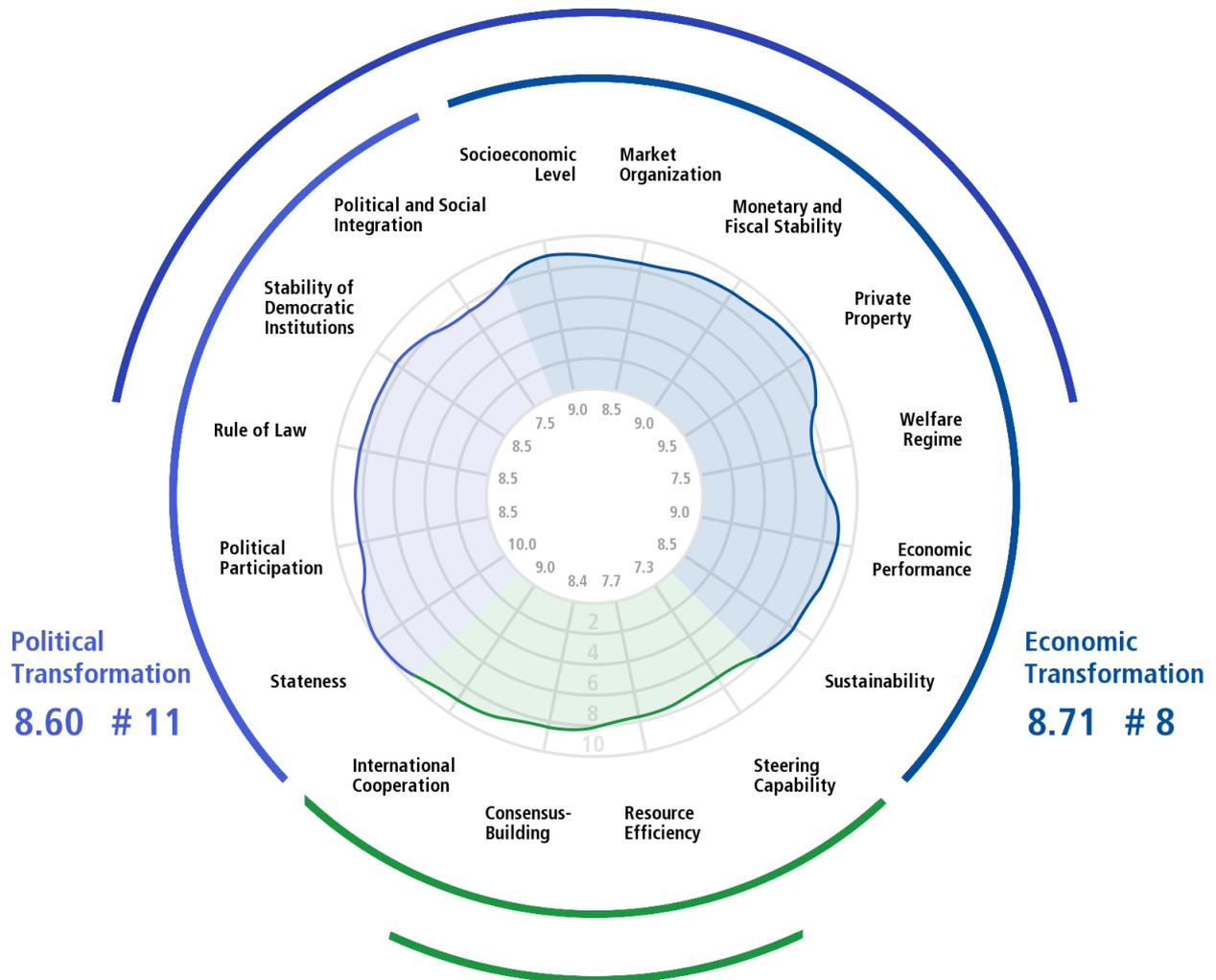


South Korea

Status Index

8.66 # 10

on 1-10 scale out of 137



Political Transformation
8.60 # 11

Economic Transformation
8.71 # 8

Governance Index

6.65 # 14

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2020 Country Report – South Korea. Gütersloh: Bertelsmann Stiftung, 2020.

This work is licensed under a [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/).

Contact

Bertelsmann Stiftung
Carl-Bertelsmann-Strasse 256
33111 Gütersloh
Germany

Sabine Donner

Phone +49 5241 81 81501
sabine.donner@bertelsmann-stiftung.de

Hauke Hartmann

Phone +49 5241 81 81389
hauke.hartmann@bertelsmann-stiftung.de

Robert Schwarz

Phone +49 5241 81 81402
robert.schwarz@bertelsmann-stiftung.de

Sabine Steinkamp

Phone +49 5241 81 81507
sabine.steinkamp@bertelsmann-stiftung.de

Key Indicators

| | | | | | | |
|--------------------------|--------|-------------|--------------------------------|--------------|----------------------|--------------|
| Population | M | 51.6 | HDI | 0.906 | GDP p.c., PPP \$ | 40112 |
| Pop. growth ¹ | % p.a. | 0.3 | HDI rank of 189 | 22 | Gini Index | 31.6 |
| Life expectancy | years | 82.6 | UN Education Index | 0.862 | Poverty ³ | % 0.5 |
| Urban population | % | 81.5 | Gender inequality ² | 0.058 | Aid per capita | \$ - |

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

The observation period from February 2017 to January 2019 saw a number of dramatic political changes in South Korea, as President Park Geun-hye was impeached after massive public protests in the 2016 to 2017 period. With the election of President Moon Jae-in in May 2017, a liberal president gained power after almost 10 years of conservative rule. Despite the difficult circumstances, the new administration managed to accomplish a relatively smooth transition. The Moon administration's governing and public-communication styles are very different than those of the preceding conservative administrations, which were criticized as being authoritarian and nontransparent. The new government has also started to implement some of its campaign pledges to create more substantial policy changes. The announcement of an "income-led growth strategy" represents a dramatic change from previous governments, which largely relied on industrial policies to stimulate the economy. For example, the administration increased the minimum wage by 16.4% in 2018 to KRW 7,530, and promised to further increase it to KRW 10,000 by 2020, while also reducing maximum weekly working hours from 68 to 52 hours. At the beginning of 2019, the minimum wage surpassed the KRW 8,000 mark, reaching KRW 8,350 (\$7.37) per hour, which represents an increase of 10.9% relative to 2018. While an income-led growth strategy seems well suited to reducing Korea's dependence on exports, it has also drawn criticism from the business sector. To some degree, President Moon has already backtracked from some of his promises, saying that implementation would be "flexible." Other measures targeting rising real estate prices in Seoul and the massive amount of private household debt have also been criticized as ineffectual. The rising youth-unemployment problem has also undermined support for Moon among young people aged between 19 and 29, with his favorability ratings within this cohort falling to about 60% from 88% in 2017. During the same period, the share of people holding a negative view of the president has rapidly increased to 28% from its previous level of 7%. In general, implementation of Moon's campaign pledges ("100 policy tasks") remains a major challenge, particularly because the government lacks a majority in parliament. In addition, the preference given for consensus-building in the Korean governance system is particularly

problematic for deeper institutional reforms, including election reform, judiciary reform and education reform. Moon's plan to decentralize power away from the presidency, in part by strengthening the prime minister, has also stalled due to the institutional and cultural inertia of centralized power.

