

BTI 2016 | South Korea Country Report

	scale	score	rank	trend
Status Index	1-10	8.57	# 11 of 129	
Political Transformation	1-10	8.50	# 13 of 129	➔
Economic Transformation	1-10	8.64	# 8 of 129	➔
Management Index	1-10	6.89	# 11 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	50.4	HDI	0.891	GDP p.c., PPP \$	34355.7
Pop. growth ¹	% p.a.	0.4	HDI rank of 187	15	Gini Index	-
Life expectancy	years	81.5	UN Education Index	0.865	Poverty ³	% -
Urban population	%	82.4	Gender inequality ²	0.101	Aid per capita	\$ -

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

The observation period of January 2013 to January 2015 corresponded with the first two years of the conservative Park Geun-hye administration, which succeeded the Lee Myung-bak administration in February 2013. Since the parliamentary elections in 2012, the conservative Saenuri Party has also held a strong majority in the parliament. Economic growth in Korea has remained strong with a positive current account reflecting a strong export industry. Despite the positive macroeconomic trends, there has been much criticism aimed at the Park administration. The president has remained popular among older voters although her general approval ratings have slipped since the end of 2014, and went below 30% in January 2015. Economically, Korea remains divided between a strong export sector, dominated by large business conglomerates, and a weak SME sector employing the vast majority of Koreans. Unemployment is low, but precarious working conditions and increasing social inequality have been important issues in a country previously known for its relatively equal distribution of wealth. High costs of living and particularly high housing costs and real estate prices have led to a problem of massive household mortgage debt, exacerbating social problems. Particularly worrisome is the lack of job opportunities for the young generation, which is highly educated but can only find work in the increasing number of precarious irregular jobs.

The presidential system and a parliamentary majority enable the Park government to govern without major challenges from the ailing opposition Democratic Party. At the same time, the government has drawn criticism for its non-delivery on campaign promises, staff appointments, restrictions of human rights and the handling of the Sewol tragedy. President Park has run on a campaign of “economic democratization” which promised more social equality, a stronger welfare state and less reliance of the economy on the big business conglomerates (chaebol). Since her election, there has been little progress in this respect and the aim of economic democratization has taken a back seat while more business-friendly policies and deregulation in order to boost growth

have been prioritized. On a positive note, President Park has been far less generous in granting pardons to jailed economic leaders.

Some of the president's appointments have drawn major criticism. First, it took her a long time to appoint key members of her administration and then many of her candidates fell through either in the vetting process or in their first year in office. At the end of 2014, a major scandal erupted in the president's office pointing at a power struggle between two individuals without public office, including the president's brother, struggling for influence on national policies. President Park has also increasingly drawn criticism for her inability to communicate her policies and for holding just one press conference per year. The biggest test for the Park administration was the sinking of the Sewol ferry in April 2014, which killed 304 people, including many high school students. The criminal behavior of the ship owners, who routinely overloaded the ferry with cargo, the ineffective enforcement of rules by the authorities, the captain and some of the crew, who abandoned the ship without helping passengers, and the ill-conducted rescue operation were seen by many Koreans as symptomatic of the problems of the Korean society. These perceived problems include greedy businessmen and leaders who believe themselves above the law and rule in an authoritarian style, but fail to take responsibility for mistakes, as well as weak institutions and legal regulations that are not enforced and fail to protect the weak in society. The tragedy had significant repercussions, including a reshuffling of the cabinet and a six-month deadlock in the parliament over the Sewol Law, designed to regulate the investigation of the incident and the compensation for the victims and their families.

The administration drew the most serious criticism for what many saw as limitation of democratic and civil rights. During the election campaign, Korea's National Intelligence Service (NIS) was accused of interfering in the election. In 2014, a court sentenced the former head of the NIS to 2 1/2 years in prison for intervening in politics. The judiciary remains a strong defender of democratic and human rights although some recent high profile decisions have been highly controversial. A court convicted a member of the leftist United Progressive Party (UPP) of planning to overthrow the government and, in December 2014, the constitutional court dissolved the entire UPP for anti-state activities. In both cases, the evidence was considered weak and largely based on a diffuse accusation of being pro-North Korea. In January 2015, a U.S. citizen was deported from Korea because she was accused of praising North Korea. Praising North Korea is still a crime under the National Security Law stemming from the times of the military dictatorships. The deportation drew rare public criticism from the U.S. government. Internet censorship and government meddling with personal policies of TV broadcasters have been consistent problems in Korea. At the same time, the dominance of the conservative camp and the weakness of the opposition is not primarily the result of government oppression but rather the weakness and disorganization of the oppositional parties, which have failed to present clear political alternatives to the government and are not able to rally grassroots support. On a positive note, Koreans are very aware of their achievements of creating one of the few genuine democratic revolutions in East Asia and opposition against old authoritarian structures stemming from the dictatorial past exists everywhere, even though it might not manifest itself in a political movement.

History and Characteristics of Transformation

South Korea has served as a model case of economic development since the 1960s. The foundations of successful economic development as well as the causes of many economic, social and political problems originate in the authoritarian regimes during the military rule of President Park Chung-hee (1961 – 1979) and President Chun Doo-hwan (1980 – 1988), both former generals. Socioeconomic modernization facilitated democratic change in the late 1980s and, after decades of struggle against Japanese colonialism and authoritarian rule, Koreans overthrew their military dictatorship in 1987. The strong opposition movement led by Kim Young-sam and Kim Dae-jung successfully mobilized the urban workers, students, intellectuals and the middle classes. Skillful political management by 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 hold the first free and fair elections in 1987.

General Roh Tae-woo won the presidential race in these first elections, held in December 1987, because Kim Young-sam and Kim Dae-jung split the oppositional vote. During Roh's term (1988 – 1993), democracy became the only game in town and in the 1993 elections Kim Young-sam was elected the first civilian president after three decades of military dominance in politics. During his term (1993 – 1998), democratic reforms continued in areas including civil-military relations, electoral politics and the judicial system. Finally, the election of former dissident Kim Dae-jung as president in December 1997 demonstrated that all relevant forces had been integrated into the political system. In 2003, former labor lawyer Roh Moo-hyun became president. With Roh, a new generation of politicians entered the top echelons of South Korean politics, putting an end to the rule of the so-called Three Kims – Kim Young-sam, Kim Dae-jung and Kim Jong-pil – who had dominated party politics since the 1970s. Roh tried to deepen democracy by strengthening human rights, improving civil society participation and reforming deeply conservative institutions such as the judiciary and the education system. He also tried to balance the dominant power of conservative newspapers. Ultimately, he was seen by many Koreans as weak and “too progressive.” He was also criticized for declining growth rates and not doing enough to combat rising inequality. In 2007, the conservative Lee Myung-bak, a former CEO of a construction company turned mayor of Seoul, easily won the presidential election. After 10 years of progressive rule, a new chapter in South Korea's democratic development was thus opened as Korea returned to conservative rule. During his tenure, Lee encountered serious political and economic challenges. At first, he antagonized many citizens with unpopular and ill-communicated policy proposals such as the opening of the Korean market to U.S. beef without addressing health concerns over mad cow disease. Lee then had to face the effects of the global financial and economic crisis, which the South Korean economy in fact weathered better and emerged from sooner than did many other major economies. In December 2012, the conservative President Park Geun-hye, daughter of former president Park Chung-hee, was elected on a platform of economic democratization and welfare.

