



**National Governance in Korea's 'Vision 2030':
Crossroads for the Future**

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I. The Worldwide Governance Indicators of World Bank

II. Social Capital Survey of KDI

III. Trust among Government-Business-Civil Society

IV. National Governance for Korea's "Vision 2030"



I. Worldwide Governance Indicators of WB

I. The Worldwide Governance Indicators of World Bank

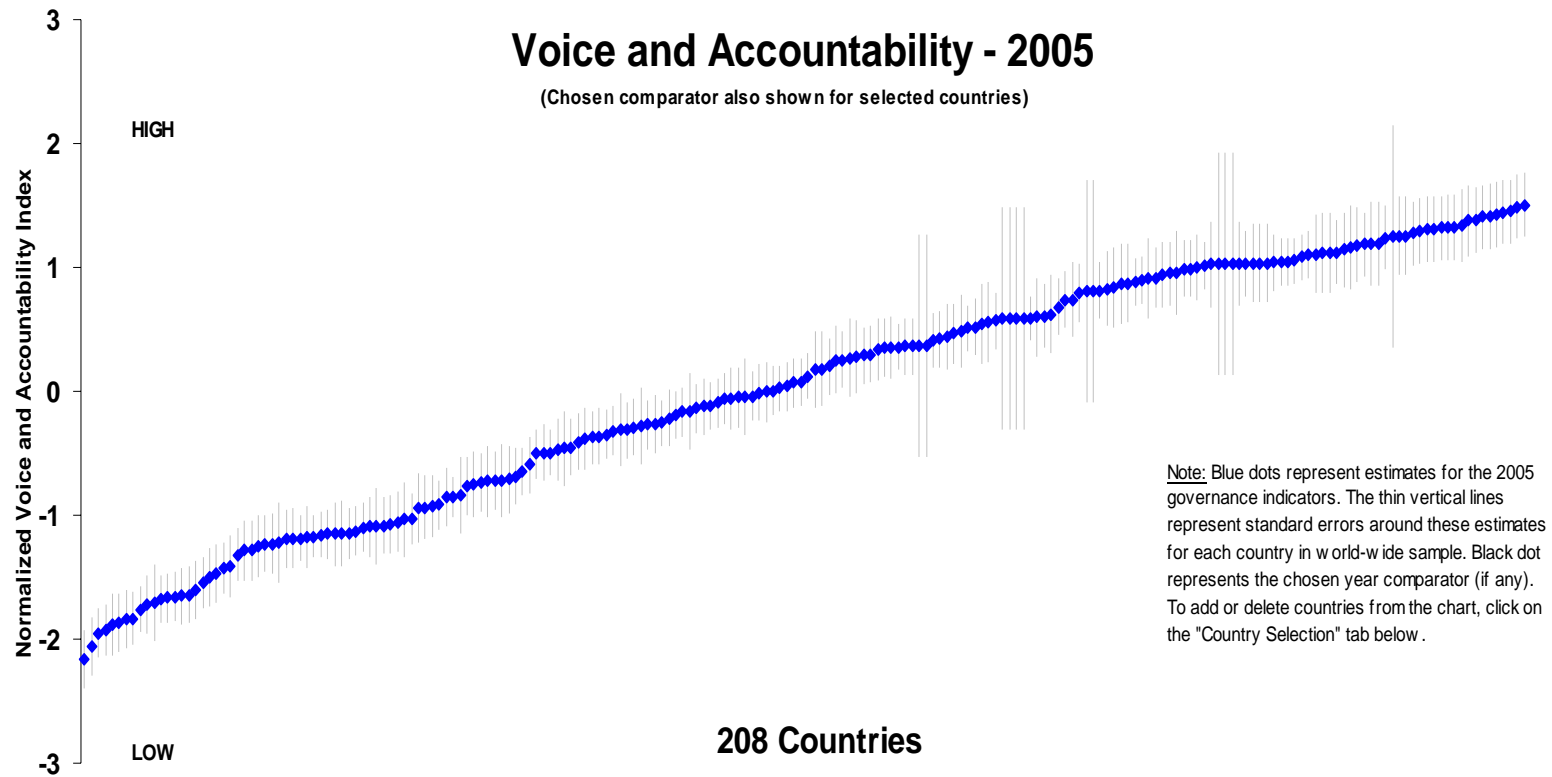
- The Worldwide Governance Indicators of World Bank
 - By D. Kaufmann, A. Kraay, and M. Mastruzzi
 - “Governance Matters V: Governance Indicators for 1996–2005”
 - Covering 213 countries
- Measuring six dimensions of governance
 - Voice and Accountability
 - Political Stability/No Violence
 - Government Effectiveness
 - Regulatory Quality
 - Rule of Law
 - Control of Corruption