Economically, Korea is doing relatively well compared to other OECD countries. The country's annual GDP growth rate of 3.1% in 2017 was above the OECD average of 2.6%. Korea is a major exporter with a strong current account surplus and is home to many highly competitive multinational corporations producing a great variety of products in the automotive, IT and other industries, although this also leaves the country vulnerable to global market volatility and protectionist tendencies. The overall unemployment rate remains low at 3.7%, the fifth-lowest such rate in the OECD. However, Korea's labor-market participation rate remains below average, and the lack of social mobility is causing an increasing degree of concern, particularly among the younger generation. The younger generation is very well educated, but many of its members can only find precarious jobs. While government debt levels remain comparably low, the high cost of living and particularly high housing costs and real estate prices have led to massive household mortgage debt, exacerbating social challenges. Among the weakest areas are social welfare and environmental sustainability, where Korea trails much of the rest of the OECD. In particular, very high levels of air pollution have recently become a major concern. Korea is also falling further behind the leaders in the transition to a carbon-neutral economy.

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, the Kim Young-ran Act), reflects a citizenry that is becoming less tolerant of corruption and abuses of power. South Korean civil society remains vibrant. Political and civil rights are generally respected, although there is still considerable room for improvement. The National Security Law, a holdover from the period of military dictatorships, remains in place. Limitations on the freedoms of association and assembly continue to exist, along with some internet censorship and government interference with the press. Discrimination particularly against women, sexual minorities and migrants remains a significant problem.

With regard to foreign policy, President Moon has abandoned the hardline rhetoric of previous governments and has actively sought negotiations and cooperation with North Korea. This has helped deescalate the dangerous confrontation on the Korean peninsula. Unfortunately, South Korea still shows less commitment to development cooperation and climate protection within international and regional institutions than what might be expected from the globe's 11th largest economy and the 7th largest emitter of greenhouse gases.

History and Characteristics of Transformation

South Korea has been very successful in economic development since the 1960s and in 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. Still, the military-backed political party under General Roh Tae-woo won the presidential race in the first elections, held in December 1987. 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 in the area of civil-military relations, electoral politics and the judicial system. The December 1997 election of former dissident Kim Dae-jung as the first president from the opposition demonstrated that all relevant forces had been integrated into the political system. Kim Dae-jung is given particular credit for managing the successful recovery from the Asian financial crisis (1997–1998) and engaging 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, in part by negotiating controversial preferential trade agreements with the United States and the European Union. Ultimately, Roh failed to deliver on many his promises and was criticized for presiding over 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 was also 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. However, she failed to deliver on her promises. On the contrary, she was criticized for her authoritarian governing style, botched staff appointments and human-rights infringements. After several top-level corruption scandals led to massive street protests, President Park was impeached by the parliament in 2016; the impeachment was upheld by the Constitutional Court, leading to early elections in May 2017.

South Korea's transformation from a protectionist and state-directed developmental state to a more open and market-oriented economy is progressing slowly. Both the legacy of the developmental state and the state's close relationship with big business conglomerates (*chaebol*) remain strong,

continuing 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 that was implemented from the 1960s onward. 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 that still impair competition.

In its foreign relations, Korea has been highly focused on its main adversary in the North, along with the strong military presence of its main ally, the United States. In the past, Korea has been a very inward-looking country, although over the last two decades it has become increasingly involved in global and regional international institutions such as the United Nations, the World Trade Organization (WTO), the G-20, the OECD and the ASEAN plus 3 process.

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 has effective control only 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 pledge 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. Some religious groups – particularly conservative evangelical groups – seem to punch above their weight, for example in lobbying against new anti-discrimination laws. However, this force is largely political, and does not today reflect systematic influence on institutions and the legal system.

Question
Score

Monopoly on the
use of force

10



1

State identity

10



1

No interference of
religious dogmas

10



1

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.

Basic
administration

10



1

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 reputation of potential political candidates.

Free and fair
elections

9



1

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. Deposit requirements for individuals applying as candidates are relatively high, as is the age of eligibility for office. The controversial National Security Law bans parties that are “pro-North Korean.” In December 2014, the Constitutional Court ruled that the United Progressive Party was to be disbanded, as its pro-North Korean stance violated this law.

The opaque character of South Korean election law concerning allowable support for candidates during the election period, which can last for up to 180 days before an election, represents an electoral gray area. According to some interpretations of Article 93 of the election law, all public expressions of support for candidates or parties are illegal during this period unless one is registered as an official campaigner. This can be seen as a disadvantage for smaller candidates who lack their prominent rivals’ access to traditional media. In general, small parties have a difficult time in gaining coverage in the mainstream media.

Access to media is more generally an issue of concern, as are past scandals that have involved the National Intelligence Service (NIS) seeking to influence the course of electoral campaigns. Since 2011, Freedom House has rated the South Korean media environment as being no more than “partly free.” The same “partly free” rating is applied to internet freedom, which is particularly worrying given that small opposition groups depend on the internet to publicize their positions.

During the 2012 presidential campaign, there was a major scandal involving the 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 and 2017 presidential elections are generally considered to have been free of interference by the NIS.

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-U.S. 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 peacetime.

The freedoms of association and assembly are guaranteed and in principle respected, but some major problems remain. 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 quell opposition to government policies.

Although this situation has improved under the Moon administration, there are still some issues when it comes to the freedom of association and assembly. For instance, the government still refuses to legalize the Korean Teachers and Education Workers Union (KTU), because it allows fired employees to remain members. In general, labor unions still face considerable difficulty in organizing. For example, businesses can sue labor unions for compensation for “lost profits” during strikes, and civil servants are also limited in their political freedom. Labor unions are also still legally limited with regard to their freedom to engage in political activities. In May 2018, Han Sang-gyun, president of the Korean Confederation of Trade Unions, was finally released from prison after serving almost two and a half years because he had been made legally responsible for what Amnesty International calls “sporadic clashes between protesters and police, and for his role in organizing a series of largely peaceful anti-government protests in 2014 and 2015.”

