This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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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Executive Summary

The observation period from February 2015 to January 2017 corresponded with years three and four of the conservative Park Geun-hye administration. The period marked the rapid and unexpected decline of President Park’s popularity culminating in the loss of the parliamentary election in April 2016 and her impeachment amid a corruption scandal and massive anti-Park demonstrations in December. With the unexpected loss of the parliamentary election, she became an early lame duck president. The dramatic events were unexpected as pre-election polls showed that she remained popular and her conservative party would easily win the parliamentary election held on April 13, 2016. At the time of writing (March 2017), the full details of the corruption scandal were still evolving, but her close friend Choi Soon-sil was detained and awaiting trial for abuse of power, meddling with state affairs and having access to classified documents without any official government positions. She was also accused of illegally collecting donations from major business groups for two foundations and using her close relationship with the president in many ways to receive favors. Mr. Lee Jae-yong, vice-president of Samsung Group, was also arrested on bribery charges.

Economic growth in South Korea has remained relatively strong, though growth rates have shown a downward tendency reflecting the increasing maturity of this OECD economy. The country has an export-oriented economy with a positive current account, while domestic consumption and investment have weakened. The economy remains divided between a strong export sector dominated by large business conglomerates and a struggling SME sector employing the vast majority of South Koreans. Unemployment is low, but precarious working conditions and increasing social inequality have become central issues in a country previously known for its relatively equal distribution of wealth. While government debt remains comparably low, the high cost of living and particularly high housing costs and real estate prices have led to massive mortgage debt among households, exacerbating social challenges. Particularly worrisome is the
lack of job opportunities for the younger generation, which is highly educated, but can increasing only find work in precarious irregular jobs.

The Park administration was ever more deficient in addressing the country’s major challenges, despite holding the constitutionally powerful presidency and a majority in parliament until April 2016. The government has drawn criticism for its non-delivery on campaign promises, botched staff appointments, top-down decision-making and restrictions on human rights. President Park has also drawn criticism for her inability to communicate policies and holding few press conferences.

Unlike during the 2012 presidential election, the 2016 parliamentary election appeared to be free of meddling by South Korea’s National Intelligence Service (NIS). The judiciary remains a strong defender of democratic and human rights, though some recent high-profile rulings have been controversial. In December 2014, the Constitutional Court engendered much controversy when it dissolved the United Progressive Party for being pro-North Korea. The party lost all its parliamentary seats and was excluded from the 2016 parliamentary elections, though some of its candidates ran and won with other parties or as independents. In January 2015, a U.S. citizen was deported from South Korea for praising North Korea. Praising North Korea remains a crime under the National Security Law, a holdover from the period of military dictatorships. Limitations on the freedoms of association and expression as well as internet censorship and government meddling of the press also remain major concerns. In January 2017, it was revealed that the government had a blacklist of more than 9,000 artists that should be excluded from government support. In response to the revelation, Minister of Culture, Sports and Tourism Cho Yoon-sun became the first serving minister to be detained while awaiting trial.

South Koreans are very aware of their achievement in creating one of the few genuine democratic and stable nation-states in East Asia. A new anti-corruption law, the Improper Solicitation and Graft Act (colloquially, Kim Young-ran Act), reflects a citizenry less tolerant of corruption and abuses of power. South Korean civil society remains vibrant. At the end of 2016, millions of South Koreans turned out in demonstrations to demand the impeachment of their president.

History and Characteristics of Transformation

South Korea has served as a model of economic development since the 1960s and democratization since the 1980s. The foundations of successful economic development as well as the causes of many economic, social and political challenges can be found in the authoritarian regimes 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, South Koreans successfully overthrew the military dictatorship in 1987. The strong opposition movement led by Kim Young-sam and Kim Dae-jung successfully mobilized urban workers, students, intellectuals, and the middle class. Skillful political management by 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 the first elections, held in December 1987, because Kim Young-sam and Kim Dae-jung split the opposition vote. During Roh’s term (1988 – 1993), democracy became the only game in town. In the 1993 elections, Kim Young-sam formed a coalition with the ruling party and was the first civilian elected president after three decades of military dominance in politics. During his term (1993 – 1998), democratic reforms continued, including on civil-military relations, electoral politics and the judicial system. The election of former dissident Kim Dae-jung as the first president from the opposition in December 1997 demonstrated that all relevant forces had been integrated into the political system. Kim Dae-jung is particularly credited with the successful recovery from the Asian financial crisis (1997 – 1998) and engagement with North Korea as part of his Sunshine Policy. In 2003, former labor lawyer Roh Moo-hyun became president. Roh tried to deepen democracy by strengthening human rights, improving civil society participation and reforming deeply conservative institutions such as the judiciary and education system. He also continued the process of economic liberalization, including negotiating controversial preferential trade agreements with the United States and European Union. Ultimately, Roh failed to deliver on many promises and was criticized for declining growth rates and increasing inequality. In 2007, the conservative Lee Myung-bak, a former CEO of a construction company turned mayor of Seoul, easily won the presidential election by promising a return to high growth rates. After 10 years of progressive rule, a new chapter in South Korea’s democratic development was thus opened with the return to a conservative government. During his tenure, Lee was criticized for his top-down approach and restrictions on the press and freedom of expression. While he has been credited with managing the global financial crisis (2007 – 2008) relatively well, he has been criticized for his one-sided support of big business and the controversial Four Rivers project. In December 2012, the conservative Park Geun-hye, daughter of former president Park Chung-hee, was elected president 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 big business conglomerates (chaebol) remain strong and continue to shape the South Korean economy. Major steps toward liberalization were undertaken in the 1980s, early 1990s and again after the Asian financial crisis. 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 that have dominated economic activity ever since the 1970s and still impair competition. Recently, however, there has been mounting demand for reforming the chaebol, normalizing the management of these big business conglomerates and improving competition, as well as strengthening small and medium-size companies.
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

