

# Regional Development

The goal of regional development is to foster activities and outcomes that promote economic growth and to build foundations that will improve the quality of life for residents in the region. The stakeholders of each region are the businesses and residents themselves who would ideally participate in key regional development activities.

The scope of regional development varies, but generally it is enacted at the sub-national level, by way of local self-governing bodies. Recently, however, as new approaches emphasize the quality of life and the socioeconomic reality beyond the existing administrative boundaries, more function-oriented regionally based development approaches are being brought into play.

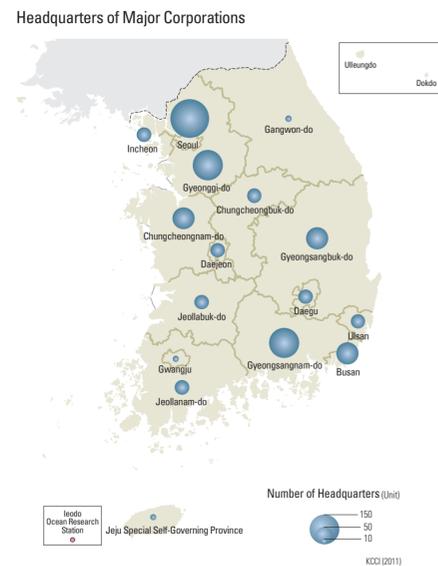
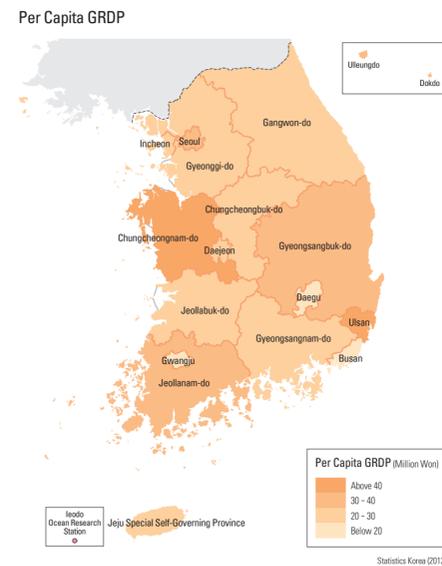
In general, the role of both the central and local

governments in regional development is very significant. Under a market economy, both structural dynamics and uneven distribution of benefits including natural endowments inevitably cause spatial disparity in regional development; therefore, a government policy intervention to fix this spatial disparity is often deemed necessary. Accordingly, the central government's policy efforts on regional development have been carried out for a long time at various levels of government. Like other countries in the Organization for Economic Cooperation and Development (OECD), the regional development policy in Korea has focused on lessening regional disparity through improving backward areas. The rapid modernization process since the 1960s brought about

remarkable economic growth and material abundance, but it has also caused many serious problems not the least of which includes the ever-increasing disparity of both economic power and quality of life between different regions. In order to solve such problems, the Korean government has promoted various developmental policy options for backward areas and has shifted its policy focus from infrastructure investments such as enterprise relocation and expansion of the economic growth base to making the quality of residents' lives a higher priority.

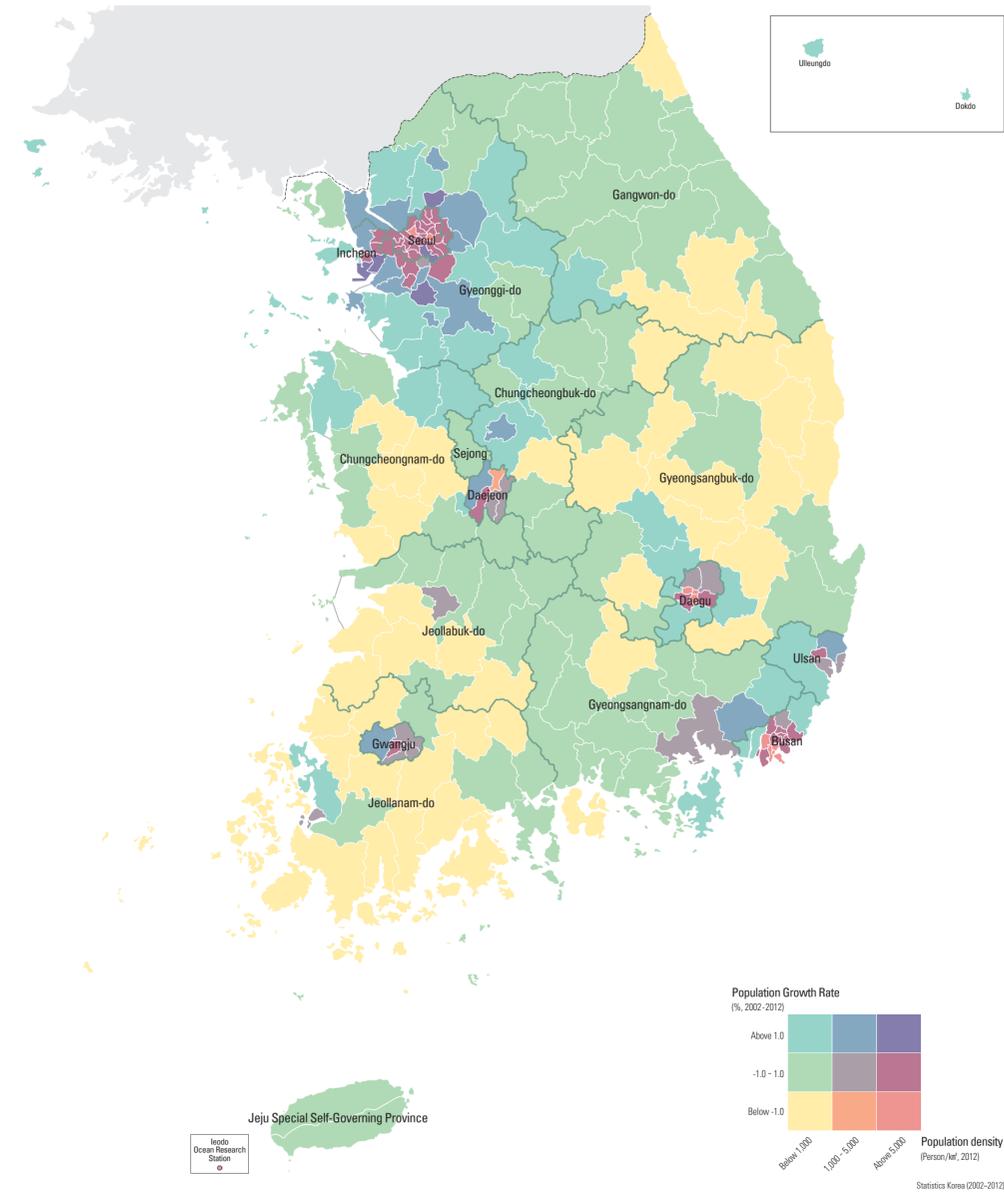
In spite of the many policies and financial investments that have targeted regional disparity thus far, the problem of spatial dualism in Korea between the capital region