On a hopeful note, President Moon has promised to sign the remaining four of the eight basic conventions of the International Labor Organization, including two that address the freedom of association and collective bargaining. Labor unions are allowed to operate in the private sector, but remain restricted in the public sector. Demonstrations in South Korea require prior approval, which can be hard to obtain. In practice, many demonstrations are declared illegal, sometimes due to minor issues such as the obstruction of traffic. In 2016, however, large demonstrations of more

Effective power to govern

10



Association / assembly rights

7



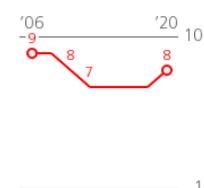
than 1 million people demanding the impeachment of President Park were held completely peacefully and without major police interference. The events of 2016 might be seen as a signal that association and assembly rights are being interpreted more liberally than previously.

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. 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.

Press and internet freedom remain additional areas of concern. Since 2011, Freedom House has rated the South Korean media and internet environment as being only “partly free.” However, under the Moon administration, South Korea has shown significant improvement with regard to media freedom. Reporters Without Borders ranked South Korea at 43rd place in the 2018 World Press Freedom Index, 20 places higher than the previous year. Despite these improvements with regard to media freedom, some issues remain to be addressed. Reporters Without Borders, for example, criticizes the system by which managers at public broadcasters are appointed. Furthermore, Korea has very problematic anti-defamation laws that punish defamation (even in the case of true statements) with harsh prison terms if they are not seen as being in “the public interest.” Defamation suits are frequently filed as a means of preventing critical questions from journalists or civil society, and of muting political opposition.

Freedom of
expression

8



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 parliament has the power to impeach the president, a capacity it used in December 2016 to impeach former President Park. In spite of this, the first successful impeachment procedure in the history of South Korean parliaments, most observers agree that the South Korean presidential system is a paradigmatic example of an "imperial presidency," at least during times of symmetric majorities in the Blue House and the Kukhoe, the unicameral South Korean parliament.

While the legislature is subordinate to the executive branch, the judiciary is generally able to check the power of the executive, and the Constitutional Court in particular has earned some reputation for its independence. For example, after Park was jailed in 2017, her predecessor Lee Myung-bak was sentenced to 15 years in prison for corruption in October 2018.

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 are rather civil servants who are hierarchically organized and prone to political influence.

Since its establishment in 1989, the Constitutional Court has become a very effective guardian of the constitution. In March 2017, the Constitutional Court unanimously upheld the impeachment of former President Park amid massive public protests, demonstrating its independence from government influence. That event also enhanced public awareness regarding the independent role of the Constitutional Court. While the legislature is subordinate to the executive branch, the judiciary is generally able to check the power of the executive, and the Constitutional Court in particular has earned some reputation for its independence.

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.

The situation has improved following the massive corruption scandals involving the two previous governments, although the abuse of power for private gain remains a major problem in Korea in general. The Me Too movement has brought many abuse-

Separation of powers

9



1

Independent judiciary

9



1

Prosecution of office abuse

8



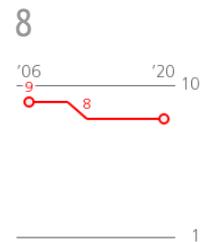
1

of-power cases to light. As seen during the protests against President Park, the Korean public, civil society organizations and the media are vigilant and ready to protest top-level abuses of power effectively. Courts have also been tough on those involved in corruption scandals, handing down prison sentences to many involved. Park's predecessor received a 15-year jail sentence in October 2018, which means that the two most recently serving ex-presidents are now in jail for bribery and corruption. President Moon has promised to strengthen anti-corruption initiatives and said he would not pardon members of the elite involved in corruption scandals, as has been common practice in Korea in the past. Positive institutional changes such as the Kim Young-ran Act are today showing results and have effectively curbed Korean gift-giving traditions. Despite the strong campaign against corruption in the public sector, there has been less success in curbing corruption and influence peddling by big business groups. In February 2018, an appellate court reduced the five-year prison sentence handed down to Samsung Electronics Vice Chairman Lee Jae-yong to a suspended sentence of two-and-a-half years. This controversial decision was seen as being extremely lenient when compared to the long jail sentences given to former public officials.

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 National Security Law remains in place, outlawing activities that could be interpreted as “benefiting or praising” North Korea. 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. On a positive note, the Korean Supreme Court accepted “conscience or religious beliefs” for the first time in November 2018 as a valid reason for conscientious objection to the country’s mandatory military service. In so doing, it overturned a lower-court ruling in which a Jehovah’s Witness was sentenced to 18 months in prison. It remains to be seen how the government will react to this ruling and whether it will offer a civil-service alternative for conscientious objectors. A moratorium on executions announced in 1998 remains in place, although attempts to completely abolish the death penalty in the parliament and the Constitutional Court have thus far failed.

The government has to date failed to pass a comprehensive anti-discrimination law that would protect minorities, and discrimination on the basis of sex, age and sexual orientation remains a problem.

Civil rights



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 desirability of centralizing power at the presidential level. It appears that the massive power held by the president undermines the performance of government overall, as policy framing and implementation depend on a strong and capable president.

The performance of the parliament is hampered by the National Assembly Advancement Act of 2012. The act requires the consent of three-fifths of lawmakers serving on parliamentary committees before a bill can be brought to a vote in the plenary and limits the power of the assembly speaker to bring a bill to a vote. The legislation was intended to prevent the majority party from unilaterally passing controversial bills using its majority. However, this 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.

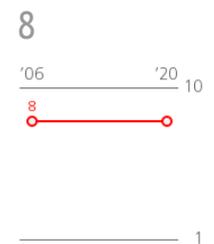
Another performance-related problem is the lack of independence accorded to local governments, as they depend on the central government for revenues. The central government often uses its leverage to intervene in local affairs.

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. Democratic institutions are accepted as legitimate by all relevant actors. However, personal networks and loyalties are sometimes considered to be more important than institutions. One serious concern is the massive degree to which economic power is concentrated, and the lack of respect that some economic elites show for the law.

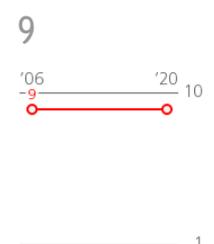
5 | Political and Social Integration

The party system is arguable 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. Korea's first-past-the-post election system is an important contributing factor in this personalized political system and in the weakness of party organizations. 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,

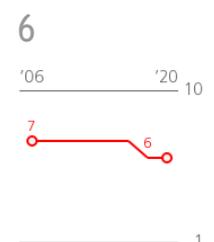
Performance of democratic institutions



Commitment to democratic institutions



Party system



renamed and dissolved largely at will, leading to a relatively high degree of voter volatility.

The impeachment of former President Park revealed the problems with power being centralized in the hand of the president. President Moon has promised to decentralize powers and plans to hold a referendum to amend the constitution in this manner. However, the constitutional-reform process stalled in 2018 due to objections from the opposition parties.