I. The Worldwide Governance Indicators of World Bank

- Emphasize the importance of institutional quality for economic development
- Could provide a benchmark yardstick on governance for a cross-country comparison
- However, the indicators are inevitably a weighted average of the present and the recent past. (persistent memories)
- The governance in Korea has gone through rapid changes.
 - => The indicators cannot capture the dynamics of governance in Korea.
 - => It is difficult to expect the future only based on extrapolation of the present and past.
- The governance in Korea is now at crossroads for the future.

KOREA, SOUTH

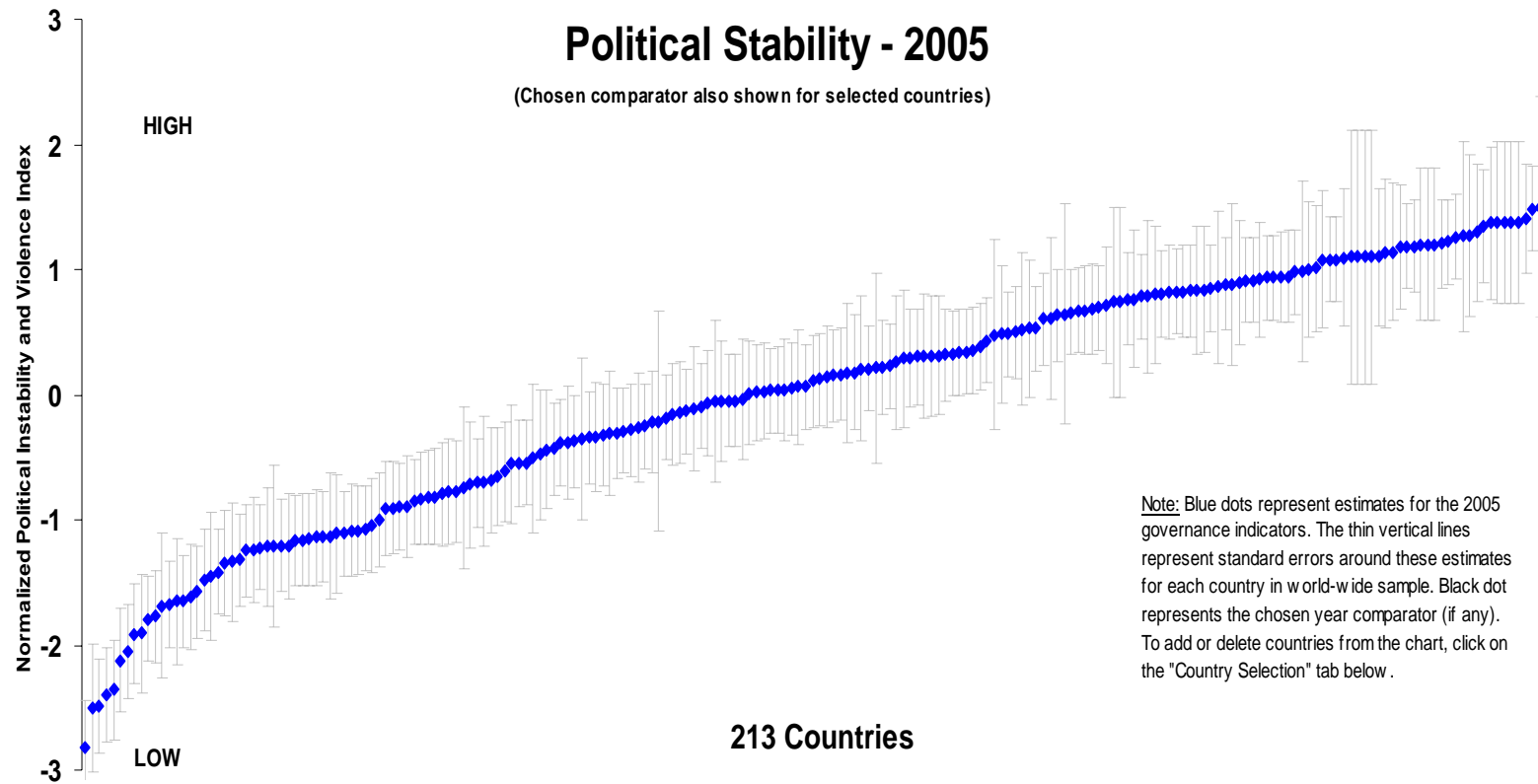
Voice and Accountability	2005	2004	2003	2002	2000	1998	1996
Estimate (-2.5 to + 2.5)	0.74	0.76	0.63	0.64	0.72	0.66	0.65
Percentile Rank (0-100)	68.1	70	66.2	68.6	67.6	66.7	67.3
Standard Error	0.14	0.15	0.16	0.17	0.23	0.24	0.22
Political Stability/No Violence	2005	2004	2003	2002	2000	1998	1996
Estimate (-2.5 to + 2.5)	0.43	0.44	0.23	0.32	0.2	-0.06	-0.08
Percentile Rank (0-100)	60.8	61.8	51.9	54.7	51.9	43.4	40.6
Standard Error	0.21	0.2	0.22	0.2	0.24	0.25	0.29
Government Effectiveness	2005	2004	2003	2002	2000	1998	1996
Estimate (-2.5 to + 2.5)	1	0.92	0.91	0.95	0.73	0.43	0.63
Percentile Rank (0-100)	78.9	78.5	79.9	81.3	76.1	70.8	77.6
Standard Error	0.15	0.16	0.16	0.16	0.19	0.25	0.21
Regulatory Quality	2005	2004	2003	2002	2000	1998	1996