and provincial regions and between urban and rural areas still remains quite serious. In addition, as changes in regional development occur, issues such as economic globalization, deepening inter-regional competition, and the demand for greater local autonomy further complicate the development process. The pursuit and promotion of more effective regional development policies are now more necessary than ever. In this current context, there has been a policy paradigm shift toward solving the real problems of both regions and their residents by creating decent jobs within the region, by promoting living conditions that foster the enjoyment of social and cultural benefits, and by ensuring that the basic welfare of the people is protected and nourished.



## Regional Development and Policy Framework

Regional Development Pattern in Korea: Population Aspect

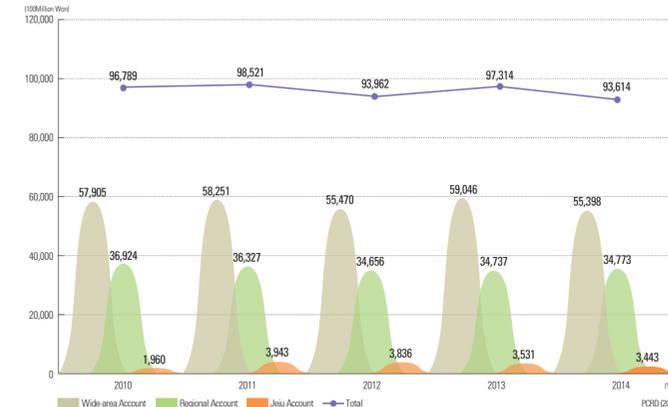


### Shifting Regional Policy Paradigm in OECD

	Old paradigm	New paradigm
<b>Problem recognition</b>	Regional disparities in income, infrastructure stock, and employment	Lack of regional competitiveness, underused regional potential
<b>Objectives</b>	Equity through balanced regional development	Competitiveness and equity
<b>General Policy Framework</b>	Compensating temporarily for location disadvantages of lagging regions, responding to shocks (e.g. industrial decline) (Reactive to problems)	Tapping underutilized regional potential through regional programming (Proactive for potential)
<b>Instruments</b>	Subsidies and state aid (often to individual firms)	Mixed investment for soft and hard capital (business environment, labor market, infrastructure)
<b>Actors</b>	Central government	Different levels of government, various stakeholders (public, private, NGOs)

Source: OECD (2010)

### Special Account for Regional Development and Financing Situation



In the Special Act on Balanced National Development (SABND) that provides an institutional basis for regional development policy in Korea, regional development is defined as "activating regional economies by facilitating region-specific development and inter-regional cooperation based on autonomy and creativity, and strengthening regional competitiveness by improving the quality of life of citizens."

In addition, the SABND supports regionally specific development according to a region's key features and its comparative advantages. Special accounts were set aside for regional development in order to effectively pursue both the promotion of a high quality of life as well as the intensification of regional competitiveness. These special accounts were separated into the Living Infrastructure Account, the Economic Development Account, and the Jeju Special Self-Governing Province Account and Sejong Special Autonomous City Account in 2014. These accounts began to provide more differentiated regional support in accordance with regional and industrial features.

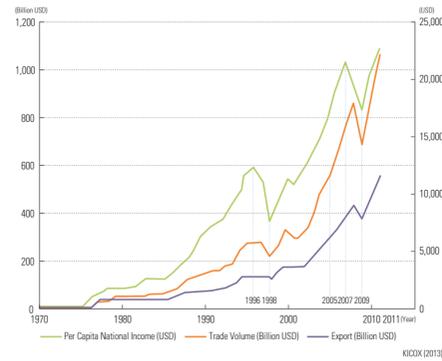
SABND's new focus on quality of life issues shifts the orientation of contemporary Korean development policy toward the matter of larger human concerns. Specifically, there is now a concerted effort to alleviate the problems created by urbanization and regional economic disparity not only by providing decent jobs and social and cultural opportunities but also by fostering health, happiness, and optimism. This new approach attempts to construct cooperative partnerships between residents and their local and central governments.

This new trend in regional development signals a shift in focus from emphasizing economic competitiveness and all that entails to placing a higher premium on the quality of life for all Korean citizens. For the first time since the early post-war years, the happiness of the citizenry is now a top priority, one which is reflected in the language and the enactment of current development policy.

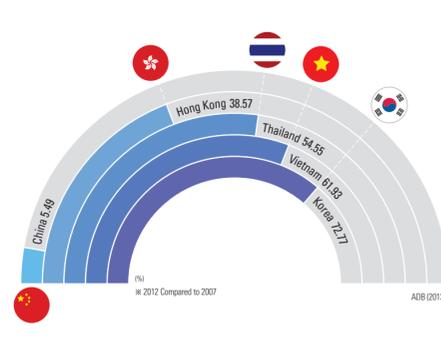
The spatial patterns of regional development in Korea continue to be very uneven. The structural regional disparities between the capital region and the provinces as well as between the urban and the rural regions resulted from the rapid modernization and industrialization in Korea in the post-war decades. There have been various policy-driven attempts to help overcome these disparities, but thus far such redressing has proven to be a long and complicated process. In the 2000s, there was a policy shift toward emphasizing both regional empowerment as well as the significance of quality of life issues, both of which were intended to lessen the regional disparity. The Special Account for Balanced National Development, introduced in 2005, was renamed the Regional Development Special Account due to changes in the policy framework for regional development in the Lee Myungbak administration. In 2013, the Park Geun-hye administration ushered in a shift in regional development policy that resulted in a new focus on primary-level capacity. The enactment of projects such as the "HOPE Area" represents a new era in regional development. The paradigm shift can be seen in gestures such as the renaming of the Special Account for Regional Development. The Jeju Special Self-governing Province Account remains the same, but the Sejong Special Autonomous City Account has been newly created.