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. One of the few really distinctive policy areas are policies toward North Korea.

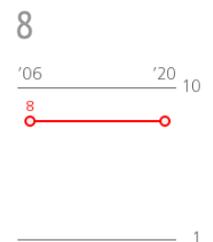
South Korea has a lively civil society with an average range of interest groups reflecting most social interests. However, some powerful interests have privileged access to the corridors of power. Business is well represented by networks of interlocking and expertly staffed interest groups. Labor unions are much weaker and lack the same kind of access to the government.

As compared to the two previous conservative administrations, President Moon has emphasized the importance of being open and communicative with the public. He holds frequent discussions with civil society groups and top business leaders and allows Q&A sessions during press briefings. While the government has made efforts to improve contacts with civil society, not all such attempts have been successful. For example, the tripartite process with labor unions and business groups has provoked a backlash, as one of the largest labor-union umbrella groups (KCTU) has refused to participate.

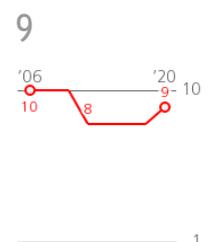
There is growing number of civil society organizations (CSOs) with clear-cut political, religious, humanitarian, social or economic agendas. Personal networks link former pro-democracy and human rights activists within civil society and the political system.

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 this process 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 moved further to the right, going as far as to demand the declaration of martial law.

Interest groups



Approval of democracy



Approval of specific democratic institutions is much weaker than general support for democratic values. According to the World Value Survey (2015), more than 90% of Koreans think that democracy is important or very important. However, only 25.5% of South Korean respondents in the same survey had 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.

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.

Social capital

7



II. Economic Transformation

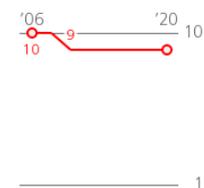
6 | Level of Socioeconomic Development

South Korea is an OECD country with a high level of human development. Absolute poverty remains a problem among the older generation, although recent improvements in the pension system are expected to improve this situation over time.

While social inequality remains in line with other developed countries (Gini index score of 0.295 in 2015), wage inequality is increasing. Of particular concern is the gender wage gap, which is 37% – the highest such level in the OECD. While unemployment rates are relatively low, the share of irregular workers who earn less and have fewer benefits than regular employees remains high, at about one-third of all employees.

Question
ScoreSocioeconomic
barriers

9



| Economic indicators | | 2015 | 2016 | 2017 | 2018 |
|---------------------------|----------|-----------|-----------|-----------|------------------|
| GDP | \$ M | 1382764.0 | 1414804.2 | 1530750.9 | 1619423.7 |
| GDP growth | % | 2.8 | 2.9 | 3.1 | 2.7 |
| Inflation (CPI) | % | 0.7 | 1.0 | 1.9 | 1.5 |
| Unemployment | % | 3.6 | 3.7 | 3.7 | 3.8 |
| Foreign direct investment | % of GDP | 0.3 | 0.9 | 1.2 | 0.9 |
| Export growth | % | -0.1 | 2.6 | 1.9 | 4.2 |
| Import growth | % | 2.1 | 4.7 | 7.0 | 1.7 |
| Current account balance | \$ M | 105118.6 | 97923.7 | 75230.9 | 76408.5 |
| Public debt | % of GDP | 37.3 | 37.6 | 37.7 | 37.9 |
| External debt | \$ M | - | - | - | - |
| Total debt service | \$ M | - | - | - | - |
| Net lending/borrowing | % of GDP | 0.8 | 2.0 | 2.0 | - |
| Tax revenue | % of GDP | 13.9 | 14.8 | 15.4 | - |
| Government consumption | % of GDP | 15.0 | 15.2 | 15.3 | 16.1 |
| Public education spending | % of GDP | - | - | - | - |
| Public health spending | % of GDP | 4.2 | 4.3 | - | - |
| R&D expenditure | % of GDP | 4.2 | 4.2 | 4.6 | - |
| Military expenditure | % of GDP | 2.6 | 2.6 | 2.6 | 2.6 |

Sources (as of December 2019): 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 three decades. 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. 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. Historically, big business conglomerates (chaebol) have played a dominant role in the South Korean economy. This has meant that market-based competition is limited primarily by the dominance of a few chaebol, oligopolies and cartels. There are few significant formal barriers to the entry or exit of domestic companies, and entry barriers to foreign companies have been significantly lowered since the 1990s. Accordingly, establishing a business in South Korea is very easy, as assessed by the World Bank's 2019 Doing Business report. It takes two procedures, four days and costs of 14.6% of per capita GNI, placing the country at rank 11 out of 190 in the report's "Starting a Business" sub-index. However, the market share held by foreign products in many South Korean markets still is low. This is not due to formal barriers, as measured by the World Bank report, but instead to the oligopolistic structure of the South Korean market, which makes it difficult for newcomers to enter.

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) 13-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, policies were previously aimed at limiting competition rather than enforcing it. A high degree of market concentration remains today. 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 alone, as the largest conglomerate, accounts for about 15% of the domestic Korean economy and an even larger share of its exports. The slow but continuous opening of the South Korean market to foreign products has increased the variety of products available, although a recent study found that Koreans still pay the OECD's highest prices for a number

Market
organization

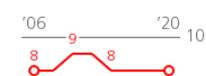
9



1

Competition policy

8



1

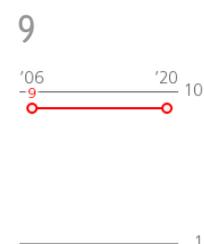
of important products. Price cartels remain widespread not just in the domestic markets, but also in markets for imported products. The structure of the South Korean market makes it very difficult for new companies to enter; SMEs and even large foreign multinationals have found it difficult to establish themselves in South Korea. The squeezing of SMEs by big conglomerates has recently become an important political issue, but the government has responded by providing support to SMEs rather than by combatting monopolies. The biggest challenge for competition policy in South Korea remains the existing industrial structure, which is characterized by a high degree of concentration. In 2018, the KFTC put considerable effort into improving and changing the approach of its competition policy, particularly by detecting unfair practices among large business groups. However, a number of KFTC decisions have been annulled by the courts; thus, it has proved burdensome for the KFTC to prevent unfair practices, especially by family members of the large business companies.

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 as access for foreign-owned companies to specific “sensitive” industry or service sectors is restricted.

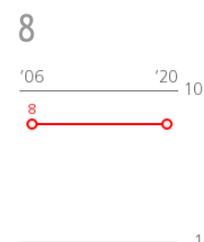
The European Union-South Korea preferential trade agreement (PTA) entered into force in 2011, and the South Korea-United States PTA went into effect in 2012. These PTAs are expected to open up the South Korean market further to foreign products and investment. To date, however, the results remain a source of contention, and many have complained that the PTAs have increased importers’ profits without reducing prices.