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 only has effective control over the southern half of the peninsula, as it does not control the territory of North Korea.

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 South Korea and passing a test on the Korean language and knowledge of Korean culture. Besides this general naturalization, South Korean law also recognizes simple naturalization and many forms of special naturalization.

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 President Park, there were no major criticisms about preferences for a specific religious group. However, during the Choi Soon-sil scandal, there were accusations that Choi (the daughter of a deceased cult leader) had undue influence over the president and used Shamanistic rituals to gain political influence.
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. Civil servants are highly qualified, selected through a rigorous entrance exam. South Korea is a centralized state and local administrative bodies depend significantly on the national level for financial and administrative support, though mayors, governors, and local council members are locally elected every five years.

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.

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 three years in prison for interfering in domestic politics and violating government neutrality during the 2012 presidential election. The public outrage and legal punishments appear to have led to improvements: the 2016 parliamentary election was generally considered free of meddling by the NIS.

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, accused of supporting North Korea and violating the national security law, should be disbanded. The UPP was dissolved and its parliamentary members lost their parliamentary seats, including those directly elected in their district. However, the actual impact on the 2016
parliamentary election was probably limited because voters had as an alternative another progressive party, the Justice Party of Korea, which had split from the UPP in 2012. Two former UPP members also won seats as independent candidates.

Candidates’ ease of access to the media depends on the type of media. Print media in South 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 since the Lee Myung-bak administration. Since 2011, Freedom House considers the South Korean media only as “partly free.” The same “partly fee” rating is applied to internet freedom, which is particularly worrying as small opposition groups depend on the internet to publicize their positions.

Elected rulers have the effective power to govern. There are no domestic veto players that lack a constitutional basis. However, the fact that South Korea and the United States jointly exercise command over the South Korean military through the ROK-US Combined Forces Command during times of war constitutes a partial exception to this sovereignty. Nevertheless, it does not restrict the power of elected leaders in South Korea during peace time.

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. The very loose definition of “pro-North Korea” creates an ongoing risk that it could be misused to generally quell opposition to government policies.

In December 2014, the Constitutional Court ruled to disband the Unified Progressive Party (UPP) and ordered all of the party’s lawmakers, directly elected or otherwise, stripped of their congressional seats. The Korean prosecutor’s office investigated whether about 30,000 UPP members had aided the enemy, North Korea. In 2015, the Supreme Court upheld the nine-year prison sentence of Lee Seok-ki for encouraging sedition although he did not actively plot it. These government investigations and judicial cases restricted freedom of association among progressive and leftist groups.

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.” 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 such as the obstruction of traffic. The imprisonment of Han Sang-gyun, the president of the Korean Confederation of Trade Unions, and death of Baek Nam-gi, a farmer activist who died after being hit by a water cannon at a rally in November 2015, are recent
examples of the numerous limitations on the freedom of assembly. In June 2016, Maina Kiai, the United Nations Special Rapporteur on the rights to freedom of peaceful assembly and of association, cited Baek’s case in criticizing the excessive use of water cannons: “In footage made available to the special rapporteur, the water cannon was used against largely peaceful crowds. In certain cases, lone individuals were targeted, a use difficult to justify.”

On a positive note, demonstrations of more than one million people demanding the impeachment of President Park were held completely peacefully and without police interference throughout November and December 2016. This has inspired individuals and civic groups to form political assemblies and express their political opinions both in online and offline settings.

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. 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.