Background of Regional Development Policy

Economic Growth Dynamics



Foreign Tourist of Major Asian Countries



Changing Gini Index in Korea



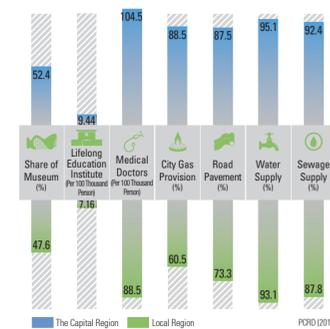
Korea's 50 years of experience in modernization is now clearly shedding some light on the process - both its positive and negative aspects. During this last half century, the national income has increased by 285 times and the country's export volume has increased by 16,600 times. Korea has moved from being an international aid recipient to becoming an international aid provider, which is the first such case in world history. However, social problems such as high divorce rates and high suicide rates continue to be a concern. The Korean divorce rate is 7th among OECD countries, and the suicide rate is 1st. The national happiness index is also ranked only 97th out of all 148 countries in the world. Income inequality has also expanded to a high degree.

As conflicts and distrust across generations grow, income inequality and regional disparities deepen; the social conflict index is ranked 4th among OECD countries. In the meantime, due to the increase in national income, the demand for social services like welfare and public education have increased as has the expectation of broader cultural activities. Because of the institutionalization of local autonomy for more than 20 years now, new regional policies have shifted to a bottom-up and decentralized approach that provides services that emphasize happiness and quality of life for local residents. These autonomous, local policy changes allow both residents and local government bodies to play active roles collaboratively.