South Korea's transformation from a protectionist and state-directed developmental state to a more open and market-oriented economy is progressing slowly. The legacy of the developmental state and its close relationship with the big business conglomerates (chaebol) remain strong and still shape the Korean economy. Major steps toward liberalization were undertaken in the 1980s, the early 1990s and again after the financial and economic crisis in 1997/8. Policymakers followed a sequence of consecutive steps toward industrialization and world market integration, making strategic planning, government guidance of domestic economic actors, and a selective approach to foreign direct investment and imports key elements of a state-led industrialization policy from the 1960s 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 and still impair competition.

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. Economic and particularly financial liberalization also had problematic repercussions, as international creditors flooded the Korean market with cheap credit. In 1997, the Asian financial crisis reached South Korea and international creditors withdrew their money. To avoid 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 controversial IMF program initially focused on high interest rates and austerity to restore the "confidence of international investors." This strategy failed and facilitated the spread of the financial crisis into an economic and social crisis. Once the original policies were abandoned and debt restructuring was negotiated, Korea was able to recover relatively fast. The Kim Dae-jung government implemented far-reaching reforms in the banking and financial sector, the institutional structuring of the economy, corporate governance, the welfare system, and employment practices. While these reforms helped overcome the crisis, diminish corruption and widen the hitherto negligible social security net, they also contributed to a widening of social disparities and insecurities.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

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

Monopoly on the
use of force
10

South Korea is involved in a territorial dispute over the Dokdo islet, which it controls but is also claimed (under the name of Takeshima) by Japan. In addition, South Korea had a maritime dispute with China over Socotra Rock, which is located in the Yellow Sea. In 2013, both countries claimed that it belonged to their exclusive economic zone (EEZ). South Korea has maintained the Ocean Research Station on Socotra Rock since 2003, despite objections from China. The disputes, however, do not threaten the integrity of the nation. North Korea lays claim to territory controlled by South Korea in the Yellow Sea, south of the so-called Northern Limit Line, including Yeonpyeong Island, which was shelled by North Korean artillery in November 2010.

The vast majority of the South Korean population supports the existence of the Republic of Korea as a nation-state as well as the country's constitution. Minor radical splinter groups continue to pay allegiance to North Korea. Korean citizenship is based on the citizenship of parents. Children born in Korea to foreigners do not automatically receive Korean citizenship. Naturalization is possible after five years of residence in Korea and passing a test on the Korean language and knowledge of Korean culture.

State identity
10

The state is defined solely in secular terms. Religious dogmas have no noteworthy influence on legal order or political institutions. Under the previous President Lee Myung-bak (2008-2013), a Presbyterian church elder, there was criticism by Buddhist orders of the alleged preferential treatment of Christianity, and particularly of fellow church members. Research conducted by a Buddhist society has reported that an increasing number of people believe the influence of religion has grown in politics. The Buddhists have called for the legislation of a religious non-intervention act. Under the current President Park, there have been no major criticisms about preferences for a specific religious group.

No interference of
religious dogmas
10

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

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 candidates, the extent of money-driven politics at election times has declined substantially in recent years. Accusations and investigations are often used as a means of questioning or undermining the reputations of potential political candidates.

Free and fair
elections
9

All electoral affairs are managed by the National Election Commission (NEC), an independent constitutional organ. Registration of candidates and parties at the national, regional and local levels is conducted in a free and transparent manner. Individual candidates without party affiliation are allowed to participate in national (excluding party lists), regional and local elections. Candidates can be nominated by political parties or by registered electors. Civil servants are not allowed to run for elected offices and have to resign their positions if they wish to become a candidate. Deposit requirements for individuals applying as candidates are relatively high, as is the age of eligibility for office.

During the 2012 presidential campaign, there was a major scandal involving the Korean National Intelligence Service (NIS) trying to influence the election campaign. Agents posted about 1.2 million messages on Twitter and other forums lauding government policies and ridiculing the presidential candidate of the opposition party. In February 2014, former director Won Sei-hoon was sentenced to 3 years in prison for interfering in domestic politics and violating government neutrality during the 2012 presidential election.

The National Security Law (NSL) allows state authorities to block registration of leftist, pro-North Korean parties and candidates. In December 2014, the Constitutional Court ruled that the United Progressive Party (UPP), accused of supporting North Korea and violating the national security law, should be disbanded. According to the *Dong-A Ilbo*, the constitutional court stated “the UPP’s leading ideology of progressive democracy was almost identical to the North’s revolutionary strategy against the South.” Since its founding in December 2011, the UPP turned a blind eye to North Korea’s hereditary power succession, nuclear weapons development and human rights abuses, while following Pyongyang’s call for the withdrawal of U.S. troops from the South and the abolishment of Seoul’s National Security Law. When the North conducted its third nuclear test in 2013, the UPP defended Pyongyang, claiming that the provocation resulted from a lack of U.S.-North Korean dialogue and the ruptured inter-Korean relations. Party lawmakers refused to participate in the National Assembly’s adoption of a resolution denouncing the nuclear test. Even though the North Korean-style socialism based on a one-man dictatorship conflicts with the South’s constitutional values of basic democratic order, UPP leader Lee Jung-hee wrote in her blog on October 8 2010 that it was her and her party’s decision not to discuss the North’s third-generation hereditary power succession. She has remained silent about North Korea, while launching excessive attacks against South Korea.

The UPP was dissolved and its parliamentary members lost their parliamentary seats, including those directly elected in their district. The potential impact of this decision on future elections should be closely watched.

Candidates’ ease of access to the media depends on the type of media. Print media in Korea remains dominated by three big conservative newspapers with a clear political bias. However, smaller newspapers that support the opposition do exist. Access to TV and radio is more equal although government intervention increased under the Lee Myung-bak administration. In 2011, Freedom House downgraded Korean media from “free” to “partly free.”

On a positive note, the Korean Constitutional Court ruled that Article 93 is unconstitutional in restricting expression of opinions on the Internet and SNS during the election campaign. It remains to be seen how this decision is implemented in future election campaigns. In addition, South Korea adopted early voting and an integrated electoral registration system nationwide in the 2014 local elections. Although the integrated registration system is only applicable to early voting, the two innovative methods contributed to a 5% increase in turnout and will continue to be implemented in congressional and presidential elections.