Press freedom remains another area of concern. Since 2011, Freedom House considers the South Korean media only as “partly free.” The same “partly free” rating is applied to internet freedom. According to the Reporters without Borders’ (RWB) 2016 Press Freedom Index, South Korea is slipping further, ranking in 70th place worldwide, ten places lower than in 2015 and 13 places lower than in 2014. Nevertheless, South Korea remains the third-highest ranked country in Asia, after Taiwan and Japan. The country also remains under RWB observation for excessive Internet censorship.

In 2016, a blacklist containing the names of over 9,000 artists was revealed. The list included some of the most accomplished and internationally renowned figures, including director Park Chan-wook. The list was created by the government to exclude artists critical of the Park administration from government grants and support. In the social and cultural domains, a loose definition of defamation can be exploited to silence critical questions and political opposition. On television and the Internet, there is excessive use of censorship and blurring to obscure controversial items including brand names, weapons, cigarettes, nudity, and even the genitals of ancient Greek statues.

In another highly controversial policy, the government decided in 2015 to reintroduce a state-authored history textbook to be used in all high schools and middle schools.
According to the government, seven of the eight history books currently in use had a “left-wing bias.” In 2016, authors appointed by the government wrote the new history textbook; there are growing concerns that the new textbook reflects the political inclinations of the government, especially on the modern and contemporary history of South Korea. According to the Ministry of Education, it is planning to distribute the textbook in February 2017 to the schools which volunteer to adopt the new state-authored history. The official position of the Ministry of Education is that it will make both state-authored and government-endorsed history textbooks available to schools in the beginning of 2018.

3 | Rule of Law

There is a clear separation of powers with mutual checks and balances. South Korea’s constitution grants substantial powers to the executive in general, and 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. In the 2016 parliamentary election, however, President Park Geun-hye lost her majority in the National Assembly.

The parliament has the power to impeach the president, a power it used in December 2016 to impeach President Park. Currently, the impeachment is under review by the Constitutional Court. 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. During the Choi Soon-sil scandal, many criticized that the close ties between the administration and prosecutor’s office were hindering a fair and just investigation. On a positive note, the Independence Council, charged with investigating the Choi Soon-sil scandal, appears to be earning increasing support from the public for its objective and independent investigation.

The South Korean judiciary is highly professionalized and independent, though not totally free from governmental pressure. Following the civil law tradition, prosecutors in South Korea are not independent, but rather civil servants that are hierarchically organized and prone to political influence. Some legal experts consider that the judges of the Constitutional Court, which ruled to dissolve the UPP in December 2014, are skewed toward the political right because a majority of the six-year term judges were appointed under successive conservative administrations (i.e., the Lee Myung-bak and Park Geun-hye administrations).

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. In 2016, a new anti-corruption law was passed that limits gifts to KRW 50,000 and meal invitations to KRW 30,000.

High-ranking officials, including former presidents and their families, have been frequently prosecuted for corruption and embezzlement. For example, in January 2013, Lee Sang-deuk, former President Lee’s brother, was sentenced to three years in prison for receiving bribes. In November 2016, President Park Geun-hye herself was indicted as an accomplice in the Choi Soon-sil scandal on criminal charges including extortion and abuse of power. Though she cannot be prosecuted due to her legal immunity as a president, she was impeached by the parliament in December 2016. It is likely that she will be prosecuted either after the Constitutional Court finalizes the impeachment or after her regular term ends in early 2018. Amid the Choi scandal and the scandal regarding the creation of a blacklist to penalize artists critical of the government, numerous former government members, including the president’s former chief of staff Kim Ki-choon and the acting culture minister Cho Yoon-sun, were detained pending trial.

Convicted white-color criminals often receive presidential pardons. For example, in 2013, President Lee was criticized for issuing special pardons to 55 convicted criminals, including close associates.

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 the courts have been reasonably effective in protecting civil rights and a Human Rights Commission was established in 2001, a number of problems remain. The government has failed to pass a comprehensive anti-discrimination law; the last attempt failed in 2013 in the parliament. In practice, violations of civil rights remain substantial. In 2016, it was revealed that the government had blacklisted more than 9,000 artists because they were critical of the government. Long existing issues also remain a challenge. The National Security Law remains in place, outlawing activities that could be interpreted as “benefiting or praising” North Korea. In its 2015/2016 report, Amnesty International “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 individuals in public demonstrations and there were cases when anti-government demonstrations were suppressed by force.

On a positive note, a moratorium on executions announced in 1998 remains in place although attempts to completely abolish the death penalty in the parliament as well as in front of the Constitutional Court have failed so far.

4 | Stability of Democratic Institutions

South Korea’s democratic institutions are generally effective, though the recent impeachment process of President Park has called into question the effectiveness of the presidential candidate selection process as well as the centralization of power within the presidency. It appears that the massive power held by the president undermines the performance of government because policy framing and implementation depend on a strong and capable president.