The Capital and Local Region Disparity of Economic Capability

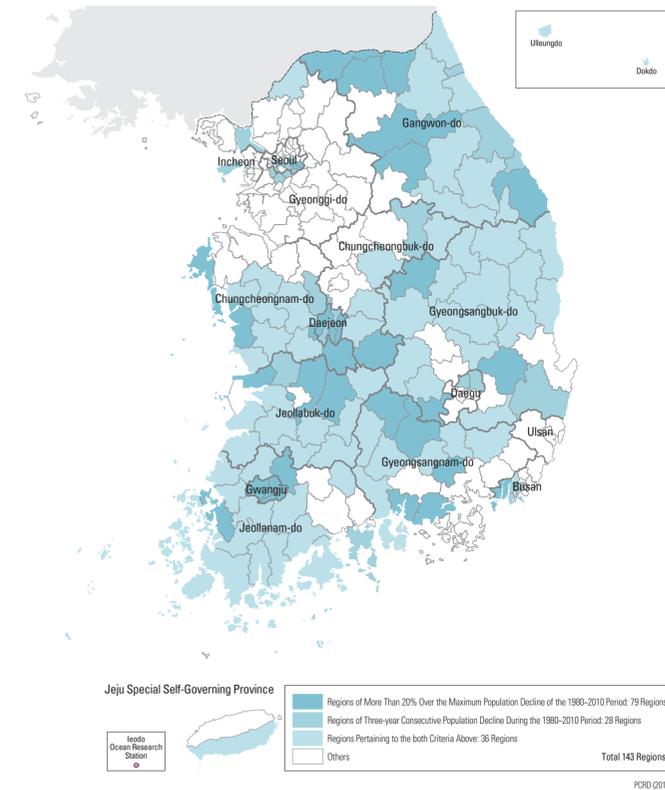


The Capital and Local Region Disparity of the Quality of Life



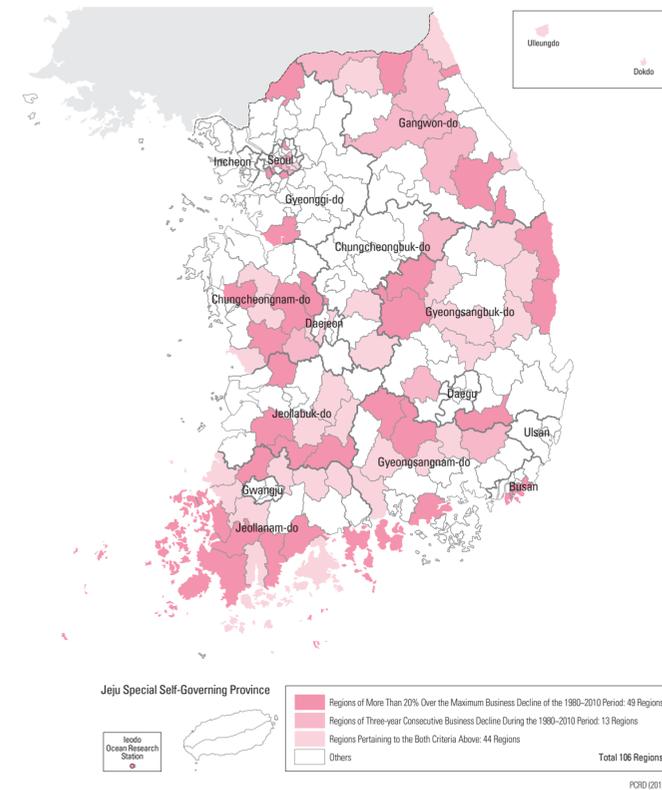
Depopulating Regions

143 Regions (62%)



Regions with Declining Business

106 Regions (46%)



Changing Regional Development Policies

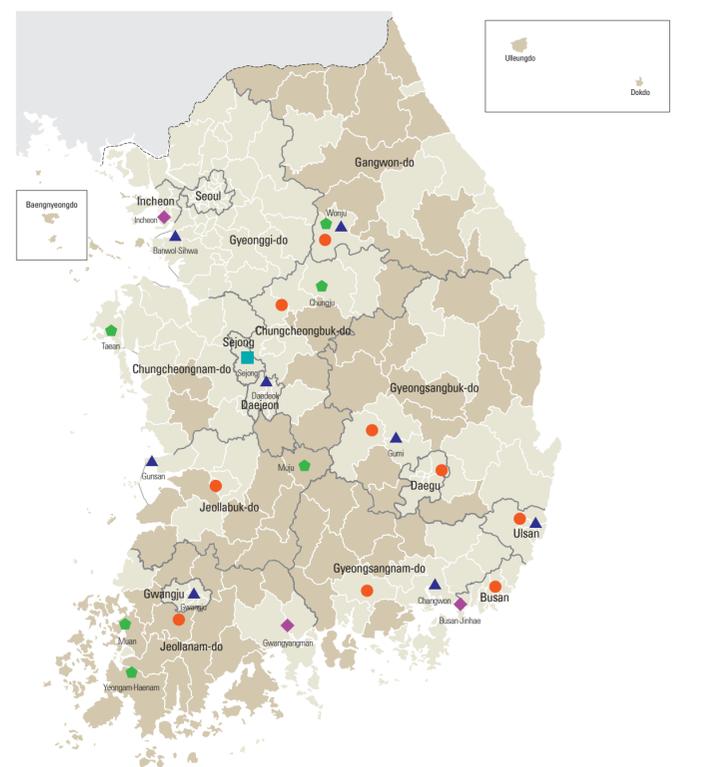
The Roh Moo-hyun government (2003-2008) identified two major regional problems: the deepening regional disparity due to the capital region's polarization and the capping of national income at 10,000 USD-both of which resulted from the inherent limits of an extensive growth strategy. In response to these problems, the government adopted a vision of regional policy that aims at establishing a multi-centered regional development network. This network of initiatives was meant to be innovative, quality-oriented, and decentralized so as to optimize its value to a specific region and its people. The government presented a multi-faceted policy scheme that included innovation policy, balance-oriented policy, industrial policy, spatial policy, and quality-oriented development policy. For the execution of this approach, it also established an implementation system administered by the Presidential Committee for Balanced National Development and the Special Account for Balanced National Development. In addition, the Roh Moo-hyun administration's innovation policy, industrial policy, balance-oriented policy, and decentralization policy all utilized the existing administrative units of Metropolitan City, Do, Si, Gun, and Gu (provinces, cities, counties, and districts) as basic spatial units for regional policy.

The Lee Myung-bak government (2008-2013) identified the following major problems affecting regional development: the weakening global

competitiveness of regions, the widely dispersed small scale investments by administrative units, poorly differentiated development, insufficient regionally led development capability, consumptive regional competition, and regional conflicts.

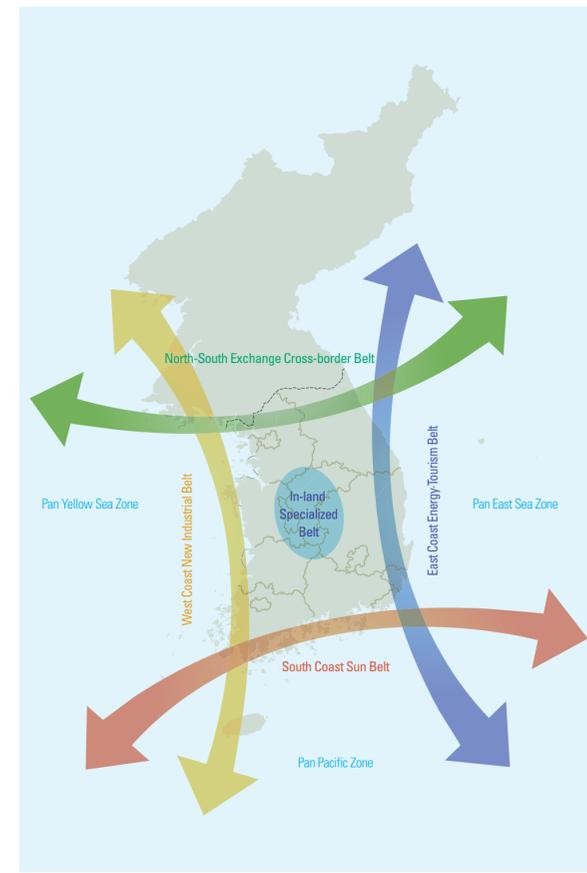
In response to these problems, the government established a vision of regional policy that sought to create competitive regions in order to secure jobs and improve quality of life. Furthermore, the new policy aimed to form economic regions that could respond to the globalization trend. It also initiated developments based on regional features. It organized regionally based development through decentralization. It also set out to emphasize regional autonomy, and cooperation and co-development across regions. For policy execution, it also established an implementation system administered by the Presidential Committee for Regional Development and the Regional Development Special Account. In addition, the government reclassified the 16 existing Metropolitan Cities and Provinces into seven separate Economic Regions. It implemented leading industry projects accordingly, including projects focused on the creation of talent through education along with 30 primary social infrastructure projects. It also presented the Seven Supra-economic Regions Development Plan in order to promote inter-economic regional cooperation and global cooperation with neighboring countries.