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. The country’s general bank-capital-to-asset ratio was 7.9% in 2016. The Financial Supervisory Commission (FSC) and the Financial Supervisory Service (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 a few small bankruptcies among savings banks.

Liberalization of foreign trade



Banking system



One major source of potential instability is the high amount of private household debt, particularly related to mortgages. According to Bloomberg, South Korea's total household debt reached a new record in 2017, increasing 8.1% from the previous year to KRW 1,450.9 trillion won (\$1.3 trillion). Household debt, largely resulting from real-estate price inflation over the last two decades, is a huge problem, although to date the share of non-performing loans remains low.

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.

8 | Monetary and fiscal stability

South Korea's central bank (Bank of Korea, BOK) is legally independent, although in practice there is 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%. In 2017, inflation was 1.9%. The central bank follows a managed floating strategy for its exchange-rate policies. 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 persistent current-account surpluses.

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. National debt as a share of the gross domestic product (GDP) was 40.4% in 2018, up from 39.5% in 2017. Korea is running a healthy primary surplus of 1.3% of the GDP, which gives the government the leeway to implement plans to increase public investment and social spending. While debt at the national level is sustainable, many local governments and public enterprises are struggling due to insufficient revenues.

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. There are strict intellectual-property laws, although enforcement can be difficult.

Monetary stability

9



1

Fiscal stability

9



1

Property rights

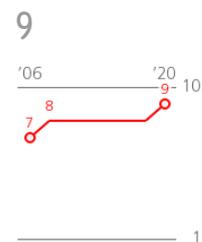
10



1

Private enterprises are regarded as the engine of growth in South Korea. In the World Bank's 2018 and 2019 Doing Business reports, South Korea was ranked at 5th place, signaling an excellent institutional framework for private businesses. Public ownership of companies is largely limited to companies providing public utilities or is otherwise seen as essential to the implementation of government policies. Currently, the state is involved in around a hundred state-run enterprises and investments.

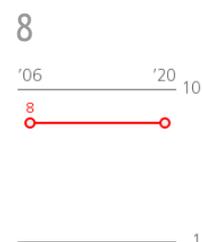
Private enterprise



10 | Welfare Regime

The social welfare system in Korea is expanding, although it still remains far below OECD standards. The pillars of the system are the four main public insurance programs for health, old-age pensions, accidents and unemployment. However, welfare spending overall is still very low, totaling just 11.1% of the GDP in 2018 (according to OECD data), the third-lowest such rate in the OECD, just ahead of Mexico and Chile. The universal health-insurance program is the most advanced element within the welfare state system, though medical treatments still require quite high copayments. Only 60% of the population is covered for disease treatment, which is far below the OECD average of 80%.

Social safety nets



President Moon has announced a new “MoonCare” health care plan, under which the government will provide KRW 30.6 trillion (\$26.8 billion) over the next five years to cover all medical treatments. In the future, medical insurance will cover all forms of treatment, excluding plastic surgery and cosmetic procedures. Additionally, new measures that can act as safety nets for families facing astronomical health care costs have been announced. The government's intention is to create a medical safety net that leaves no patient untreated in times of emergency. Mental health issues are not currently well addressed in Korea, as can be seen by the large numbers of suicides; the country has the second-highest suicide rate in the OECD. Another major problem in the Korean health care system is the relatively low number of doctors and nurses.

Old-age poverty is still a big problem in South Korea, as pensions are small. Most elderly people today lack coverage under a national pension system that did not cover a large share of the workforce until its expansion in 1999. However, benefit levels even under this national pension system are still very low, and employees in private companies are often pressured to retire long before the legal retirement age of 60 (which will gradually increase to 65 by 2033). As a means of tackling old-age poverty, the Moon administration plans to increase the basic pension gradually to KRW 300,000 a month by 2021.

The Korean constitution states that “there shall be no discrimination in political, economic, social or cultural life on account of sex, religion or social status” (Art. 11). Unfortunately, Korea still lacks a comprehensive anti-discrimination law that would enforce these constitutional rights. In fact, discrimination remains a major problem in South Korea, particularly for women, migrants, handicapped persons, LGBT people and North Korean defectors. In the Global Gender Gap Report 2018, South Korea was ranked 115 out of 149 countries evaluated. The gender pay gap remains the largest in the OECD. The Moon government has promised to improve gender equality. As a start, he appointed six female ministers, which at one-third of the cabinet was a considerably higher share than in any previous Korean cabinet. After several reshuffles, the cabinet had five female ministers as of the end of the review period. Discrimination against irregular workers and migrant workers is also common, with many migrant workers still having to submit to an HIV test in order to obtain a work visa. However, mandatory HIV tests for foreign teachers and students were abolished in 2017. There are approximately 30,000 North Korean defectors in South Korea, and discrimination against them is widespread. They are eligible for South Korean citizenship, but often have to undergo months of detention and interrogation on arrival. According to a study by the National Human Rights Commission of Korea, half of the North Korean defectors in South Korea have suffered from discrimination, primarily directed at them by people in the street (20.6%), their supervisors (17.9%) or by coworkers (16.5%). While courts have strengthened some rights for LGTB people, the government has failed to take decisive action to reduce discrimination. Article 92 of the Military Penal Code, which is currently facing a legal challenge, singles out sexual relations between members of the armed forces of the same sex as “sexual harassment” punishable by a maximum of one year in prison.

11 | Economic Performance

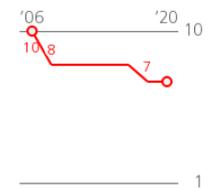
South Korea has recently experienced growth rates higher than the OECD average, with annual GDP growth of 3.1% in 2017 and an estimated 2.7% in 2018. Per capita GDP growth was also high at 2.6% in 2017, reaching a total of \$38,335. Korea also posted record current-account surpluses in 2018, showing a high degree of international competitiveness.

The country enjoys relatively low unemployment rates. This overall rate increased to 3.8% in November 2018, up from 3.7% in 2017. The youth-unemployment rate was much higher, at 10.3%. According to the OECD, South Korea performs relatively poorly with regard to several aspects of job quality and labor-market inclusiveness. The employment rate of 66.6% in 2017 was below the OECD average, and the employment rate among women in particular, at just 56.9%, is also comparatively low.

Korea maintains a low inflation rate, a primary surplus with increasing tax revenues, a current-account surplus and a manageable public debt level.