Estimate (-2.5 to + 2.5)	0.77	0.76	0.67	0.8	0.49	0.23	0.58
Percentile Rank (0-100)	71.8	73.4	70.9	74.9	67.5	53.7	72.1
Standard Error	0.17	0.17	0.17	0.18	0.32	0.27	0.24
Rule of Law	2005	2004	2003	2002	2000	1998	1996
Estimate (-2.5 to + 2.5)	0.73	0.66	0.6	0.79	0.52	0.7	0.77
Percentile Rank (0-100)	72.5	69.2	67.8	75	67.8	71.6	78
Standard Error	0.13	0.12	0.13	0.13	0.15	0.18	0.16
Control of Corruption	2005	2004	2003	2002	2000	1998	1996
Estimate (-2.5 to + 2.5)	0.47	0.12	0.3	0.33	0.33	0.04	0.61
Percentile Rank (0-100)	69	59.3	64.2	67.2	67.2	64.2	76.6
Standard Error	0.12	0.13	0.13	0.14	0.17	0.16	0.2



Source: "Governance Matters V: Governance Indicators for 1996-2005" by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi.

Disclaimer: The governance indicators presented here reflect the statistical compilation of responses on the quality of governance given by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries, as reported by a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The aggregate indicators in no way reflect the official position of the World Bank, its Executive Directors, or the countries they represent. As discussed in detail in the accompanying papers, countries' relative positions on these indicators are subject to margins of error that are clearly indicated. Consequently, precise country rankings should not be inferred from this data.