Regional Development Policy of the Roh Moo-hyun Government



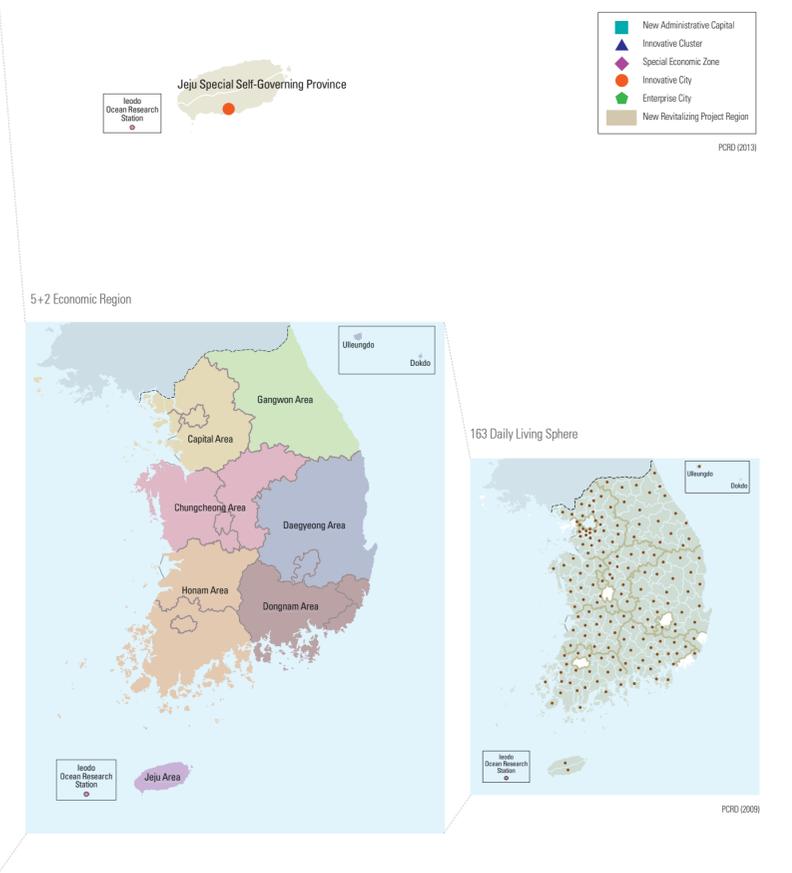
Regional Development Policy of the Lee Myung-bak Government

5 Supra-economic Development Region



Regional Development Policy of the Lee Myung-bak Government

5+2 Economic Region



Outline of Regional Development Policy during the Park Geun-hye Government

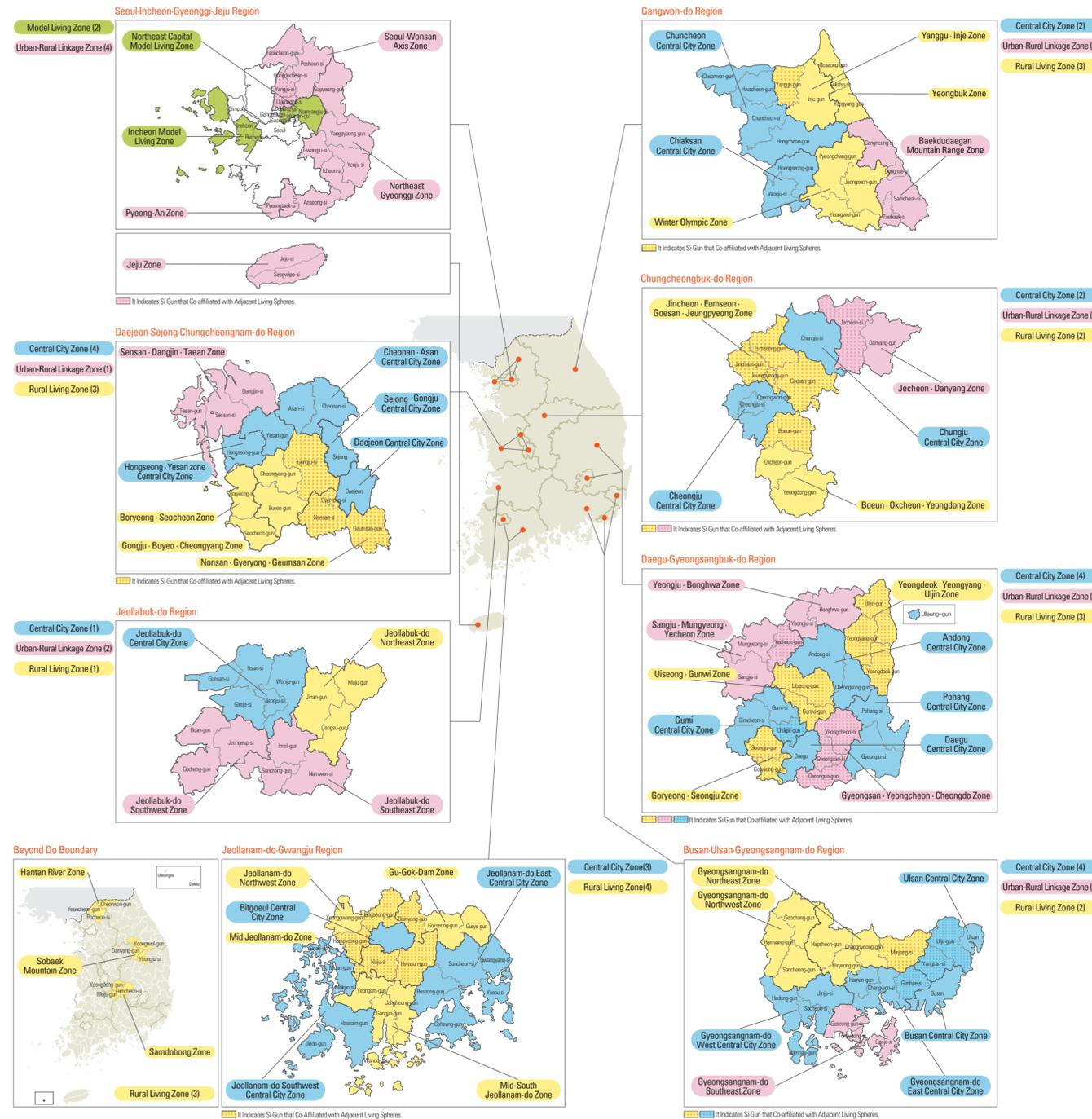
The Park Geun-hye government (2013-present) has created a new vision of regional development that seeks to promote "happiness to people, and hope to regions." Her administration has vigorously pursued the regional HOPE Project in an attempt to help people realize happiness and hope in their real lives. The idea behind this approach is that the opportunity for a happy life can be achieved through the residents' partnership with local government. Specifically, the project attempts to foster citizen participation in governmental processes and to help address and remove

policy blind spots throughout the country. In order to achieve this vision, the government presented three promotional strategies: realizing regional happiness in daily living, tailoring package-based policy support toward this end, and enforcing regionally-based cooperation. The "Happy living sphere" specifically refers to an attempt to ensure that the basic social, cultural, and physical needs are provided for all residents. The approach is comprehensive and incorporates central cities, rural central towns, and villages.