The performance of the parliament has arguably declined as well, particularly since the establishment of the National Assembly Advancement Act, which went into effect in May 2012. The act requires the consent of three-fifths of lawmakers before a bill can be brought to a vote during a plenary session and limits the power of the assembly speaker to bring a bill to a vote. The legislation aimed to prevent the majority party from unilaterally passing controversial bills using its majority. That means that without cooperation between the ruling and main opposition parties, or a significant defection from the opposition bloc, the ruling party is incapable of passing legislation. In fact, during the 19th National Assembly, the rate of bill passage dropped to about 40%.

Another performance-related 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. However, during recent pro-government demonstrations that were held to protest against the impeachment of President Park, some speakers called for the military to declare martial law. 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-
transient influence in major policy-making 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 party system is arguably the weakest link in South Korean democracy; parties are very unstable. Party organizations are weak with very few dues-paying members and largely without a grassroots connection. Parties are organized around a small number of powerful individuals and function largely as “electoral clubs” in order to bring members into public office, in particular the presidency. They are founded, merged, renamed and dissolved largely at will, leading to a relatively high degree of voter volatility. For example, in 2015, the opposition party of New Politics Alliance for Democracy split into two parties, the Minjoo Party of Korea and People’s Party. Following the impeachment of President Park in December 2016, the conservative Saenuri Party also split into a pro-Park and an anti-Park camp. The recent impeachment of President Park has also revealed the weakness of the primary system within the parties to vet and choose presidential candidates.

Local party offices are forbidden by law, contributing to the fact that parties have only weak grassroots connections. Regional fragmentation is another big problem, with the ruling party dominating the 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 toward 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 10.1% in 2012 (the latest figure available as of January 2017). 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. Recent corruption scandals in connection with the impeachment of President Park led many companies to leave the Federation of Korean Industry (FKI), which is the most important business association. The FKI is now facing dissolution.

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.

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. Despite the widespread political ambivalence to democracy among the older generation, most South Koreans have recognized the importance of democratic values and recent demonstrations against President Park show people’s internalization of democratic values. At the same time, a small number of diehard Park supporters have moved further to the right, going as far as to demand the declaration of martial law.

Approval of specific democratic institutions is much weaker than general support for democratic values. According to the World Value Survey (2015), only 25.5% of South Korean respondents have confidence in the parliament and 26% in political parties. On the other hand, confidence in the government, civil service, military and particularly the courts is much higher.

Peaceful demonstrations to demand the impeachment of President Park drew more than one million people in November and December 2016. These demonstrations have shown that South Koreans are willing and able to defend their democracy peacefully.

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 2015 World Values Survey the level of trust has further declined. South Korea scored lower than neighboring countries such as China, Japan and 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. In recent
protests and demonstrations, a new phenomenon was that particularly younger
demonstrators wore masks in order not to be recognized. This, too, signals a low level
of generalized trust.

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 0.302 in 2014 (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).
In particular, old-age poverty remains a problem.

South Korea was ranked 17th worldwide in the UNDP’s 2014 Human Development
Index (HDI, up from 25th place in 2006, but down from 12th place in 2010), and was
ranked 17th in the Gender-related Development Index (GDI). Although
unemployment is relatively low at 3.5%, youth unemployment increased from 7.5%
in 2012 to 9.2% in 2015, and this figure does not include college students delaying
graduation. A worrying trend is the large share of irregular jobs with comparatively
low salaries, a lack of job security and weak labor union organization. According to
Yonhap News, the number of irregular workers exceeded 6.4 million, with the income
gap between them and regular workers widening. The share of irregular workers
remained over 32% in 2016, though it is gradually decreasing as the number of
regular jobs also increased in recent years. 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 nominally decreased from 71.4% in
2014 to 71.1% in 2015. During the same period, the employment rate for women
slightly increased from 60.2% to 60.3%.
### Economic Indicators

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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net lending/borrowing (%)</td>
<td>1.4</td>
<td>1.0</td>
<td>0.8</td>
<td>-</td>
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<tr>
<td>Tax revenue (%)</td>
<td>14.3</td>
<td>13.9</td>
<td>13.9</td>
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<td>Government consumption (%)</td>
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<td>15.1</td>
<td>15.0</td>
<td>15.2</td>
</tr>
<tr>
<td>Public education spending (%)</td>
<td>-</td>
<td>-</td>
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<td>-</td>
</tr>
<tr>
<td>Public health spending (%)</td>
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<td>4.0</td>
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<td>-</td>
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<td>R&amp;D expenditure (%)</td>
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<td>4.3</td>
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<tr>
<td>Military expenditure (%)</td>
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<td>2.6</td>
<td>2.6</td>
<td>2.6</td>
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Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