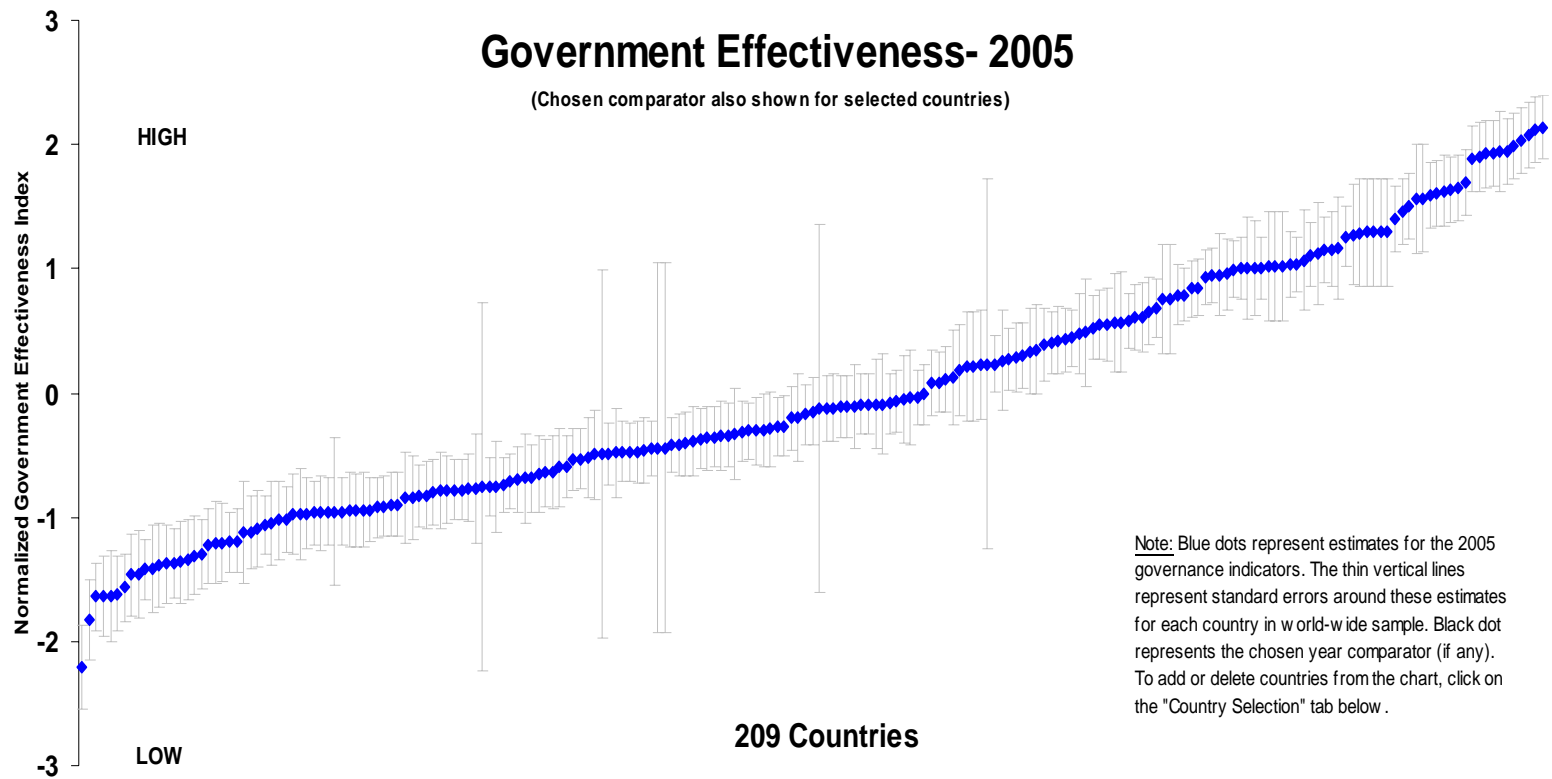
[Figure 2] Korea's Estimate (Rank): 0.74 (68.1)



