

Martial law was lifted in late January and peaceful political activity is legal once again. In a number of amnesties (most recently in mid-August) the sentences of a number of political prisoners (including those involved in the Kwangju disturbances) have been either commuted or shortened.

Domestic Economic Situation

The past year featured Korea's most disappointing economic performance in almost two decades of advancement. The GNP for 1980 (at 1975 prices) actually dropped by 5.7%; unemployment rose and the inflation rate was in excess of 30%. While much of the economic malaise could be attributed to earlier inflationary policies and to increasing energy costs, domestic political problems played some part in undermining internal effort and external confidence in the Korean economy.

Giving priority attention to the country's economic ills, Chun has taken a number of steps to curb inflation and stimulate exports. While placing generally greater reliance on market forces, interest rates have been lowered, the types and amounts of imports are being carefully managed, wage increases have been restricted and corporate consolidation encouraged to eliminate unnecessary competition and to rationalize industry.

The first half of 1981 has seen limited but encouraging signs of recovery. The GNP has resumed growth, exports have increased and industrial and agricultural indices are showing strength. Observers believe that while it is unlikely Korea will achieve the record growth rates of the mid seventies, its chances for economic recovery are excellent.

Foreign Policy

Security from political or military incursions by North Korea on the nation's sovereignty and territorial integrity forms the cornerstone of the South Korean foreign policy. South Korea has vigorously sought support for this position in the United Nations and elsewhere. Relations with the USA are of fundamental importance, with the US serving as Korea's security guarantor and major trading partner. Japan is next in importance. Korea's relations with Europe are significant in the economic sense. Korea's high dependence on imported energy demands high priority be given to relations with resource-rich countries, particularly those in the Middle East and the developing world, but also Australia and Canada.