### 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 primarily not limited by government intervention, but rather by private monopolies, oligopolies and cartels. 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.
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. 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 to 1998 crisis. For example, since the merger of Hyundai and Kia, one South Korean car maker controlled about 59% of the country’s car market in 2016, though this was the lowest number ever and a plunge from 68% the year before. LG and Samsung dominate the market in electronics and KT and SK account for most mobile phone and internet services. Samsung, as the largest conglomerate, alone accounts for about 20% of all South Korean exports. Price cartels are widespread, including in markets for imported products. The structure of the South Korean market makes it very difficult for new companies to enter; SMEs and even large foreign multinationals have found it difficult to establish themselves in South Korea. The squeezing of SMEs by big conglomerates has recently become an important political issue and President Park had originally promised to reduce chaebol power and strengthen SMEs, but since then failed to deliver on her promises.

KFTC tries to rein in the conglomerates, but market-oriented reforms have 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. Notwithstanding, the slow but continuous opening of the South Korean market to foreign products has increased competition. For example, the entry of Apple’s 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 appears
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, but to the oligopolistic structure of the South Korean market, which makes it difficult for newcomers to enter.

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.

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 2014, private household debt reached 163% of disposable income, a slight increase from 161% in 2013.

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. Like other major central banks, the BOK has been undershooting its inflation target of 2% as the increase in consumer prices, inflation was only 0.7% in 2015 and 1% in 2016. BOK stated that this failure was mainly due to the fall in global raw material prices, in addition to a delayed economic recovery at home.

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 37.9% of GDP in 2015. 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.

South 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 controversial and corruption-stricken Four Major Rivers Restoration Project, are now under investigation for corruption. The Park administration promised to spend public funds more wisely to benefit the general public, but it has been criticized for tightening government spending too much. On the local level, as local-government debt levels have increased, the Park administration proposed the introduction of a bankruptcy system for debt-ridden local governments, which would hold them responsible for fiscal deficits and force them to cut their debt. Moreover, rising welfare costs are causing further tensions between local and central government as a system of burden sharing is negotiated, which may lead to further deterioration in fiscal sustainability.
9 | Private Property

Private property rights are constitutionally protected (Article 23 of the Korean constitution) and respected in practice. Expropriation of property is usually done with proper compensation, though there have been problematic exceptions. According to a 2015 inspection conducted by the National Assembly, there were about 26 square kilometers of uncompensated lots (valued at about $482 million) appropriated by the government for building roads and railroads. In addition, a 2016 inspection revealed that about 25 square kilometers of land (valued at about $380 million) was taken by the military without compensation. The State Property Act was amended in March 2016 to alleviate the difficulties faced by property owners whose property had been appropriated. High real estate prices and skyrocketing housing costs have recently led 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. South Korea has strict intellectual property laws, but enforcement can be difficult.

Private enterprises are regarded as the engine of growth in South Korea. In the World Bank’s 2017 Doing Business report, South Korea ranked in 5th place, one place down from 2016. Full public ownership is largely limited to public utilities. The state is involved in around about a hundred state-run enterprises and investments. The Park administration has expressed a will to privatize sectors, including energy, water supply, railroads, subways, finance, and medical services, in line with the previous Lee government, which caused a series of protests in 2016 by the financial workers’ union, health workers’ union, and railroad and subway workers’ union. Despite these protests and legal struggles, privatization activities are in progress and are often criticized for being tainted by corruption and a lack of transparency. For example, in December 2013, the Korean Railway (KORAIL) Workers’ Union went into its longest strike to prevent the government from privatizing the KTX Suseo line, SRT, connecting Gangnam in Seoul to Busan. In December 2016, SRT began operations; the service has been welcomed for its lower prices, but also criticized for unfair competition, because unlike KORAIL, SRT is not mandated to provide train services on unprofitable train routes to smaller cities and villages.

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 low, at 10.4% in 2016 (according to OECD data), which is the second-lowest in the
OECD, just ahead of Mexico. The universal health insurance program is the most advanced part of the welfare state, though medical treatments still require quite high co-payments. General coverage for diseases remains as low as 60%, far below the OECD average of 80%. The Park administration pledged free medical services for cancer, cardiac disorders, cerebrovascular diseases and rare incurable diseases. However, the ministry of health and welfare announced 77.7% coverage from the health insurance system for these diseases in 2014 and a target to reach 80% coverage in 2018.

In most other areas, social welfare entitlements have been restrictively defined, covering only the bare minimum for a limited amount of time. Recently, however, 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 KRW 100,000 to KRW 200,000 ($100 – $200) a month. This basic old-age pension cost about $8.7 billion in 2016. In other areas, social welfare spending is less generous. For example, welfare 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. Yet, there are local governments increasing their welfare budget for the young, including Seongnam City and Seoul City, in the form of youth dividends or benefits. Despite objections from the central government and ruling party, these programs have been welcomed by both residents and non-residents. 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, minority and social disadvantaged groups such as migrant workers, irregular employees, handicapped persons and refugees from North Korea 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.