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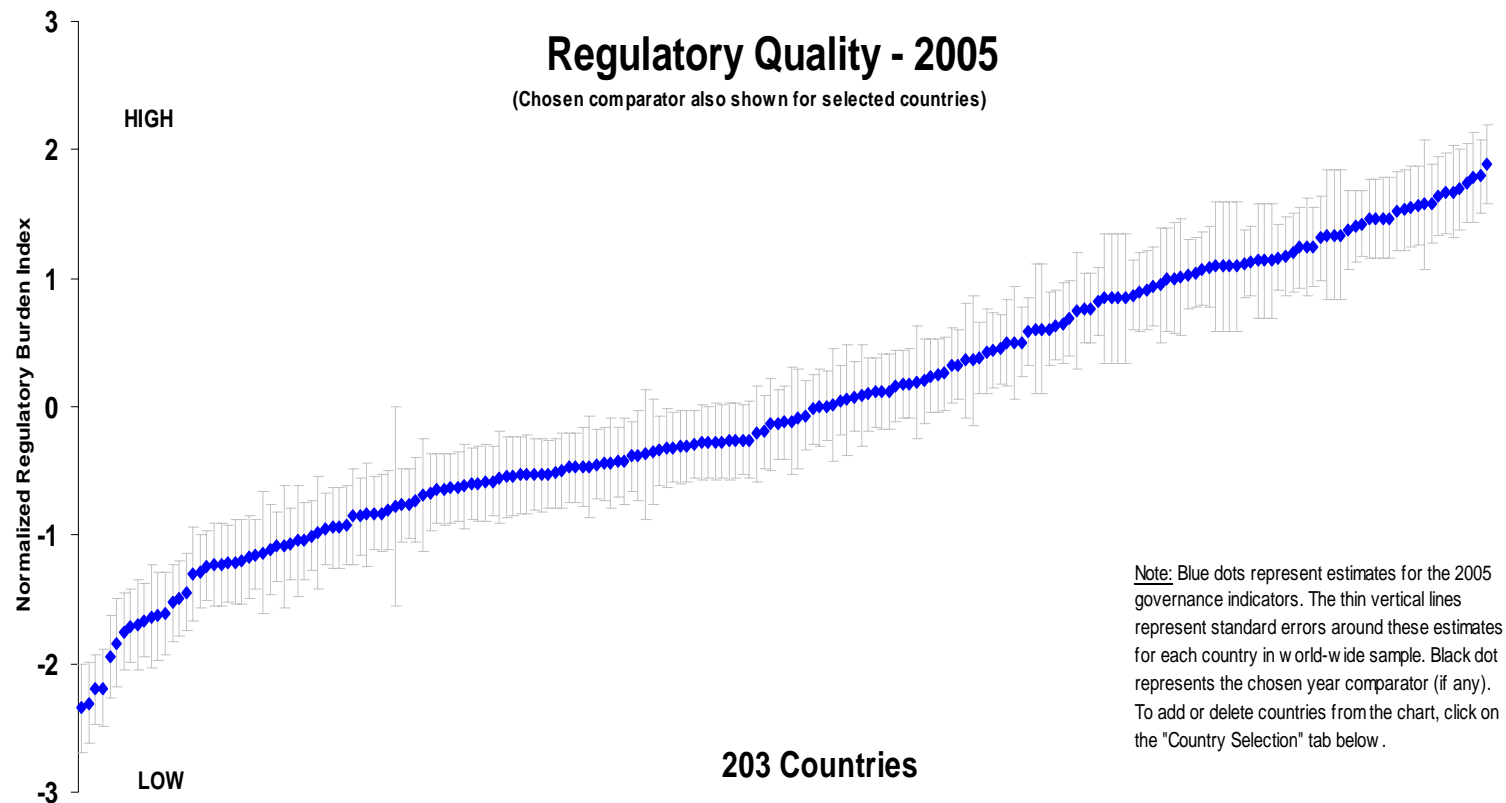
[Figure 3] Korea's Estimate (Rank): 0.43 (60.8)