Concept of the HOPE Area



Design of the HOPE Area



PCRD (2014)

Regional Development Outcomes: Industrial Production and Infrastructure

Since the late 1990s, Korea has been intensively promoting its regional industrial policies. These regional industrial promotion policies are similar to the general regional policies, and also include both policies initiated by the central government as well as those created by the local governments. Recently, the participation of local self-governing bodies has increased. In particular, the targeting of a certain industry or industries has become a main measure of regional industrial promotion policy; in this respect, bottom-up promotion planning from local

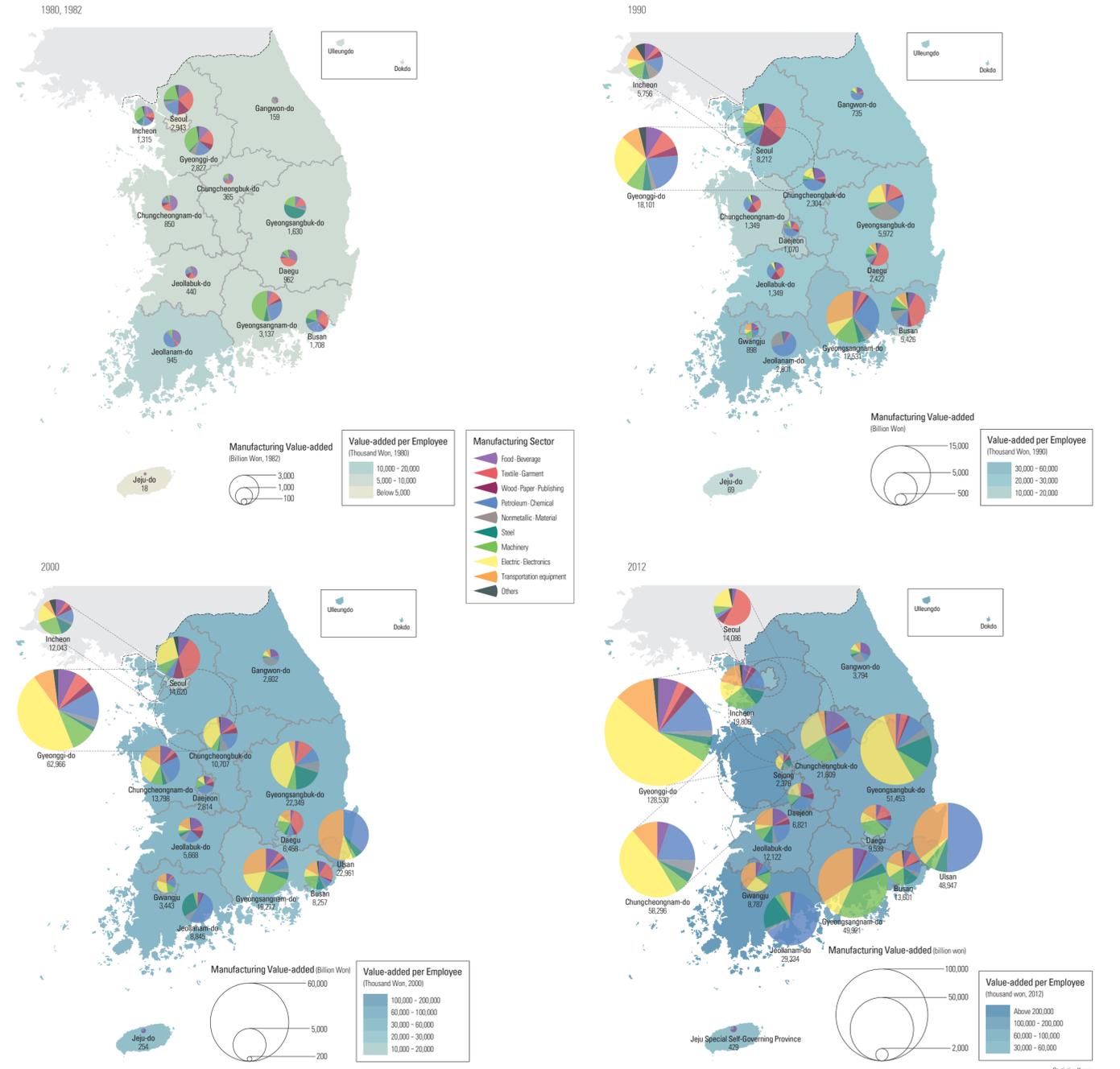
governments has become absolutely essential. In 1999, four regional industrial development plans were established. At that time, the central government established the promotion plan and provided financial support for constructing industrial infrastructure while macro-level local governments worked with the central government on selecting target industries and providing limited financing for such. Throughout the Roh and Lee governments, the participation of macro-level local governments expanded.