Lack of social mobility is increasingly becoming a problem as private university tuition costs are very high, preventing students from poorer families from attending good private universities. The number of students at public universities, which cost about half of private universities’ tuition, remains very low. In addition, private lessons and private preparation institutes for the entrance examination become one of the main financial burdens, often limiting students from poorer families in the...
competition to enter good high schools or universities. Women had a tertiary enrollment rate of 81.3% that of men in 2014, according to the World Bank database, 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 five female members for her cabinet – three of them were for the Ministry of Gender Equality and Family. According to the Economist’s glass-ceiling index, South Korea is at the bottom of the ranking with a score of 25 along with Turkey and Japan. The rate of women in parliament in 2015 was 16.3%. In addition, the rate of women in senior managerial positions was 11% in 2012 and that of women on company boards was only 2.1% in 2015. It is thus no surprise that South Korea was ranked only 116th out of 144 countries in the 2016 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) in 2015. 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 2014, South Korea had a GDP growth rate of 3.3% and of 2.6% in 2015, as calculated by the OECD Economic Outlook. The country remains highly dependent on exports for its growth while domestic consumption remains sluggish. According to the World Bank, South Korea’s current account increased to 7.7% of GDP in 2015 up from 6% in 2014. The country enjoys relatively low unemployment rates and low levels of government debt. The unemployment rate was about 3.7% in 2016, the lowest in the OECD. However, youth unemployment (individuals between the ages of 15 and 29) is much higher at 9.2% in 2015. 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.

Growth rates in South Korea are on a downward trajectory as is expected for an increasingly developed economy. The country has struggled to adapt to a lower growth environment in particular due to the weak welfare state. Previously, the government had relied on high growth rates to solve social problems, a strategy that has become unworkable.

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. In November 2016, South Korea’s National Assembly ratified the Paris Agreement, which aims to hold the increase in the global average temperature below 2 degrees Celsius by reducing carbon emissions. However, national goals to cut greenhouse gas emissions by 37% below “business as usual” by 2030 remain below South Korea’s potential, in particular because some of those “reductions” would be made through international carbon credits. Currently, the website Climate Action Tracker ranks South Korea’s efforts as “inadequate.”

South Korea’s ranking at 80th place in Yale University’s 2016 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 173rd out of 180 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. In 2016, the government lowered electricity prices even further amid a hike in electricity bills due to a summer heat wave. This measure further reduced the incentive to conserve energy. South Korea is also one of the few countries in the world that is still 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 enrollment, including an approximately 95% tertiary enrollment 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.

South Korea’s public expenditure on education was 4.6% in 2012 and total expenditure on education was 5.9% of GDP, higher than the OECD average of 5.2% in 2013. About 36% of education spending is provided 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 was an impressive 4.3% of GDP in 2014. South Korea has almost 12 researchers per 1,000 employees, which also compares very favorably with other OECD countries. While the country is doing very well when it comes to “applied science,” there are concerns that basic research, the humanities and social sciences are being further sidelined, particularly as higher education institutions face restructuring due to a coming decline in the school-age population.
Governance

I. Level of Difficulty

Structural constraints on governance in South Korea are low. 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 other OECD member states. South Korea has not been strongly affected by natural disasters or pandemic infections; the total number of people living with HIV/AIDS is low, estimated to be 8,544 in 2012.

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 well-developed local public transportation (particularly in Seoul), high-speed bullet trains, and major international ports and airports.

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. In 2016, CSOs played an important role in organizing the protests against President Park that lead to her impeachment. 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.

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, but largely non-violent. Previous (mostly symbolic) violent clashes between politicians in
parliament have largely disappeared, in particular since the National Assembly Advancement Act in 2012.

The controversy surrounding President Park in 2016 and 2017 demonstrated the deep divide in South Korean society between the older and younger generations and liberals and conservatives, though the pro- and anti-Park protests remained non-violent and peaceful (with very few minor exceptions). Recently, some pro-government demonstrators protesting the impeachment of President Park have called for the declaration of martial law – a rather illusionary call. These calls did not receive a positive response from the rest of society, political or military elites.

II. Governance 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. She replaced her original plans with ambiguous projects on the creative economy and deregulation without setting a clear and coherent agenda. With the loss of her parliamentary majority in April 2016, President Park became a lame-duck president even before her impeachment in December 2016.

Another obstacle to setting strategic priorities is that while South Korea has a very well-trained bureaucracy that ensures some continuity, leadership positions tend to have a short tenure. Ministers and state secretaries are frequently replaced and, inside ministries, staff rotations occur frequently. Thus, ministerial staffs 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.