Elected rulers have the effective power to govern. There are no domestic veto players that lack a constitutional basis. However, the fact that the United States still exercises command over the South Korean military during times of war constitutes a partial exception to this sovereignty. Nevertheless, it does not restrict the power of elected leaders in South Korea.

Effective power to govern

10

The freedoms of association and assembly are guaranteed and in principle respected. Groups or parties that are seen as pro-North Korea represent an exception to this, as with the previously mentioned case of the abolition of the United Progressive Party. The very loose definition of “pro-North Korea” creates an ongoing risk that it could be misused to generally quell opposition to government policies.

Association / assembly rights

7

In December 2014, the Constitutional Court ruled to disband the UPP and ordered all of the party’s lawmakers, directly elected or otherwise, stripped of their congressional seats. The Korean prosecutor’s office has investigated about 30,000 UPP members and whether they have aided the enemy, North Korea. This series of government investigations and cases is expected to restrict freedom of association among progressive and leftist groups. It is likely that the Park administration will use it as leverage to boost its low popularity.

South Korea has not yet signed four of the basic eight conventions of the International Labor Organization, including two on the freedom of association and collective bargaining. Labor unions are allowed to operate in the private sector, but remain restricted in the public sector. Labor union members are frequently imprisoned and fined for organizing “illegal strikes” or for “obstruction of business.” Businesses also often sue labor unions for compensation for “lost profits” during strikes.

Demonstrations in South Korea require prior approval, which can be hard to come by. In practice, many demonstrations are declared illegal, sometimes due to minor issues like the obstruction of traffic.

The freedoms of expression and freedom of the press, as well as the freedom of science and art, are constitutionally guaranteed. They are generally respected in practice but there are many major and minor infringements. There has been a lot of criticism of the previous Lee administration for violating the freedom of press including long strikes at major broadcasting companies. According to the Reporters without Borders (RWB) Press Freedom Index, Korea is slipping further, ranking South Korea at 57th place worldwide in the 2014 report, seven places lower than in 2013 and 13 places lower than in the 2011 – 2012 report. Nevertheless, Korea is the second-highest ranked country in Asia after Taiwan. In 2014, Tatsuya Kato, a Japanese reporter of the Sankei Shimbun based in Seoul, was charged with defaming the president for speculating about her whereabouts during the Sewol tragedy.

Freedom of expression

7

Korea also remains under surveillance by RWB for excessive Internet censorship.

With regard to the legal situation, restrictions on the freedom of expression concern activities expressing support for North Korea (real or construed). North Korean TV and radio programs are actively jammed and North Korean newspapers are not permitted to be sold in South Korea. The National Security Law (NSL) is occasionally used to prosecute individuals advocating positions that are seen as favoring the communist North. The NSL has also led to a certain degree of self-censorship on the part of the media and other actors.

Attempts to restrict freedom of expression extend beyond the legal and political arenas. In the social and cultural domains, a loose definition of defamation also can be exploited to silence critical questions and political opposition. During the 2014 Gwangju Biennale, a painting by the artist Hong Sung-dam casting Korean political and business leaders in an unflattering light was pulled from the exhibition due to its “explicit political intention, such as the parodying of the president.” On TV and the Internet there is excessive use of blurring to obscure controversial items including brand names, weapons, cigarettes, nudity, and even the genitals of ancient Greek statues. These issues have been regulated in favor of government and conservative viewpoints.

3 | Rule of Law

South Korea’s constitution grants substantial powers to the executive in general, and especially to the president in particular. The president can initiate legislation, issue decrees and veto legislation. The president’s power is strongest when the governing party controls a majority in the unicameral parliament. The parliament has the power to impeach the president. The judiciary provides a check to executive and legislative activities, and the Constitutional Court in particular has earned a reputation for independence. The prosecutor’s office is often criticized for being misused for political purposes. Although it is illegal for prosecutors to work in the presidential office, politically ambitious prosecutors who are selected resign first, work for the president, then rejoin the prosecutor’s office with a promotion. This informal practice gives extraordinary power to the executive over the other two bodies. Nonetheless, the ruling and opposition parties are relatively balanced in the parliament, and President Park has not attempted to bypass and ignore the parliament, which was often the case under the previous Lee government.

The South Korean judiciary is highly professionalized and independent, though not totally free from governmental pressure. In particular, state prosecutors are occasionally ordered to launch investigations (especially into tax matters) aimed at intimidating political foes or other actors not toeing the line.

Separation of powers

9

Independent judiciary

9

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

Prosecution of
office abuse

7

During the Lee administration, there was a perception that corruption increased. In January 2013, Lee Sang-deuk, President Lee's brother, was sentenced to three years in prison for receiving bribes. Many of the government projects implemented under the Lee administration are now being investigated, with particular focus on the controversial gigantic Four Major Rivers Restoration Project. In January 2013, President Lee was criticized for issuing special pardons to 55 convicted criminals, including close associates. The newly elected President Park has so far been less generous in granting pardons, although there are as yet few indicators that the control of corruption has improved significantly under her government.

Civil rights conditions in South Korea have improved dramatically since the beginning of the democratization process in 1987. Basic civil rights are protected by the constitution. Although courts have been reasonably effective in protecting civil rights, and a Human Rights Commission was established in 2001, a number of problems remain. The National Security Law remains in place, outlawing activities that could be interpreted as "benefiting or praising" North Korea. In 2014, a U.S. citizen was accused of praising North Korea and deported to the United States. The deportation of the American citizen drew rare public criticism from the U.S. government.

Civil rights

8

In January 2015 statement, Amnesty International declared that it "urges the South Korea government to curb the mounting restrictions on freedom of expression through the excessive use of the National Security Law (NSL). Recently, South Korea broadened the application of the NSL to new categories and additional groups of individuals, such as politicians and even serving parliamentarians, and now foreign nationals."

Other serious issues include the inadequate protection of migrant workers and the imprisonment of conscientious objectors. Cruel and inhumane treatment in the military has become a major issue of public discussion in Korea in recent years. Both the police and prosecutors tend to reveal private information about suspects and do not protect their rights. They have also strengthened efforts to collect evidence on

individual participants in public demonstrations. On a more positive note, a moratorium on executions announced in 1998 has remained in place, although attempts to abolish the death penalty have failed so far.

4 | Stability of Democratic Institutions

South Korea's democratic institutions are generally effective but deadlocks in the parliament have become a serious issue. During the period under review, President Park Geun-hye's Saenuri Party had a clear majority in the parliament. Despite this, the parliament did not pass a single bill for six months because the governing and opposition parties could not agree on a bill on the investigation of the Sewol tragedy. This situation was made possible because of a 2012 change in the lawmaking process that enables the chairman of the judiciary committee to pass a draft bill on to the plenum.

Another problem is the lack of independence accorded to local governments, as they depend on the central government for revenues. The central government often uses its leverage to intervene in local affairs.