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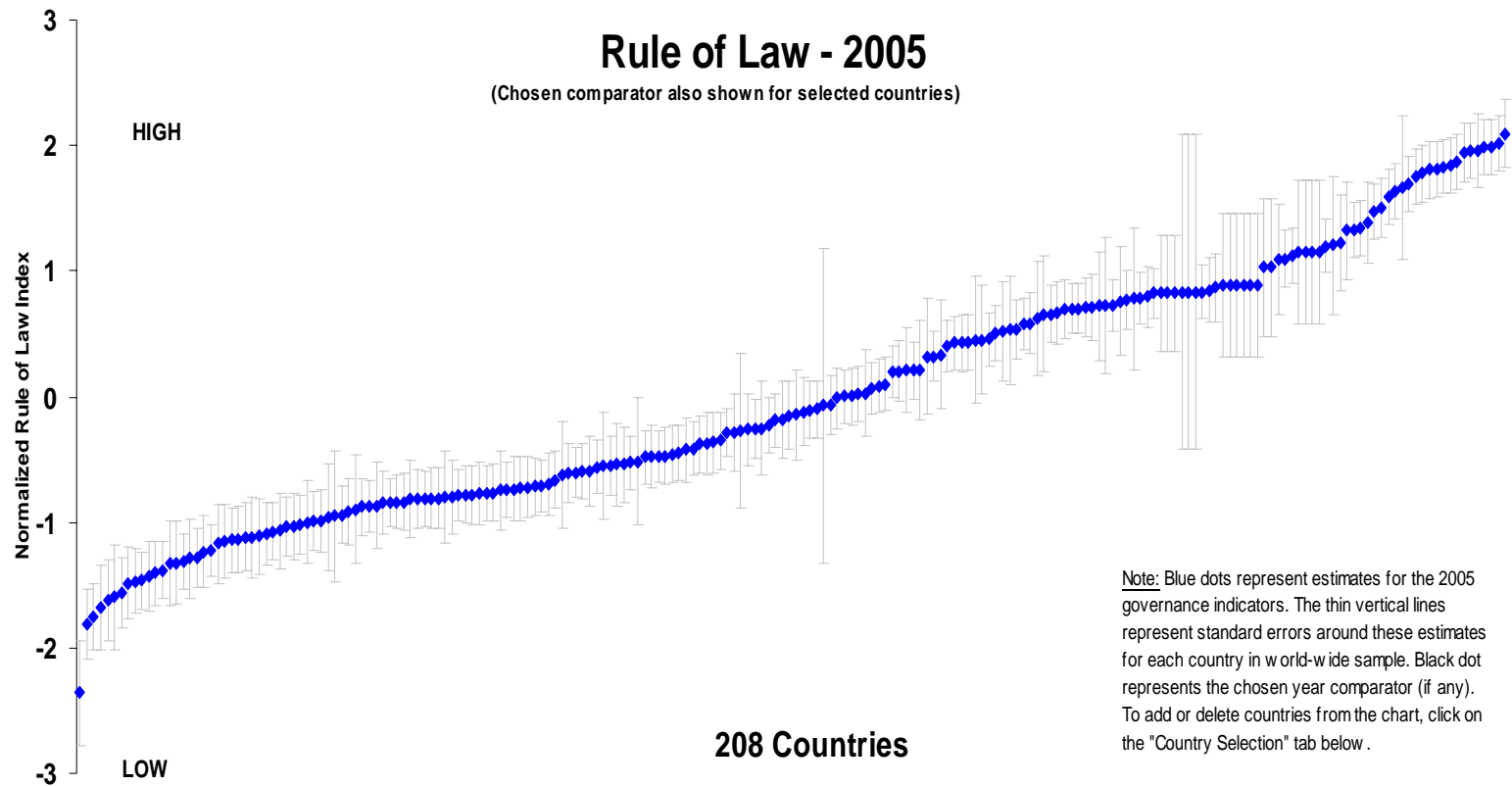
[Figure 4] Korea's Estimate (Rank): 1.00 (78.9)