The Transition of Regional Industrial Promotion Policies (1992-2012)

Spatial Scale	1999-2002	2003-2007	2008-2012
Economic Region	4 Si - Do Regional Strategic Industry (1st Stage 1999-2003, 2nd Stage 2004-2008)		Economic Region Leading Industry (2008-2012)
Metropolitan City/Do	9 Si - Do Regional Strategic Industry (2002-2007)		Post 4+9 Regional Strategic Industry (2008-2012)
Economic Region	Si - Gun - Gu, Regional Specialized Industry Promotion Project (2004-2012)		

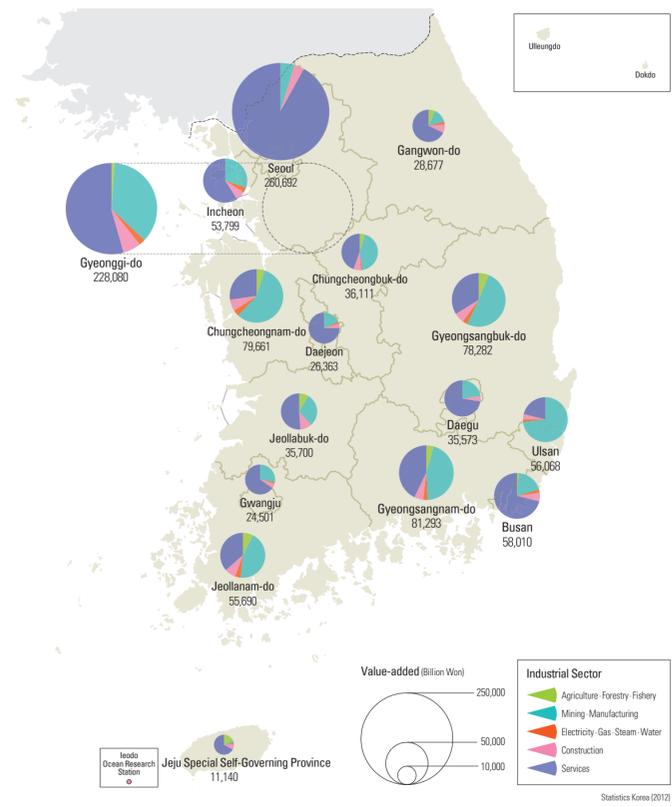
KRI (2013)

Manufacturing Value-added and Sectoral Composition

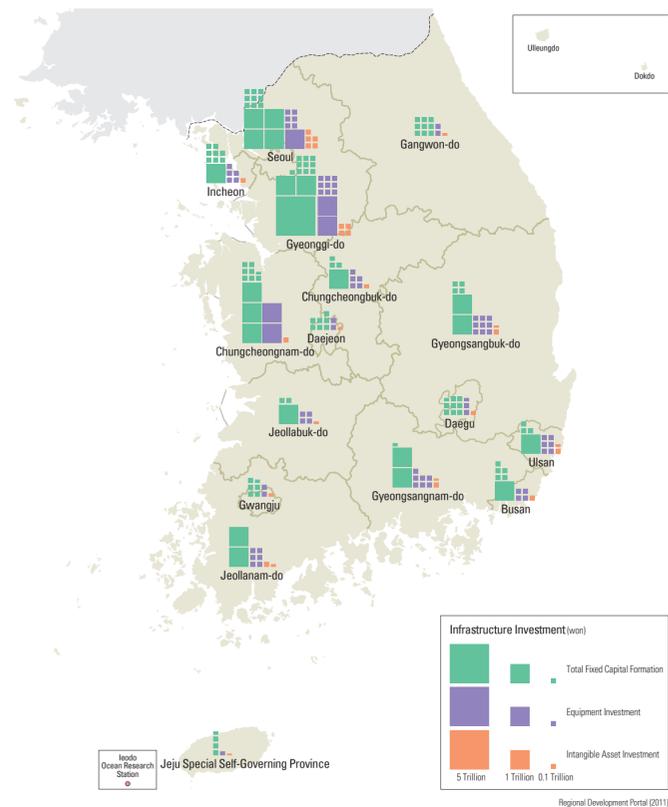


Statistics Korea

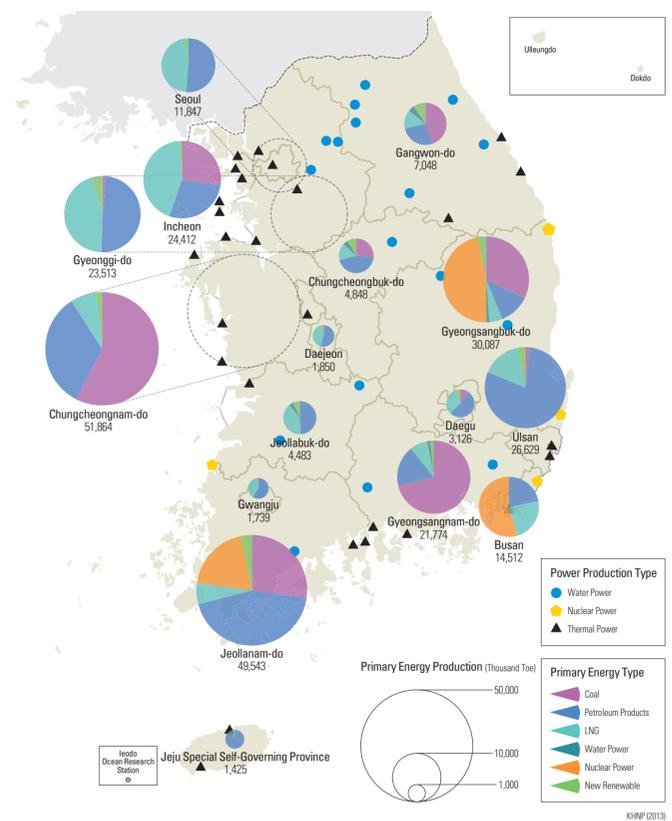
Industrial Production Composition



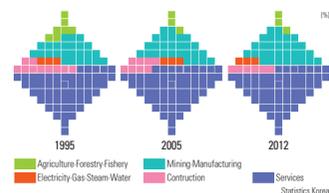
Infrastructure Investment



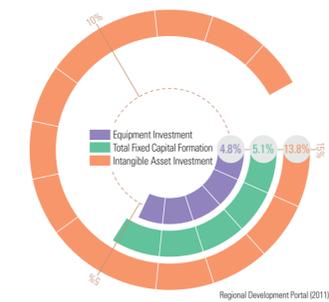
Energy Supply



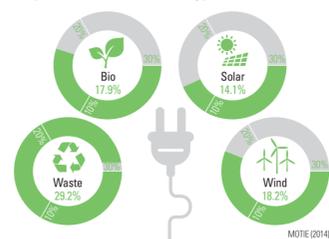
Changing Industrial Structure



Annual Average Change of Infrastructure Investment (1995-2011)