There is no substantial public support for non-democratic alternatives to the current political system. The military was forced out of politics in 1993 by Kim Young-sam, the first civilian president, and has remained outside politics since then. A very small number of North Korea supporters reject the South Korean parliamentary system. Recently, many people are concerned about the growing influence of large business conglomerates (chaebol) that are able to exercise non-transparent influence in major policymaking processes. The large number of defamation suits also signals a certain unwillingness to solve disputes through democratic debate and process. There is a tendency toward the judicialization of politics in Korea, possibly weakening other institutions and mechanisms of representative democracy.

5 | Political and Social Integration

The South Korean party system is unstable. Political parties are weak and without deep social roots. Party organizations are weak with very few dues-paying members. Parties are organized around a small number of powerful individuals. They are founded, merged, renamed and dissolved largely at will, leading to a relatively high degree of voter volatility. The ruling New Frontier Party, founded in 1997, is the only party that might today be considered to be institutionalized, although it too changed its name in 2012 from the Grand National Party. Local party offices are forbidden by law, contributing to the fact that parties have only weak grassroots connections. Regional fragmentation is a big problem, with the ruling party dominating the

Performance of
democratic
institutions

8

Commitment to
democratic
institutions

9

Party system

7

southeastern region and the opposition party dominating the southwest. On the other hand, ideological fragmentation and polarization within the party system is limited. In the 2012 presidential campaign, most observers judged that there were few differences in the election platforms of the two major candidates. One of the few really distinctive policy areas are policies towards North Korea.

South Korea has a lively civil society with an average range of interest groups reflecting most social interests. However, some powerful interests have privileged access to the corridors of power. Business is well represented by networks of interlocking and sufficiently staffed interest groups. Labor unions are much weaker. This asymmetric representation in government policies has been accelerated as the Park administration has focused on economic growth rather than economic democratization and a welfare system. In addition, the unionization rate, which has been on a downward slope since 1990, was 9.9% in 2011. This rate is one of the lowest among OECD members (only the rates in Turkey, France, and Estonia are below that of Korea). Most unionized employees are male, and are concentrated in big companies. They mostly belong to company unions focused on bread-and-butter issues, while more politicized industry unions exist in only a limited number of sectors (e.g., for metal workers). Corporate interests are organized through a few high-level organizations connected to the conservative political establishment. There are also a growing number of civil society organizations (CSOs) with clear-cut political, religious, humanitarian, social or economic agendas. Personal networks link former pro-democracy and human rights activists within civil society and the political system. However, under President Park and her predecessor President Lee, the access of progressive or liberal CSOs that originated in the 1980s democracy movement to the government was dramatically reduced. Similar networks on the conservative side of the political spectrum (often based on alumni ties or the intermarriage of prominent families) also link societal and political actors.

Interest groups

8

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

Approval of democracy

8

Koreans (12%) is a fully informed and firmly committed defender of democracy-in-practice.” This indicates that political ambivalence rather than commitment to democracy is widespread among Korean citizens and elites.

Approval of specific democratic institutions is much weaker than general support for democratic values. According to the World Value Survey (2012), only 25.5% of Koreans have confidence in the parliament and 26% in political parties. Confidence in the government, the civil service, the military and particularly the courts is much higher.

Reflecting the general vibrancy of South Korea’s civil society, there are many voluntary associations engaged in self-help activities. A substantial number of these groups are linked to religious organizations. Such self-help associations complement informal (often school- and university-based or regionally oriented) and often intensively used networks. Generalized trust among citizens outside these communities is less well-developed. According to the 2014 World Values Survey, the level of trust has further declined. South Korea scored lower than neighboring countries such as China, Japan or Taiwan with respect to interpersonal trust. Only 26.5% said that “most people can be trusted,” while 73% agreed with the statement that you “can’t be too careful” when it comes to dealing with other people.

The Sewol tragedy has created a large degree of insecurity and further undermined the trust in authorities and the cohesion of society.

Social capital

7

II. Economic Transformation

6 | Level of Socioeconomic Development

South Korea’s rapid industrialization process from the mid-1960s onward was initially coupled with a fairly equitable distribution of income. This has changed dramatically over the last decade. According to the OECD statistical database, the Gini coefficient was 0.307 in 2012 (latest year available) – still below the OECD average, but higher than in most European countries. The same database puts the share of poor people in Korea at 20% (measured as the percentage of the population with an income after taxes and transfers of below 60% of the current median income). South Korea was ranked 15th worldwide in the UNDP’s 2013 Human Development Index (HDI, up from 25th place in 2006, but down from 12th place in 2010), and was ranked 15th in the Gender-related Development Index (GDI). Although unemployment is relatively low at 3.5%, youth unemployment increased from 7.5% in 2012 to 9% in 2014, and this figure does not include college students delaying graduation. A worrying trend is the rising share of irregular jobs with comparatively

Question
ScoreSocioeconomic
barriers

9

low salaries, a lack of job security and weak labor union organization. In addition, men are more likely to achieve regular employee status than women. According to the National Statistical Office, for men above the age of 15, the employment rate increased from 70.8% in 2013 to 71.4% in 2014. During the same period, the employment rate for women increased from 48.8% to 49.5%.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	898137.2	1094499.4	1305605.0	1410382.9
GDP growth	%	3.9	6.5	2.9	3.3
Inflation (CPI)	%	2.8	3.0	1.3	1.3
Unemployment	%	3.7	3.7	3.1	-
Foreign direct investment	% of GDP	1.5	0.9	1.0	0.7
Export growth	%	7.8	12.7	4.3	2.8
Import growth	%	7.8	17.3	1.7	2.1
Current account balance	\$ M	12654.8	28850.4	81148.2	89220.1
Public debt	% of GDP	27.0	31.0	34.5	36.0
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	0.9	1.5	-	-
Tax revenue	% of GDP	13.9	14.0	-	-
Government consumption	% of GDP	13.3	14.5	15.0	15.1
Public expnd. on education	% of GDP	3.9	-	-	-
Public expnd. on health	% of GDP	3.0	4.2	3.8	-
R&D expenditure	% of GDP	2.79	3.74	-	-
Military expenditure	% of GDP	2.5	2.5	2.6	2.6

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

South Korea's economy has been substantially liberalized over the course of the past two and a half decades, with the most recent wave of liberalization following the financial crisis of 1997. Nevertheless, government intervention in South Korea remains more prevalent than in most advanced economies. Prices can be freely set and the currency is fully convertible. Market-based competition is not primarily limited by government intervention, however, as many markets in South Korea have a monopolistic or oligopolistic structure, cartels still dominate many sectors. The informal sector is small. The central bank frequently intervenes in the currency market in reaction to market volatility, seeking to maintain a competitive exchange rate.