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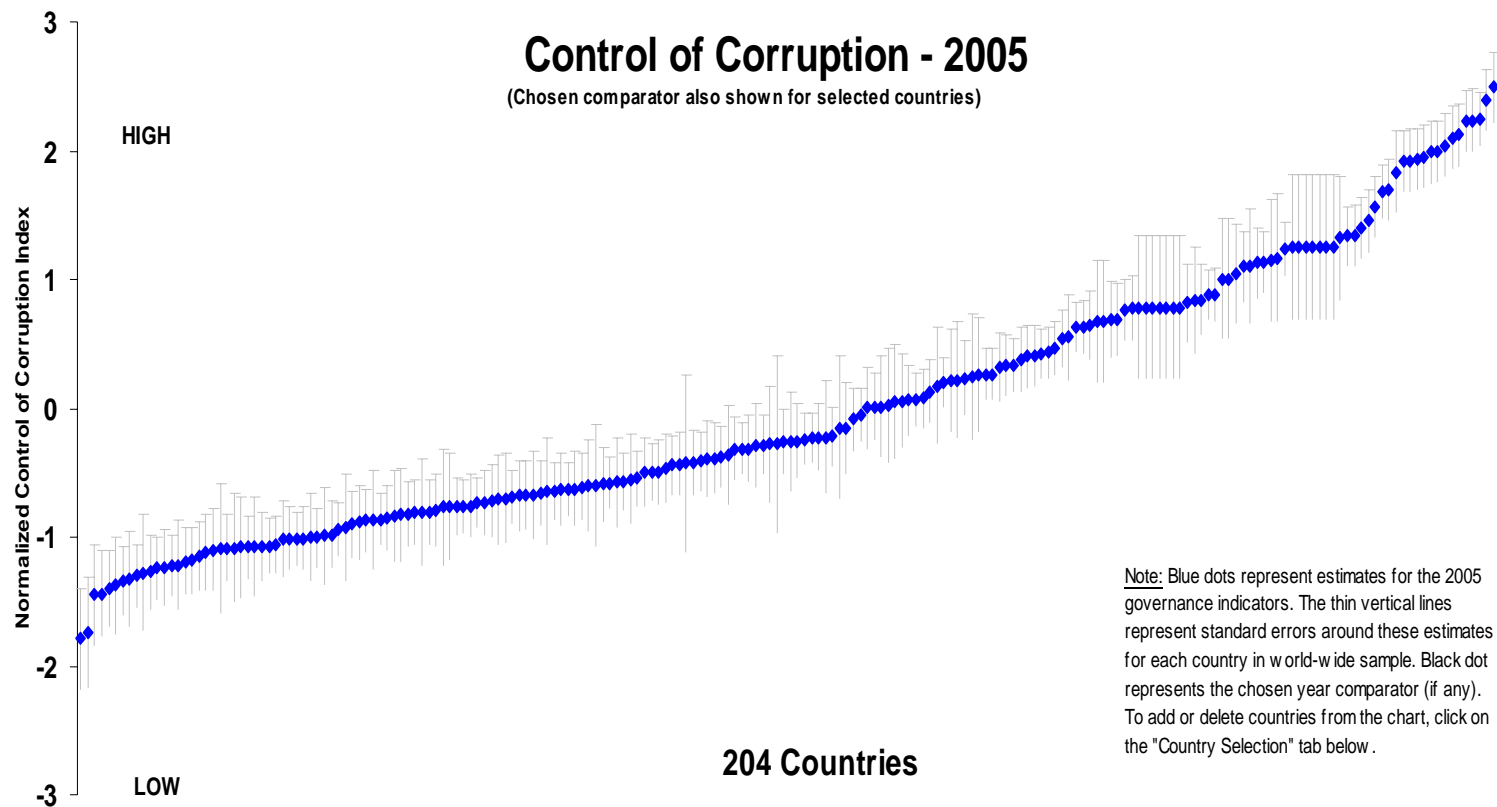
[Figure 5] Korea's Estimate (Rank): 0.77 (71.8)



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[Figure 6] Korea's Estimate (Rank): 0.73 (72.5)



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[Figure 7] Korea's Estimate (Rank): 0.47 (69.0)



II. Social Capital Survey of KDI

II. Social Capital Survey of KDI

- Two presentations of this “2006 KDI – WB Conference”
 - Taejong Kim, “Vision 2030 and Investing in Social Capital”
 - Cong-Min Park, “Social Trust and the Quality of Democratic Governance in South Korea”
- The trust for “the generalized other” is low in Korea today (compared with advanced countries).
 - The “social trust” is low. The trust for public institutions is low.
 - The social trust is expected to become much lower in the future in view of social demographics. The social trust for young generations are lower than old ones.
 - On the other hand, the particularized trust is high. People invest much in private networks as substitutes for public institutions.

II. Social Capital Survey of KDI

- One possible interpretation: The low social trust in Korea today is the result of social learning.
 - Individuals respond to past experiences of society.
 - (Condensed) industrialization and democratization in a short period of time => Rapid changes in social and economic environment => Repeated relationships were rare.
- Existence of multiple equilibria for these kinds of social interactions
=> Q. What could be the policies for increasing social trust?



