Total Tax Revenue in % of GDP	23.6	24.1	24.4	25.5	N/A
Unemployment in %	4.1	3.8	3.1	3.4	3.9
Budget deficit in % of GDP	-1.4	-1.7	0.4	-1.7	-0.5
Current account balance in billion \$	12.2	8.0	5.3	12.3	17.6

^a Merchandise exports and imports.

^b Forecast.

Source: Asian Development Bank, *Asian Development Outlook 2004* (Oxford and New York, 2004); OECD, Total tax revenue as percentage of GDP <http://www.oecd.org/dataoecd/6/1/33826979.pdf>, accessed December 22, 2004.

D. Strategic perspective

The general picture of transformation in South Korea is a positive one. By and large, the country has succeeded in its processes of economic and political transformation. This has been mostly the achievement of domestic actors, political leadership and civil society. Considering the country's high levels of social, economic and democratic development, the strategic perspective for further transformation differs considerably from most other countries in the region. Future transformation tasks will focus on incremental and piecemeal measures of deepening reforms in both dimensions of transformation but not so much on fundamental tasks of establishing market economy and/or liberal democracy.

In the dimension of democratic transformation, five major tasks remain: constitutional reforms; putting party financing on a healthy basis; reforming or

abolishing the notorious NSL; preventing further left-right polarization; and developing viable solutions for the remaining problem of regional inequality. By definition, these tasks can only be accomplished by internal actors, i.e. the political elites and civil society. Even though democratic consolidation in Korea has been faltering in the past several years, the process of democratic transformation is far beyond the stage where external supporters could provide any meaningful assistance other than consultancy. The needed reforms are well known to the political leadership and the public in Korea. They have been discussed for almost a decade and several reform proposals and recommendations are on the table. It is now up to the political leadership to come to a consensus on how to implement them. However, the low curve of political learning and the degree of flexibility among the political elites (and parts of the general populace) may inhibit such a development in the near future.

The priorities in market economic reforms are also fivefold: achieving a healthy financial and banking sector; restructuring the corporate sector; reducing the economic dominance of the chaebol and strengthening SMEs; reforming social security (particularly the National Pension System, but also the National Health Insurance); and stabilizing economic growth by reducing private debts and export-dependency. Regarding these reforms, the technical know-how of economic organizations such as the OECD, IMF and World Bank will be helpful, although their support has lost some of its importance with the economic recovery witnessed in recent of years.

There remains one pressing issue confronting the government and society in South Korea in which external supporters can play a significant role: inter-Korean relations. North-South relations fluctuated between high expectations and deep disappointments throughout the review period. Even though the South Korean public has been disappointed that the so-called “sunshine policy” was less successful than expected, most external observers, particularly in the academia, do agree that this policy. Notwithstanding its shortcomings, it is perhaps the most viable approach to dealing with North Korea. In view of the apparent difference between the governments in Seoul and Washington on the right policy on the North, other governments – for instance, Japan and the European Union – may take a more proactive stance of strengthening South Korea’s approach, which is more flexible and reconciliatory than the “tailored containment” favored by the Bush administration.