Market-based
competition

9

There are few significant formal entry or exit barriers to domestic companies, and entry barriers to foreign companies have been significantly lowered since the 1990s. The European Union-South Korea preferential trade agreement (PTA) entered into force in 2011, and the South Korea-United States PTA went into effect in 2012. These PTAs are expected to further open up the South Korean market to foreign products and investment. To date, however, results remain controversial, and many have complained that the PTAs have increased importers' profits without reducing prices.

Profits can be freely used and transferred by domestic enterprises, but large-scale profits made by foreign enterprises selling domestic assets can create popular backlashes. Lawsuits involving foreign investors are often protracted. For example, the U.S. investment fund Lone Star has been involved in a (to date) ten-year legal struggle with Korean banks and the government. Lone Star claims that it lost money because the selling of its shares in the Korea Exchange Bank was blocked by the government.

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

Anti-monopoly
policy

8

During South Korea's "condensed" industrialization process, the formation of large-scale conglomerates, the chaebol, was actively promoted by the state. Indeed, state policy was previously aimed at limiting competition rather than enforcing it. A high degree of market concentration remains today, and has even increased in some sectors since the 1997 – 1998 crisis. For example, since the merger of Hyundai and Kia, one Korean car maker controls about 70% of the country's car market. Government agencies such as the Fair Trade Commission try to rein in the conglomerates, but market-oriented reforms have so far had little effect on the massive concentration of

economic power. At times, market-oriented reforms such as shareholder rights and bankruptcy regulation have even facilitated further concentration.

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

In many other areas that have been liberalized, however, it seems that importers have used their dominant market position to increase their profits and have not passed on lower prices to consumers. A recent study has found that Koreans are paying the highest prices for important products in the OECD.

South Korea is an export-oriented economy, strongly integrated in the world economy. It became a member of the GATT in 1967 and is a founding member of the WTO. South Korea has made strong efforts to liberalize its trade and investment regime further since the 1997 financial crisis. South Korea has concluded bilateral preferential trade agreements with the European Union (in 2011) and the United States (in 2012). Trade negotiations with Japan and China are currently underway. However, the tariff structure remains complex, with industrial tariffs levels being fairly low while agricultural tariffs remain high. Out-of-quota tariffs apply to many other commodities. Non-tariff barriers have been substantially reduced, but still exist in some areas, as in the case of standards and certification requirements, and restricted access for foreign-owned companies to specific “sensitive” industry or service sectors. In general, however, the low market share held by foreign products in many South Korean markets is not due to formal barriers.

Liberalization of
foreign trade
9

The South Korean financial system is highly differentiated, and largely follows international standards such as Basel II and the gradual implementation of Basel III. Major South Korean banks are far above the Bank of International Settlements (BIS) capital adequacy ratio. Smaller banks and financial institutes are far less prudent, and numerous saving banks went bankrupt in 2012. The FSC is a government agency reporting to the prime minister’s office, but it delegates much of its financial regulatory functions to the Financial Supervisory Service (FSS), which is constituted as an independent public entity. The FSC and FSS are relatively effective in overseeing banks. No major South Korean bank failed during the global financial crisis. However, the use of the BIS ratio as an international standard failed to prevent the savings bank crisis, or to detect the savings banks’ weak financial positions before they failed.

Banking system
8

A major source of potential instability is the high amount of private household debt, particularly related to mortgages. In order to stimulate the real estate market, the government liberalized numerous regulations concerning mortgages. In 2013, private

household debt reached 161% of disposable income, slightly down from 163% in 2011.

The South Korean stock market remains shallow with few high quality stocks. For example, stocks of the Samsung group alone constitute about one-quarter of the entire stock market. Consequently, the stock market largely remains a place for speculation and is thus extremely volatile, with a huge number of transactions indicating a short-term orientation and speculative investor attitude. South Korea remains vulnerable to sudden reversals of capital flows, as was demonstrated during the world financial crisis. In early 2009, the South Korean currency almost collapsed, and was stabilized only through a currency swap agreement with the U.S. Federal Reserve.

8 | Currency and Price Stability

South Korea's central bank (Bank of Korea, BOK) is legally independent, although in practice there is a considerable political pressure to support the government's economic policies. In the 2013-15 period, the BOK raised its inflation target to 2.5-3.5% but failed to achieve this, with inflation staying below 2% 2014 and forecast to be 1.9% for 2015. This failure can be partly attributed to the unexpected sharp decline of energy prices.

Anti-inflation /
forex policy

9

In the field of exchange rate policies, the central bank follows a managed floating strategy. It frequently intervenes in currency markets in order to prevent excessive volatility, but also – more controversially – to maintain a competitive exchange rate for exporters. Indeed, there is substantial pressure from export-oriented businesses to limit the appreciation of the Korean won despite a substantial current account surplus.

South Korea's fiscal policies appear sound, at least on the national level. The country has one of the OECD's lowest levels of public debt and public expenditure. The official debt-to-GDP ratio is very low at only 39.7% of GDP. However, there has been criticism that Korean public debt is hidden in public companies. Including this debt would increase public liabilities to a still moderate 64.5% of GDP.

Macrostability

8

Korea has so far been remarkably effective in managing the effects of the global economic crisis, including declining demand caused by the euro crisis. It seems that the government is still willing to use fiscal measures to stimulate growth. At the same time, there has been criticism that much of the additional fiscal expenditure is spent not effectively and mostly benefits well-connected businesses, particularly in the construction sector. Such corporate welfare generates short-term growth at the expense of the long-term debt burden. Indeed, many of the major construction projects of the Lee administration, such as the Four Major Rivers Restoration Project, are now under investigation for corruption. The new Park administration has to demonstrate that it is able to spend public funds more wisely to benefit the general

public. On the local level, budget problems have worsened, largely due to prestige construction projects that lack economic benefits. For example, Incheon, Korea's third-largest city, was brought to the brink of bankruptcy due to the expenses of hosting the 2014 Asian Games.

9 | Private Property

Private property rights are constitutionally protected (Article 23 of the Korean Constitution) and respected in practice. Expropriation is uncommon. However, legal proceedings relating to contractual matters can be slow. High real estate prices and skyrocketing housing costs 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 more restrictively. Official regulations governing real estate have basically reflected international standards (e.g., restrictions on floor area ratios, environmental and height regulations). South Korea has strict intellectual property laws, but enforcement can be difficult. The pirating of software and media content remains widespread.

Property rights
10

Private enterprises are regarded as the engine of growth in South Korea. In the World Bank's 2015 Doing Business report, South Korea climbed to 5th place, up two places from two years earlier. Full public ownership is largely limited to public utilities. The state is involved in around about a hundred state-run enterprises and investments. Under the Lee government, a clear privatization agenda was scaled back due to the global crisis. In July 2010, the government unveiled a plan to sell its controlling stake in Woori Finance Holdings, South Korea's second-largest financial services company. However, the plan was not implemented and privatization is still pending - in November 2014, the fourth attempt to sell Woori failed. KDB Daewoo Securities is in a similar situation. Privatization activities are often criticized for being tainted by a lack of transparency and corruption: they often go hand-in-hand with massive protests and long legal struggles. For example, in December 2013, the Korean Railway Workers' Union went into its longest strike to prevent the government from privatizing the KTX Suseo line connecting Gangnam to Busan, which is expected to be the most profitable line and pay the huge debt of the Korean Railway.