III. Trust among Government, Business, and Civil Society

III. Trust among the G-B-CS

- Tripartite relationship: “Government – Business (Market) – Civil Society”
- Distrust among the three players (which in part comes from past memories)
 - The business sector does not trust the government.
 - The civil society does not trust the government.
 - The civil society does not trust the business either.

=> It provides a rationale for “The government does not trust the business”
- Consequently, players in the society do not rely on the pre-set rules and procedures.

=> Rather, interest groups are likely to have recourse to one-shot political negotiations => This further erodes the rule of law.

III. Trust among the G-B-CS

- The power dynamics between government and business has gone through substantial changes for the last four decades.
 - In the development era, the business was under a complete control of the government (risk partners, symbiosis, to some extent).
 - A symbolic event for the changing power dynamics: Chung Ju Yung (founder of the Hyundai Group) ran for the presidency in 1992.
 - Chung Ju Yung organized his own political party, the Unification and National Party, and his electoral platforms emphasized economic development, criticizing the inefficiency of the Roh Tae Woo government(1988-1993) in this regard.
 - At the polls in December 1992, Chung Ju Yung was placed third with the 16.7 % of the total votes, about four million people.

III. Trust among the G-B-CS

- The power dynamics between government and business has gone through substantial changes for the last four decades.
 - In the post-crisis era, the business is getting more and more superior to the government in power dynamics (except for the post-crisis reform period).
 - Inconsistent, ever-changing government regulations induce the business not to trust the government.

III. Trust among the G-B-CS

- The power dynamics between government and civil society has also gone through substantial changes for the last four decades.
 - In the post-crisis era, NGO's roles in the formation of government policies are getting larger.
 - Interest groups now play a ever-increasing role in the legislative process.
 - (In the development era, the bureaucrats were in charge of the legislative process. They were regarded as neutral professionals.)
 - Even the ministries now often fail to coordinate their policies. => A ministry often has recourse to the parliament without trying to talk to other ministries.

III. Trust among the G-B-CS

- People's reluctance to accept tax increases is getting stronger.
 - They often observe that national projects are awarded politically to the region or group which supported the president in the election.
 - Doubt about the legitimacy of the government spending (and legitimacy of the tax collection)
 - Recent debate on how to mobilize financial resources for "Vision 2030 in Korea"



IV. National Governance for Korea's "Vision 2030"

V. National Governance for Korea's "Vision 2030"

- The issue of governance is essential to transform long-term strategies into effective ones.
 - Need to analyze the governance mechanisms by which long-term strategies are taken into the realities
 - Need to build up strategies for effective governance mechanisms
- Recent OECD project, "Governance of Innovation Systems," points to this proposition.
 - "Many countries feel the need to develop long-term strategies for growth and change, but may lack the institutional resources and mechanisms to do so. Perceived challenges are all too often not met owing to inherent short-termism." => governance failure

V. National Governance for Korea's "Vision 2030"

- One of the global, long-term challenge in the 21st century
 - Need to diffuse decision-making responsibilities in response to technological, economic, social dynamisms
 - OECD, "Governance in the 21st Century, "
=> Future challenge "is likely to call for a redistribution of power within and across governments, companies, communities and families"
 - Decentralization and devolution are pursued in many countries
 - Korea's recent experience (in the next page)

V. National Governance for Korea's "Vision 2030"

- Korea's recent policy of decentralizing national R&D spending
 - About 40% of national R&D spending is now delegated to local levels, but it only leads to a flourishing of local agencies, decentralization and devolution without a major overhaul of the system.
 - Only the fragmentation and segmentation without the coordinated actions required => governance failure
- Often observed in other countries
 - "Changes often occur through new policies and institutions rather than major overhauls of the system, thus adding to the existing fragmentation." (OECD, "Governance of Innovation Systems")

V. National Governance for Korea's "Vision 2030"

- Need to build up the dispute resolution system
 - Dong-Young Kim, "Dispute Resolution in Korea"
"This 2006 KDI – WB Conference"
- Better Constitution?
 - Overcome short-termism in the structure of political power
 - Improve the decentralization and devolution in Korea
 - => More than a decade of experience, but still a long way to go