South Korea’s presidential system used to be seen as a system with a strong executive that was efficient in policy implementation. This was particularly true when the governing party held a majority in the parliament and before the lame duck period set in about one year prior the next presidential election. According to the constitution, the president is limited to a single term. The last two years, however, have cast many
doubts about the effectiveness of the South Korean presidential system as well as the
willingness and capability of the Park administration to 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 her conservative party’s strong majority in the
parliament until April 2016, many of her policy initiatives stalled. Institutionally,
there are limitations on the majority. Since passage of the National Assembly
Advancement Act in 2012, many laws require the support of the opposition to move
to the parliamentary floor for a vote. Thus, new legislation requires consensus-
building. In this context, President Park’s lack of skills in communicating her policies
to parliamentarians and the public were blamed for her failure to implement policies.
The president did not often appear in public, meet with parliamentarians or give press
conferences. In April 2016, the conservative party of President Park lost its majority
in the parliament, which made her a lame duck president even before her
impeachment in December 2016.

The government’s ability to engage in policy learning is generally 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.

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.

15 | Resource Efficiency

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. The
OECD calculated that the government production costs constitute only 17.6% of
GDP, the third-lowest in the OECD in 2012 (latest data available). 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. At the local level, budget problems have become worse, mostly due to prestige construction projects that lack economic benefits. Local governments, particularly in rural areas, often lack financial autonomy and depend on the national government for support.

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. Within the government, the finance ministry has budget planning authority and is clearly dominant, able to block initiatives by the line ministries.

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’s office. 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. From the beginning of her administration, President Park was criticized for her authoritarian style of governing. During the last two years, the effectiveness of coordination by the president’s office substantially diminished as controversies over President Park’s conduct in office increased and she was ultimately impeached by the parliament in December 2016.

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 nine 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.

A new anti-corruption law was enacted in March 2015, the Improper Solicitation and Graft Act (colloquially, Kim Young-ran Act). Among other things, it bars public servants, journalists and teachers from accepting a meal worth more than KRW
30,000 (about $27), if there is a potential conflict of interest. Besides the restrictions on meals, the law bars people in the targeted professions and their spouses – estimated to be four million, out of a total population of 51 million – from accepting any gift worth more than $45 (or $90 at weddings and funerals), if a conflict of interest could exist. In addition, with few exceptions, people in these fields are simply forbidden from accepting any gift worth more than $910. However, many controversies have arisen since there is confusion on how to interpret “job relevance” and “conflicting interests.”

While institutions to prevent corruption have improved, violations remain frequent. In December 2016, President Park was impeached by the parliament due to (among other things) abuse of power and allowing her friend Choi Soon-sil to influence state affairs, including the establishment of two foundations that collected donations from private companies. Corruption in the private sector is particularly high as large companies use their market power to get favorable deals, in particular with subcontractors. Vibrant civil society organizations and a watchful public are very sensitive to signs of corruption. This was exemplified by the impeachment of President Park, which was triggered by protests against the abuse of power by the president.

16 | Consensus-Building

South Koreans had a successful democratic revolution in 1987 and are ready to defend this achievement when they see their democracy at risk. 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. In general, the society is organized in a hierarchical way and, while South Koreans are instrumentally committed to democracy, many democratic values and norms are not intrinsically internalized into South Korean culture. About one-third of citizens still think that authoritarianism is sometimes better than democracy. During recent demonstrations against the impeachment of President Park, there were individual voices calling for martial law, though this is very unlikely since civilian control of military has been fully established.

All major political actors support a market economy and South Korea is one of the few countries in which a market economy is explicitly protected by the constitution. 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. Recently, individual protesters against the impeachment of President Park have called for a military intervention, but despite a long tradition of military rule (1961 – 1987) there are no signs that the military has any ambitions or ability to reenter politics.

South Korea’s political leadership is relatively effective in curbing ethnic, class and regional conflicts. Regional cleavages remain substantial as the southeastern provinces tend to vote conservative and the southwestern provinces vote liberal. Recent elections also show an increasing generational divide as a majority of the younger generation (in their 20s and 30s) voted for the liberal opposition party while those in their 50s and 60s supported conservative candidates. Increasing social inequality may in the future exacerbate conflicts. In the past, leaders have counted on and promised economic growth as the main route to solve social conflicts. As this solution becomes increasingly difficult in a maturing economy, it is expected that social conflicts will increase. It should also be noted that the social gap between regions has been gradually narrowing, while the gap between younger and older generations has become wider in recent years.

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 policy-making 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. It should also be noted that some progressive political leaders in local government have made efforts to invite civil society into the policy-making process.