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 programs for sickness, pensions, accidents and unemployment. However, the legacies of the path-dependent developmentalist and family-centered welfare system are still strong. Hence, the welfare state remains underdeveloped and has so far not been able to prevent the increase of social insecurity and inequality. Welfare spending is still very

Social safety nets
8

low, at 10.4% in 2014 (according to OECD data), which is the second-lowest in the OECD, just slightly ahead of Chile. Entitlements are generally restrictively defined, covering only the bare minimum for a limited amount of time. Medical treatments covered by the health insurance program require high copayments. Moreover, the medical insurance fee system is not means-tested and some rich and middle class people can be free riders, relying on their family members. Although Health Minister Moon Hyung-pyo prepared a reform plan to improve distributive justice with respect to the costs and benefits of medical insurance, he unexpectedly announced in January 2015 that the plan would be dropped. Welfare spending in South Korea remains at a very low level overall. The welfare system covers a huge share of the population, but is not comprehensive in covering important risks.

The welfare state has gained importance in public debate and became an important electoral issue during the 2012 presidential election. Both candidates promised to expand the welfare state. However, discussions generally focused on individual targeted measures such as school meals and housing subsidies rather than the creation of a more comprehensive welfare state overall. Moreover, President Park has been selective in improving welfare. For example, as of July 2014, 70% of people above 65 began receiving a pension of 100,000 won - 200,000 won (\$100-\$200) a month. This basic old-age pension is expected to cost more than \$7 billion in 2015. However, other safety nets, including those for school children, college students, unemployed people, and irregular workers have been marginalized, as President Park has somewhat retracted her promises of improving welfare provisions, focusing instead on deregulation and business-friendly policies. The inevitable and necessary expansion of the welfare state will remain one of the big challenges of this and future administrations.

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

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

Women have a tertiary enrollment rate of just 72% that of men, and remain underrepresented in government positions and private companies. Although a female president was elected for the first time in December 2012, at the time of writing she had proposed only two female members for her cabinet. According to the Korea Herald, women account for a mere 9.1%, or 272, of the total 2,993 directors at the

Equal opportunity
8

country's 288 public institutions. More than half of these agencies have no women in executive roles. Only 5.6%, or 16 agencies, are run by female chief executive officers. In private companies, the gender bias is even stronger. In 2011, the share of women in the boardrooms of the 100 largest corporations was just 1.48%. It is thus no surprise that South Korea was ranked only 117th out of 142 countries in the 2014 World Economic Forum's (WEF) Gender Gap Index. Korea fairs particularly badly when it comes to political empowerment.

11 | Economic Performance

South Korea is a high-income country with a per capita GDP of about \$35,000 (PPP). It is a member of the G20 and the OECD. The country weathered the 2008 financial and economic crisis and its aftermath better than did many other major economies. In 2013, South Korea had a real growth rate of 3% and of 3.5% in 2014, as calculated by the OECD Economic Outlook. The same report also forecast economic growth rates of 3.8% in 2015 and 4.2% in 2016, although the Bank of Korea is more cautious about growth in 2015. South Korea's current account had a strong surplus of 6% of GDP in 2014. The country enjoys relatively low unemployment rates and low levels of government debt. The unemployment rate was about 3.5% in 2014, the lowest in the OECD. However, youth unemployment (individuals between the ages of 15 and 29) is much higher at 9%. Labor market participation by women is also low in international comparisons. Many employees and self-employed individuals suffer from precarious working conditions and stagnant wages.

Output strength
9

12 | Sustainability

The South Korean government has strengthened environmental laws in recent years but attempts fall short of what is needed to preserve the natural environment and protect the health of residents. Economic growth is still considered a far higher priority than sustainability and environmental protection. Substantial investments have been made in renewable energy research under President Lee Myung-bak; "green growth" was in fact made into a guiding economic paradigm for South Korea. The country has reduced emissions of major air pollutants such as sulfur oxides, and has improved water quality and waste recycling. In 2015, the carbon emission trading system was started to reduce the emission of climate changing gases.

Environmental
policy
7

South Korea's ranking at 43rd place in Yale University's 2014 Environmental Performance Index indicates significant potential for environmental-policy improvement. In the field of air pollution, and more specifically particulates, Korea ranks very poorly at 171st out of 177 countries.

Unfortunately, all attempts to implement a policy of more energy efficiency and less air pollution are falling short in the face of increasing challenges arising from high economic growth and, particularly, increasing car traffic. Renewable energy production remains negligible and energy and fuel prices are too low to provide incentives to preserve energy. Korea is one of the few countries in the world that is actively expanding nuclear energy production despite the still unsolved problem of nuclear waste and concerns about safety.

Pollution and air pollution also have an international component in East Asia. Particulates and yellow dust from China have dramatically increased and contribute about 30-50% of particulate pollution. Regional cooperation on this issue is developing slowly. In sum, policies to improve sustainability are improving but are not keeping pace with the increasing challenges.

South Korea has a high-quality education system with almost universal enrolment, including a 98% enrolment tertiary rate. The country has a dense network of universities and colleges, not only in Seoul, but also in other regions and provinces. This network includes some world-class universities. In addition, large business conglomerates (chaebol) have built strong research facilities and technical institutes. In contrast to the United States, there is no system of public research institutions outside of public universities (such as CIT).

South Korea's expenditure on education is 7.6% of GDP, the third-highest in the OECD. However, 46% of education spending is conducted by private households, which represents the largest share in the OECD. Education costs are a major burden for Korean families. The quality of education is very high when measured by standardized tests such as PISA. However, Korean schools are often criticized for focusing on cramming and not paying attention to creativity, critical thinking and social skills.

South Korean R&D expenditure is 4% of GDP, the second-highest in the OECD after Israel. Korea has almost 12 researchers per 1000 employees, which also compares very favorably with other OECD countries.

Education policy /
R&D
10

Transformation Management

I. Level of Difficulty

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

Structural
constraints

1

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

Infrastructure is excellent and includes high-speed bullet trains and major ports. Incheon Airport is a major hub in East Asia. Seoul's public transportation system is considered one of the most efficient in the world.

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

Civil society
traditions

5

South Korea's society is dominated by personalized networks with little generalized trust and/or compromise-oriented settlements between opposing groups.

Religiously or ethnically motivated violent conflicts are rare. The peaceful coexistence of multiple religions has been a factor facilitating democratic consolidation in South Korea. There are few violent incidents rooted in social conflicts, particularly given the country's vibrant tradition of demonstrations and labor disputes. Fights between demonstrators and riot police can be vicious, with excesses on both sides. Politics in South Korea tend to be confrontational, up to and including violent clashes between parties in the parliament. However, violence generally tends to be limited, and at times even merely symbolic.