Equal opportunity

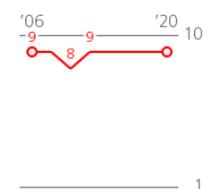
7



1

Output strength

9



1

12 | Sustainability

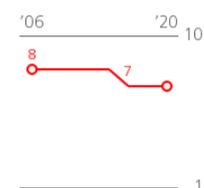
Environmental policies remain insufficient to protect the environment or preserve the sustainability of resources. Korea has been losing ground to the OECD front-runners with regard to the transition to carbon neutrality and ecological sustainability. Environmental problems are very serious, particularly with regard to air quality and greenhouse-gas emissions. In November 2016, South Korea's National Assembly ratified the Paris Agreement, which aims to hold the increase in the global average temperature below two degrees Celsius by reducing carbon emissions. However, national goals to cut greenhouse gas emissions to a level 37% below the “business as usual” trend line by 2030 remain far below South Korea's potential. Thus, the website Climate Action Tracker ranks South Korea's efforts regarding climate protection as “inadequate.”

In the 2018 Yale Environmental Performance Index, South Korea improved to 60 out of 180 countries overall, but continued to be ranked poorly in the categories of climate and energy (110) and biodiversity (144). Problems with fine dust exposure are among the world's worst, giving the country rank 174. While some of this pollution originates in China, most of it is homegrown. Korea is the world's 7th largest emitter of CO₂, and the share of energy production accounted for by renewables is the lowest in the OECD. The Moon administration plans to expand the share of renewables to 20% by 2030. South Korea is the fifth-largest producer of nuclear energy in the world, with its 24 reactors generating about 30% of the country's electricity. President Moon originally pledged to phase out coal and nuclear energy, but later stepped back from some of his more ambitious timelines. While environmental topics are gaining importance in the society, the government clearly prioritizes economic growth over environmental concerns.

Although Moon has promised environmental-protection improvements, he has backtracked whenever he feared that measures would be unpopular. For example, during the hot summer of 2018, President Moon declared air conditioning to be an item of “basic welfare,” and temporarily lowered electricity prices. In another populist move, the government temporarily lowered taxes on fuel amid rising oil prices in October 2018. Plans to build new apartments in the green belt around Seoul further demonstrate the low priority given to environmental policies. Despite the ever-increasing traffic jams, cars are still given top priority in most urban development projects. On a positive note, the quality of public transportation, especially in Seoul, is steadily improving, and the country has a high recycling rate.

Environmental
policy

7



South Korea has a high-quality education system with almost universal enrollment, including a 93% tertiary enrollment rate. The country has a dense network of universities and colleges, not only in the capital Seoul, but also in other regions and provinces. This network includes some world-class universities. Korea ranks 15th in the U.N. Education Index. In addition, large business conglomerates (chaebol) have built strong research facilities and technical institutes.

According to the OECD, South Korea's public-sector expenditure on education amounted to 4.2% of the GDP in 2015. Education costs are a major burden for Korean families, as private expenditures on education total 1.7% of the GDP, one of the highest such rates in the OECD. 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 while neglecting creativity, critical thinking and social skills.

The South Korean government invests heavily in research and development (R&D), particularly in fields that can be directly commercialized; however, basic research is still lagging behind. Expenditure on private and public R&D combined totals an impressive 4.2% of the GDP. The current government plans to unify previously fragmented policies in the area of R&D. A presidential committee on the so-called Fourth Industrial Revolution will be established, and the Moon administration will actively seek to harness new technologies and spur innovation in order to create new jobs. According to the 2018 budget and adjustment plan, significant investments will be made in core technologies, including artificial intelligence. The budget for research and development (R&D) will be about KRW 920 billion, a 20% increase from 2017.

Education policy /
R&D

10



1

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 average education level is very high, with a tertiary enrollment rate of 93%. Infrastructure is excellent and includes well-developed local public transportation (particularly in Seoul), high-speed bullet trains and major international ports and airports.

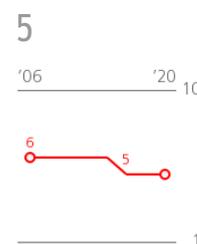
South Korea's civil society is one of the most vibrant in Pacific Asia. South Koreans have actively struggled for democracy for decades and successfully toppled their military dictatorship in 1987. Since that time, civil society organizations (CSOs) have taken an active oversight role in monitoring and assessing the activities of government and companies. In the 2016 to 2017 period, CSOs played an important role in organizing the protests against former President Park that ultimately led to her impeachment. CSOs are diversified and cover the whole range of the society from labor unions to human rights groups and environmental NGOs. Access by CSOs to formal state decision-making processes often depends on their loyalty to the government. CSO staffers have often gone on to government jobs, particularly within administrations led by liberal presidents, such as the current Moon government. Despite successes, the overall level of social trust remains relatively low, and there is a general expectation that it is the government's role to fix problems.

Polarization within Korean society and the confrontational nature of politics remain significant problems, although serious violent clashes are rare. Religious or ethnically motivated violent conflicts are rare. 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. While divisions in the past fell largely along political lines, conflict based on social cleavages and gender has received more attention in Korea in recent years.

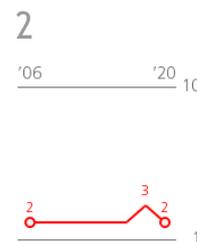
Structural constraints



Civil society traditions



Conflict intensity



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. President Moon launched the State Affairs Planning Advisory Committee in May 2017. This commission brings together key departments specializing in policy and administration, the economy, diplomacy and security, and policy planning. A total of 30 members have an advisory role in assisting the new government in reviewing the structure, function and budget of each government organization. Commission members also recommend key government policies, along with the medium and long-term plans by which these policies could be carried out. The plan submitted by the committee contains policy recommendations to be pursued over the Moon administration's next five years and includes a national vision of "a nation of the people, a just republic of Korea," along with 100 concrete policy goals. However, President Moon had initially postponed the implementation of key goals such as the minimum wage increase and the reduction in maximum allowable work time due to protests from the business community. He has also backed away from his initial promise to stop the construction of nuclear power plants currently under way.

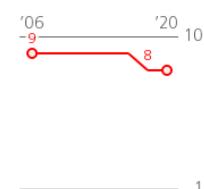
Another obstacle to setting strategic priorities is that while South Korea has a very well-trained bureaucracy that ensures some continuity, leadership positions tend to have a short tenure. Ministers and state secretaries are frequently replaced, and inside ministries, staff rotations occur frequently.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

The Moon administration's tenure has shown slight improvements with regard to policy implementation, although implementation has in fact fallen far short of President Moon's ambitious goals. Moon developed a very detailed list of 100 policy goals that he wanted to implement during his term in office. However, although Moon himself entered office with a strong personal mandate deriving from his decisive election victory and strong popularity, his Democratic Party lacks a majority in parliament. Nevertheless, the presidency has far-reaching powers, and by the end of the review period, Moon had already implemented several important measures such

Question
Score

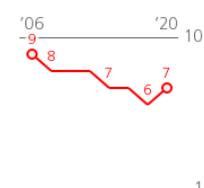
Prioritization

8



Implementation

7

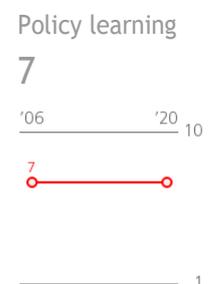


as the increase in the minimum wage, the creation of more stable jobs in the public sector and the reduction of the maximum workweek to 52 hours. However, he had also postponed or abandoned some of his original agenda items, including the constitutional reform to decentralize state power and his promise to stop construction on two nuclear power plants. Moreover, after criticism from the business sector, Moon has also backpedaled on some already-implemented policies, for example by allowing companies more “flexibility” in enforcing the maximum allowed work time, and by reconsidering further minimum-wage hikes.