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 to 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 weighed down bilateral relations. In December 2015, an agreement was reached between South Korea and Japan. As a result, Japan apologized and paid an $8.3 million restitution for the women. However, the victims have refused to accept the money, because they were largely excluded from the negotiation process. A related contentious issue was the government’s removal of memorials to Korean sex slaves located close to Japanese diplomatic missions. The re-installment of one such statue near the Japanese consulate in Busan led to the temporary recall of the Japanese ambassador from Seoul. The prospects of investigating and punishing the massive human rights violations in North Korea after a possible reunification is another major challenge that South Korea must prepare for.

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. South Korean ODA was 0.14% of GDP in 2015, an 8.3% increase in real terms from 2014, according to the OECD database.

South Korea is considered to be a very credible partner by the global community, but it does not show strong initiative to advance international cooperation. It is a member of the United Nations, WTO, IMF, World Bank, G-20 and many more of the most important international organizations. South Korea is seen as an “emerging middle power” and many believe that the country could play an important role as a bridge between the developing and developed world. Under the Park administration, interest in international institutions somewhat declined as foreign policies were refocused on
issues such as bilateral relations with North Korea, the United States, Japan, China and Russia.

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 committed itself to mandatory reductions by ratifying the Paris Agreement in 2016, though there is substantial criticism that the national goals are not ambitious enough. On a positive note, South Korea hosts the Green Climate Fund, a UN organization supporting developing countries in achieving ecological sustainable development.

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.

The relationship with North Korea has deteriorated compared to the first two years of the Park Presidency amid North Korean nuclear and missile tests as well as South Korea’s attempt to implement stricter sanctions. 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.

Territorial disputes with Japan (over Dokdo Island) and China (over Ieodo submerged rocks) have been a long-term issue, but conflicts appear to be intensifying. While the South Korean and Japanese governments reached an agreement on “comfort women or sex slaves” at the end of 2015, there has been mounting tension because the agreement upset South Koreans who believed the agreement was unfairly and improperly negotiated. Recently, tensions with China escalated as South Korea joined the U.S. missile defense system by installing THAAD (Terminal High Altitude Area Defense) missiles on the Korean peninsula. South Korea is also 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.
Strategic Outlook

It is expected that the new president will be more responsive to the public and respectful of civil and political rights than Presidents’ Park and Lee. In general, the dramatic events of 2016 and early 2017—the unexpected loss of the parliamentary election by President Park’s conservative party, the investigations into issues of abuse of power and finally her impeachment—brought many opportunities for deepening Korean democracy as citizens have mobilized in the millions to protest against a government that they found incompetent and corrupted. This unexpected massive mobilization was largely spontaneous but also involved a large number of organizations from Korea’s vibrant civil society. The political scandals have also increased discussion about reducing the power of the president and even switch to a cabinet style parliamentary system.

Economically growth remains robust although it depends on exports while domestic consumption and investments remain weak. Growth also does not help those struggling from entering the job market or the irregular workers with weak job protection and lower salaries. The division of the economy into powerful export oriented business conglomerates on the one hand and struggling SMEs on the other is a task that any new government will need to address. Improving the welfare state will be another major challenge for future governments to facilitate Korea’s transformation into a mature low growth economy and high technology economy. 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 prosperity and 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. Declining growth rates in the region as well as U.S. President Trump’s protectionist policies pose serious challenges to Korea’s export-oriented economy.

Environmental issues are also gaining in importance as South Koreans aim to improve their quality of life beyond purely material gains. Pollution, especially fine particles, are creating growing dissatisfaction and health concerns. The ability to tackle environmental pollution and the associated economic costs will be one of the major challenges of any future administration. South Korea is far behind most OECD countries on environmental policies such as renewable energy, environmental taxes, and pedestrian- and bicycle-friendly cities. The country will continue its path as a globally relevant middle power, evidenced by its G20 membership, donor contributions for development cooperation and ratification of the Paris Agreement.

The military threat from North Korea remains the government’s most daunting challenge. It is expected that a newly elected administration will not continue the failed confrontational approach pursued by the Park and Lee administrations, returning to some type of engagement. South and North Korea are technically still at war despite the armistice of 1953, the signing of a peace treaty
is long overdue. At the same time, the election of Trump as U.S. president has made the situation more difficult as it is not clear what kind of policy his administration will pursue toward North Korea. The February 2017 assassination of Kim Jong-nam, estranged half-brother of Kim Jong-un, in Kuala Lumpur International Airport reportedly by North Korea appeared to further complicate the regime’s relationship with South Korea, the United States and China. Dealing with the brutal dictatorship to the north will not be an easy task and likely create many political controversies within South Korea and with the United States. Conflicts with neighboring countries such as Japan and China have made regional cooperation also less likely. Preventing an arms race in the region will be essential to preserving peace in East Asia.