Conflict intensity
2

II. Management Performance

14 | Steering Capability

Strategic planning remains an important factor in South Korean governance. The content of this strategic planning has changed dramatically over the last half-decade, from an earlier concentration on democratization, market-oriented reforms and the expansion of social security to a focus on economic growth, deregulation and business-friendly policies under Presidents Lee and Park. Like her predecessor, President Park generally seems to lack a clear long-term vision and prefers pragmatic policy-making. Although President Park ran her electoral campaign under the grandiose vision of economic democracy and welfare, the project was abandoned soon after the election. Given the strengthened position of President Park and her comfortable majority in parliament, the political context for strategic planning has remained significant but the implementation of policies has proven more problematic. It remains to be seen how the focus on deregulation will affect steering capacity in the future.

Question
Score

Prioritization
9

Korea has a very well-trained bureaucracy that ensures continuity. On the other hand, leadership positions tend to have a short tenure. Staff rotations occur frequently within the ministry, so staff have little opportunity to acquire expert knowledge. Expertise is sourced from external experts at research institutes or universities. Regulatory impact assessments are systematically conducted for all new regulations.

The implementation of policies is generally effective but the last two years have cast many doubts on the willingness and capability of politicians to fulfill their campaign promises and implement coherent policies. As previously mentioned, President Park largely abandoned her campaign promise of economic democratization and the creation of a strong welfare state for a more business-friendly approach. Despite the strong majority of her conservative party in the parliament, many of her policy initiatives have stalled. Her communication skills in explaining her policies to the

Implementation
7

public have drawn particular criticism. More dramatically, the whole parliament was in a stalemate for six months in 2014, because the governing and opposition parties could not agree on a law to investigate the Sewol tragedy and compensate victims. This situation was made possible owing to a change in the regulation of parliamentary procedure, allowing the opposition to block the presentation of a law to be passed on to the plenum.

The government's ability to engage in policy learning is high, but institutional learning is far more limited. Non-governmental academic experts have considerable influence on government decision-making. Most observers believe that the influence of expert commissions decreased somewhat under the Lee and Park administrations. President Park has frequently been criticized for making decisions only with a very small group of confidants while distrusting most others. The lack of discussion on policy alternatives, including those with expert opinions, might partly explain the relatively weak output of the Park government so far.

Policy learning

7

When it comes to the adoption of international standards, Korea is usually very responsive. Reports and criticism issued by international organizations such as the OECD or the IMF, or by partners such as the United States or the European Union, are taken very seriously. The degree of adaptability, however, depends to a large extent on compatibility with domestic political goals. For example, the Korean government is less responsive to global standards in the field of labor rights or the reduction of non-tariff barriers. The expected inclusion of Korea in the list of countries subscribing to mandatory reductions on greenhouse gas emissions in the Paris conference in 2015 will be an important test for Korea's global commitment.

15 | Resource Efficiency

The OECD calculated that Korea's government production costs constitute only 17.9% of GDP, the third-lowest in the OECD in 2012. Government and public corporations employed 5.7% of the South Korean workforce in 2008 (the latest data available), the lowest share of any OECD nation. General government disbursements, at 31% of GDP, were also the lowest in the OECD. Public government debt has risen in recent years, particularly due to the stimulus spending aimed at combating the effects of the 2008 – 2009 financial and economic crisis; however, this debt remains at manageable levels overall. The official debt-to-GDP ratio in South Korea is low, however, as previously mentioned, a lot of debt is hidden in public companies.

Efficient use of assets

8

On the local level, budget problems have become worse, mostly due to prestige construction projects that lack economic benefits. In 2014, Incheon, Korea's third-largest city, ran into financial difficulties due to the increased costs associated with hosting the Asian Games in the same year.

Despite moves toward decentralization undertaken in the 1990s, South Korea remains a fairly centralized polity with power concentrated in the central government and particularly the president's office. Provincial governments, although having their own functions to some extent, basically serve as an intermediary between the central and municipal governments. Local governments depend heavily on the central government for funding and guidance. Their main function is to implement centrally determined policies and programs as directed and guided by central government ministries and agencies. Local governments lack their own court, prosecution, police and education systems. The high degree of centralization allows for largely coherent implementation of policies. Conflicts between ministries are frequent but do not substantially affect overall policy-making for high priority policy areas, due to the coordinating role of the President. The fragmentation of government activities in policy areas that are not prioritized by the president is a frequent subject of criticism and ministries often fail to coordinate activities in these fields. Within the government, the finance ministry has budget planning authority and is clearly dominant, able to block initiatives by line ministries.

Policy
coordination
9

Corruption remains a major problem in Korea although institutions to fight corruptions have improved substantially. In 2011, the Whistleblower Protection Act was implemented. The Anti-Corruption and Civil Rights Commission (ACRC) is the central watchdog for the fight against corruption. There has been some criticism that the ACRC is not independent as 9 out of its 15 commissioners are appointed by the president, and only three by the Chief Justice of the Supreme Court (who is also appointed by the president) and three by the parliament. The ACRC has no power to investigate corruption scandals and the prosecutor's offices that hold this power are not free of corruption in their own right. Proposals to create an independent institution to be in charge of corruption scandals involving high-ranking officials, including prosecutors, failed due to resistance on the part of the prosecutor's office and some conservative politicians.

Anti-corruption
policy
7

Vigilant civil society organizations regularly conduct surveys of how parliamentarians fulfill their duties. Candidates running for office that are blacklisted by the results of these surveys face problems in parliamentary elections. Though far from perfect, the blacklisting system has helped to increase voters' awareness of problems. However, lawmakers who have been convicted for illegal fundraising or other illicit activities sometimes benefit from the presidential amnesties that are granted every year. In January 2013, President Lee pardoned 55 imprisoned criminals, some of them his own close associates. Fortunately, President Park has so far been far less generous in granting pardons. Corruption in the private sector remains a major problem.

16 | Consensus-Building

All major political actors in South Korea subscribe to the goal of maintaining a constitutional democracy, although some authoritarian practices can be witnessed within individual political organizations. Koreans are instrumentally committed to democracy and democratic values and norms are not intrinsically internalized into Korean culture. About one third of Korean citizens think that authoritarianism is sometimes better than democracy. Therefore, democratic legitimacy is shallow rather than deep.

Consensus on goals
10

All major political actors support a market economy and Article 119 of the Korean Constitution states “The economic order of the Republic of Korea shall be based on respect for the freedom and creative initiative of enterprises and individuals in economic affairs.”