These failures are not merely political; they have an institutional component as well. In South Korea’s presidential system, power is concentrated in the office of the president. However, the presidential term is also limited to a single five-year term, which means that Korean presidents can become lame ducks even after completing only half of their term. President Moon’s party also lacks a majority in parliament, and since the passage of the National Assembly Advancement Act in 2012, many laws have required at least some support by both major parties to move to the parliamentary floor for a vote. Thus, new legislation requires consensus-building, and even a president with a parliamentary majority cannot ensure safe passage of laws. While numerous constitutional changes including a change to the parliamentary system have been discussed, none has won the support of both the government and opposition party.

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. Within the State Affairs Planning Advisory Committee, 14 out of 30 members are professors. Indeed, three out of four members of both this group’s policy and administration subcommittee and the diplomacy and security subcommittee have an academic background. In addition to their participation on the presidential advisory committee, scholars are often nominated for top government positions. President Moon has appointed Chang Ha-sung, a professor of economics at Korea University, to be presidential senior advisor for policy affairs, and Cho Kuk, a professor at Seoul National University’s law school, as a senior presidential secretary for civil affairs. The Fair Trade Commission’s newly appointed chairperson Kim Sang-jo was a professor of economics at Hansung University.

Academic experts participate in diverse statutory advisory bodies established under the offices of the president and prime minister. Advisory commissions are usually dedicated to specific issues deriving from the president’s policy preferences. For example, the appointments of Chang Ha-sung and Cho Kuk can be interpreted as reflecting the current administration’s determination to reform the country’s chaebol (conglomerates) and prosecution system by appointing academic experts in these areas. However, the range of academic experts selected is often seen as too narrow and exclusive. The process of appointing experts remains highly politicized, and in



the past experts have often been chosen because of their political inclination rather than their academic expertise. The Moon government does not give sufficient attention to criticisms of policy failures stemming from experts with a different political perspective, which makes the process of policy consultation less effective.

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 and in the reduction of non-tariff barriers.

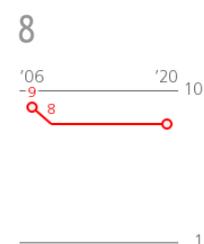
15 | Resource Efficiency

Korea has one of the smallest public sectors in the OECD, employing only 7.6% of all employees in 2015 (the latest data available as of the time of writing). General government disbursements total 32.3% of the GDP, again one of the lowest such rates in the OECD. Government debt levels are also relatively low, although debt to some extent is hidden in public companies. While national government spending seems efficient, local governments have been criticized for wasteful spending on expensive construction projects and welfare programs. In addition, local administrations tend to be understaffed. President Moon has promised to strengthen the public sector by increasing public employment and by decentralizing state power so as to help local municipalities and provinces operate more autonomously. Under the 2018 budget proposal, KRW 3.5 trillion (\$3.1 billion) will be delivered to local governments in the form of subsidies.

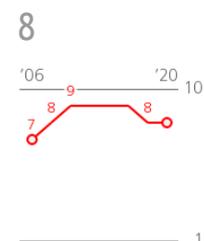
Policy coordination in Korea takes place in a hierarchical and centralized manner. Power is concentrated in the central government and particularly in the president's office. The president's office (the Blue House) ensures that important policies are implemented. Provincial governments, although having 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

Efficient use of assets



Policy coordination



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. Ministers in South Korea do not have their own political base and thus depend almost solely on the support of the president. The president has the authority to appoint and dismiss ministers and frequently reshuffles the cabinet. This high degree of turnover limits ministers' independence, as they are unable to develop their own voice to pursue their own or institutional policy ideas. The first cabinet reshuffle under the Moon administration took place a little after a year of the start of the presidency, with the president nominating five new ministers for the departments of Education, Gender Equality, Labor, Trade and Defense.

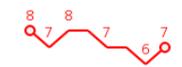
Corruption remains a major problem in Korea, although anti-corruption institutions have improved substantially. Rules requiring audits of state spending and party financing, access to information and officeholder accountability are in place, but these have not been successful in eradicating corruption.

After the massive corruption scandals involving the two previous governments, the situation has improved, although the abuse of power for private gain remains a major problem in Korea. As seen in the protests against President Park, the Korean public, civil society organizations and the media are vigilant and ready to engage in effective protest of top-level abuses of power. Courts have also been tough on those involved in corruption scandals, handing down prison sentences to many involved. Park's predecessor received a 15-year jail sentence in October 2018, which means that the two most recently serving ex-presidents are now in jail for bribery and corruption. President Moon promised to strengthen anti-corruption initiatives and said he would not pardon members of the elite involved in corruption scandals, as had previously been common practice in Korea. Positive past institutional changes such as the Kim Young-ran Act are now bearing fruit and have effectively cut down on Korean traditions of gift giving. Despite the strong campaign against corruption in the public sector, there has been less success in curbing corruption and influence peddling by big business groups. In February 2018, an appellate court reduced the five-year prison sentence handed down to Samsung Electronics Vice Chairman Lee Jae-yong to a suspended sentence of two-and-a-half years. The controversial decision was seen as extremely lenient compared to the long jail sentences given to former public officials.

Anti-corruption
policy

7

'06 '20 10



1

16 | Consensus-Building

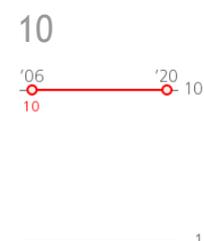
South Koreans had a successful democratic revolution in 1987 and are ready to defend this achievement when they see their democracy at risk. All major political actors in South Korea subscribe to the goal of maintaining a constitutional democracy, although some authoritarian practices can be witnessed 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 demonstrations against the impeachment of President Park in 2016 and 2017, there were individual voices calling for martial law, though such an action would be very unlikely, since civilian control of the 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.”

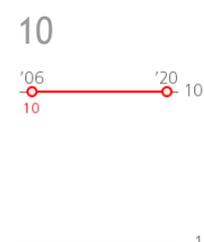
There is no visible activity by or any indication of anti-democratic veto actors in South Korea. Recently, individual protesters against the impeachment of President Park have called for a military intervention, but despite a long tradition of military rule (1961–1987), there are no signs that the military has any ambitions or ability to reenter politics.