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

Anti-democratic
actors
10

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

Cleavage /
conflict
management
8

The administrations of progressive presidents Kim Dae-jung and Roh Moo-hyun (1998 – 2008) took the influence of civil society organizations seriously, and sought to incorporate their ideas into official policy and policymaking processes. Representatives of civil society were given high-profile posts in the cabinet and on advisory commissions. President Lee Myung-bak’s administration did not continue this inclusionary approach, but rather exhibited a more or less pronounced top-down approach to policy-making. The Park Geun-hye administration has continued this top-down approach. CSOs outside the conservative political spectrum subsequently have difficulties in accessing the government and even in obtaining financial support. Independent labor unions have had a particularly hard time being accepted as a partner of the government, while employers’ organizations find it much easier to gain access.

Civil society
participation
6

The history of colonialism and dictatorship continues to haunt South Korea, both in terms of domestic affairs and bilateral relations (especially with Japan). Issues related to collaboration with Japan during colonial times, the period before and during the Korean War including the Jeju Massacre of 1948 – 1949, and the authoritarian Park Chung-hee (1961 – 1979) and Chun Doo-hwan eras (1980 – 1988) and their legacy (particularly the 1980 Gwangju Massacre) remain largely unresolved. Many of those who committed crimes under the military dictatorship have still not been brought to justice. On a positive note, compensation for victims of imprisonment or torture during the military dictatorship is paid out with relatively few bureaucratic hurdles.

Under President Lee Myung-bak's conservative administration government, support for the investigations of crimes against humanity during the military dictatorship declined. The Park Geun-hye administration also tends to highlight the economic achievements of past military regimes. On a positive note, unlike her predecessor, President Park visited the memorial of the Gwangju massacre in 2013 and 2014.

The crimes committed by the Japanese during the colonial times and particularly the unresolved issue of Korean sex slaves weight down bilateral relations. The prospects of investigating and punishing the massive human rights violations in North Korea after a possible reunification is another major challenge that Korea has to prepare for.

Reconciliation

7

17 | International Cooperation

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

South Korea no longer receives official development assistance (ODA). It has hosted a number of international development conferences and has provided its own ODA to other nations. South Korea became an official member nation of the OECD's Development Assistance Committee (DAC) in 2010. Currently, Korean ODA is about 0.1% of GDP and the government has declared that it will increase aid provided to developing countries to 0.25% of GDP by 2015.

South Korea is considered to be a very credible partner by the global community. It is a member of the United Nations, the WTO, the IMF, the World Bank, the G-20 and many more of the most important international organizations. In 2012, South Korea was elected as a non-permanent member of the U.N. Security Council. It is seen as an "emerging middle power," and many believe that the country will play an important role as a bridge between the developing and developed world. On the other

Effective use of support

10

Credibility

10

hand, South Korea has been the target of some complaints, for example by the ILO and human rights groups such as Amnesty International. The country is also involved in numerous WTO dispute-settlement cases. In the Kyoto Protocol, South Korea was a non-Annex I country, without mandatory commitments for the reduction of greenhouse gas emissions. However, South Korea it is expected to commit itself to mandatory reductions in the 2015 negotiations in Paris.

South Korea actively participates in regional and interregional initiatives, as well as in institutions at the regional level such as the Asia-Pacific Economic Cooperation (APEC), ASEAN + 3, the ASEAN Regional Forum (ARF), the Chiang Mai Initiative, the Asia-Europe Meeting (ASEM), and the six-party talks on the issue of North Korean nuclear weapons development. With the opening of the Trilateral (Korea, China, and Japan) Cooperation Secretariat in April 2012, the three neighboring states seemed to evince a more cooperative mood than was previously the case. In the past, South Korea has been one of the main driving forces behind regional cooperation, but its enthusiasm has been more muted over the last four years. Indeed, President Park in her Eurasia initiative seems to be more interested in closer cooperation with Russia and Central Asia, as well as a land connection to European markets, than in regional cooperation within East Asia.

On a positive note, the relationship with North Korea has improved slightly compared to the low point during the Lee administration. In 2014, government contacts between North and South intensified and major initiatives have been announced for 2015. A leader-level summit or the establishment of rail links seems to be feasible. However, there is no doubt that North Korea's inhumane, militaristic and extremely nationalistic regime remains a major danger to stability and peace on the Korean peninsula and within East Asia at large.

Regional cooperation has also been undermined by territorial disputes with Japan and China. Dokdo Island, a territory controlled by Korea, is also claimed by Japan. Korea is currently building a controversial new navy base on the southern island of Jeju and is developing a blue-water navy based on battle groups led by Dokdo class helicopter carriers.

Regional
cooperation
9

Strategic Outlook

President Park's popularity had remained relatively stable even amid major problems in her administration and the Sewol tragedy. However, her approval rankings started to decline in late 2014 and sank below 30% in January 2015. While she has always been unpopular among the younger generation, older generations are also losing faith in the president's ability to counter the trend of increasing social inequality. A controversial tax reform that led to an increase of income taxes, despite previous promises that taxes would not be raised, also created frustration. Even the ruling Saenuri Party seems to be distancing itself from the president and the discussion about changing the constitution from a presidential to a parliamentary system has gained traction, with strong support in both major parties.

Economically and socially, there is a huge gap between the official data, which shows a relatively robust economy, and the public sentiment that the economic growth is not helping those people in the society that are struggling. There is a huge amount of anxiety and dissatisfaction with the economic development, particularly among the younger generation. Precarious working conditions, long working hours and a rigid social hierarchy further frustrate the younger generations that have grown up in relative freedom since the toppling of the military dictatorship and the beginning of democratization in 1987. High living costs and particularly high housing and real estate prices, as well as the limited amount of low cost rental apartments, further increase concerns. In the long run, the demographics of a fast-ageing society with one of the lowest birth rates in the world also pose concerns. Conflicts with neighboring countries such as Japan and China and declining global growth rates pose serious challenges to Korea's export-oriented economy.

Environmental issues are also gaining in importance as Koreans aim to improve the quality of life beyond pure materialistic gains. Pollution and especially increasing particulates are creating more and more dissatisfaction and health concerns. The ability to tackle environmental pollution and the associated economic costs will be one of the major challenges for this and future administrations. Korea is far behind most OECD countries in many areas such as renewable energy, environmental taxes as well as pedestrian and bicycle-friendly cities. On the other hand, Korea is doing very well or catching up fast in fields such as public transportation, electric vehicles and waste recycling.

On the international level, the conservative Park administration has the best opportunity in decades to improve the South's relationship with North Korea. If she is able to succeed where all previous conservative and liberal administrations failed, it will be a truly historical achievement. Technically, South and North Korea have been at war with each other since the armistice in 1953. So far, no peace treaty has been signed and previous attempts for closer cooperation under liberal governments failed due to aggressive behavior from the North, lack of support from the Korean public or opposition from the United States. North Korea remains one of the most brutal dictatorships in the world. The recent change of leadership in the North might provide the opportunity for an engagement policy to improve the relationship between the two states.