South Korea’s political leadership is relatively effective in curbing ethnic, social and regional conflicts, although it has been less successful in actively reducing cleavages. 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. President Moon has promised to strengthen the social security net, although to date there have been no more than piecemeal improvements.

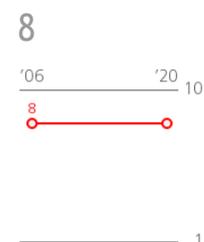
Consensus on goals



Anti-democratic actors



Cleavage / conflict management



Civil society participation has improved substantially under President Moon. Previous conservative governments under Presidents Lee and Park were known for their top-down approach, and civil society groups largely lost their ability to influence the government. President Moon now emphasizes transparency, communication with citizens and civil society participation. In fact, he has appointed many former civil society activists to government positions and frequently utilizes the expertise of civil society groups. Unfortunately, the close connections between government and some civil society groups has negatively affected these groups' important ability to act as a critic of the government.

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. In contrast to the conservative governments, President Moon has again emphasized the history of the democracy movement, and commemorations of the Kwangju and Jeju massacres are again important occasions.

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 \$8.3 million in restitution to the women. However, the victims have refused to accept the money, because they were largely excluded from the negotiation process. The Moon administration has sided with the victims and has demanded additional negotiations. 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.

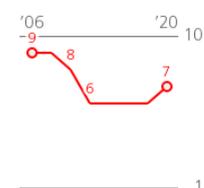
17 | International Cooperation

South Korea is well integrated into 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.

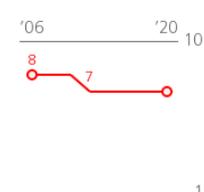
Civil society participation

7



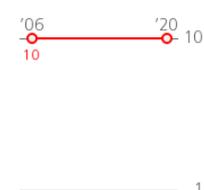
Reconciliation

7



Effective use of support

10



South Korea is generally considered to be a 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. 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. Since the Moon administration took office in 2017, foreign policies have been quite successful in engaging North Korea; however, this has left little room for other global contributions. The country’s policy initiative toward Southeast Asia has lacked focus and ambition.

When it comes to global warming, Korea – the world’s 7th largest emitter of greenhouse gases – is still seen as a laggard. Like most other industrialized countries, South Korea has signed and ratified the Paris agreement, but international observers such as climateactiontracker.org assess Korea’s contribution as being “highly insufficient.” Korea is also falling behind in its plans to increase foreign aid, with just about 0.14% of its gross national income (GNI) allocated to the purposes for development cooperation. On a positive note, President Moon has promised to ratify the ILO conventions that Korea has not yet joined.

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 and the Asia-Europe Meeting (ASEM). The Moon administration has shifted attention from multilateral institutions to bilateral negotiations with a particular focus on North Korea. North Korea’s leader Kim Jong-un has expressed an interest in meeting President Moon more frequently in 2019 to negotiate the denuclearization of the peninsula. The two leaders met three times in 2018, twice at the border and once in Pyongyang.

Territorial disputes with Japan (over Dokdo Island) and China (over the 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 the “comfort women” or sex slave issue at the end of 2015, there has been mounting tension since, as the agreement upset South Koreans who believed the agreement was unfairly and improperly negotiated. Tensions with China due to the U.S.-provided THAAD missile-defense system have subsided, but relations are far from being normalized. South Korea is also currently upgrading its navy into a blue-water navy (capable of operating globally) based on battle groups led by Dokdo-class helicopter carriers. South Korea is thus contributing to the arms race in East Asia.

Credibility

9



1

Regional cooperation

8



1

Strategic Outlook

Despite the difficult circumstances associated with the early election, the new Moon administration managed to accomplish a relatively smooth transition. However, the liberal new president faces numerous challenges in implementing his ambitious agenda, particularly with regard to increasing regular employment rates and reducing social inequality. Higher wages and reductions in maximum allowed work time will continue to improve Koreans' quality of life and produce a more diversified leisure sector. Koreans will have more time to spend with their families and to engage in civil society activities. However, President Moon will find it increasingly difficult to implement his ambitious agenda, as the government's party lacks a parliamentary majority. In fact, Moon has already backtracked on several goals, including that of constitutional reform and the phase-out of nuclear power, while slowing the pace of the minimum-wage increases and reductions in maximum allowable work hours. Less than two years after his election, the mood in Korea has become more pessimistic, and most media outlets are highly critical of President Moon, who they say is moving too fast ahead with his liberal agenda.

While economic growth remains strong, the OECD has slightly lowered Korea's growth forecast to 2.8% in 2019 and 2.9% in 2020. The general unemployment rate also remains low. Domestically, the biggest economic challenges are the need to enhance social mobility and improve job conditions for irregular workers and the younger generation. The young generation is very well educated, but many young people have difficulties in finding regular high-quality jobs, a fact that could lead to increasing susceptibility to the attractions of populist leaders. High levels of household debt and the ongoing speculation in the real-estate market pose major challenges to social cohesion and life satisfaction. The country must improve its ecological sustainability in the future, as it is falling further behind with regard to environmental protection and renewable energies. Korea currently emits more than twice as much CO₂ as either Japan or Germany in producing each \$1,000 of GDP. Environmental protection will likely emerge as an important new political topic, as studies estimate that about 14,000 people die prematurely from air pollution in Korea every year. Several critical long-term tasks remain to be addressed, including dealing with the aging society, restructuring the country's dominant business conglomerates, improving the country's low labor productivity levels and strengthening SMEs. While a few large Korean companies are very competitive on the world market, the vast majority of SMEs remain weak, finding it difficult to survive in Korea's largely oligopolistic market structure.

Internationally, Korea's economy remains competitive in a number of key industries. However, the country's dependence on exports makes it vulnerable to global economic volatility and external political conflicts. Korea depends on a current account surplus for economic growth, which will be increasingly difficult to achieve amid increasing global trade protectionism, rising interest rates in the United States and ongoing currency crises in emerging economies. China is also emerging as a major competitor in areas where Korean companies have been strong, such as electronics and cars. Politically, while the threat from North Korea seems to be diminishing given the improved

relationship with the North under President Moon, there is no guarantee against a sudden reversal given the volatile leadership in the North and in the United States. With the current lack of regional institutions and the increasingly unilateral approach being pursued by the United States, it may prove difficult for President Moon to institutionalize this progress in the form of a peace treaty and other steps able to pass the test of time. Beyond North Korea, the challenge for Korea as a G-20 member and the world's seventh-largest emitter of greenhouse gasses will be to show more leadership in combating world poverty and climate change and in creating a sustainable global governance system.