Major New Renewable Energy Sources in 2035

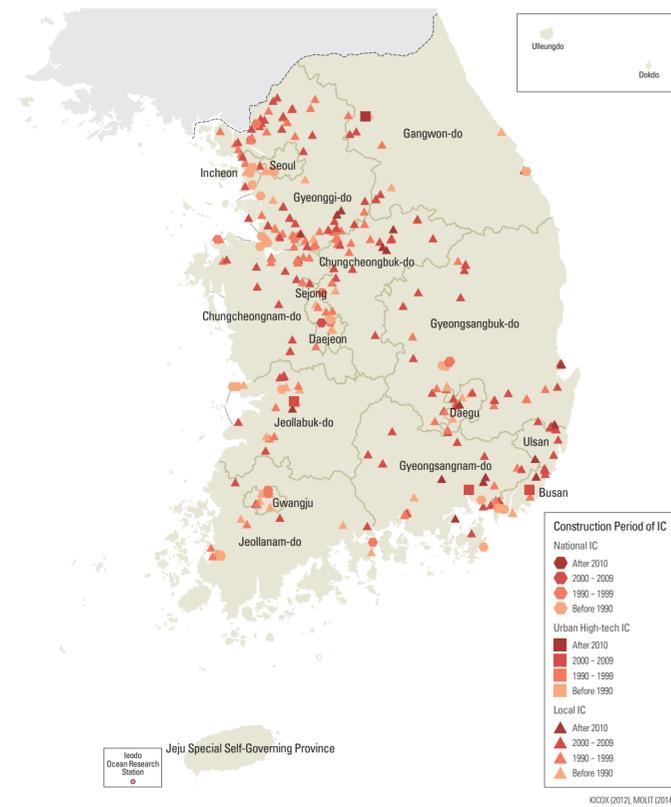


Regional development, in general, brings about the transformation of each region's industrial structure. Since 1995, the industrial structures of all provinces in Korea have experienced drastic transformations. Based on the contributions of local regions, the national industrial structure also experienced remarkable changes with a rise in the service sector and a decrease in agriculture, forestry, and the fishery sectors. In particular, the ratio of the manufacturing sector is higher than that of the average of OECD countries, and the extent of spatial concentration also has increased since 1995.

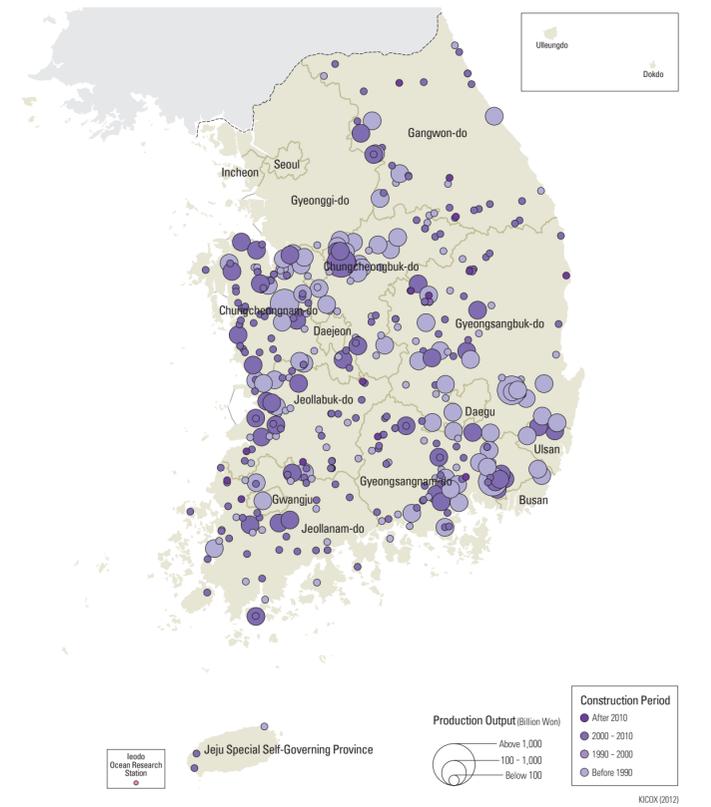
The promotion of regional development entails the investment in the infrastructure in local regions. Since 1995, the total fixed capital formation increased by 5.1%, equipment investment by 4.8%, and intangible assets investment by 13.8%. During the same period, the increase of total fixed capital formation was higher in traditionally industrial regions such as Chungcheongnam-do, Ulsan, Incheon, and Gyeonggi-do. In addition, the spatial concentration of all total fixed capital formation, equipment investment, and intangible assets investment have increased, which indicates that infrastructure investment tends not only to increase but also to concentrate spatially.

Another factor that has played a role in Korea's regional industrial growth is the increase in the number of power plants, which have in turn provided the energy needed for fostering further industrial activities. All 23 of the nation's nuclear power plants concentrate spatially in three regions: Busan, Gyeongsangbuk-do, and Jeollanam-do. Thermoelectric power plants, on the other hand, show a comparatively even spatial distribution.

Change of Industrial Complex Distribution



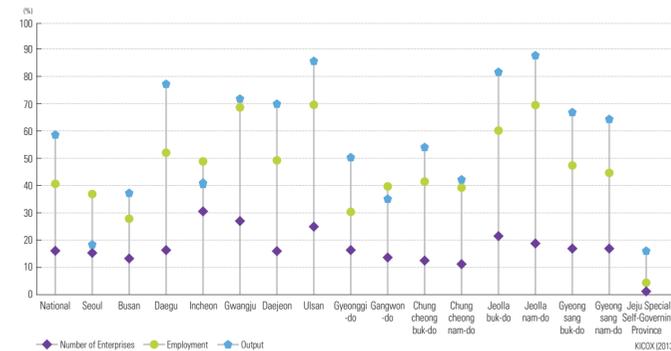
Change of Agricultural Industrial Complex Distribution



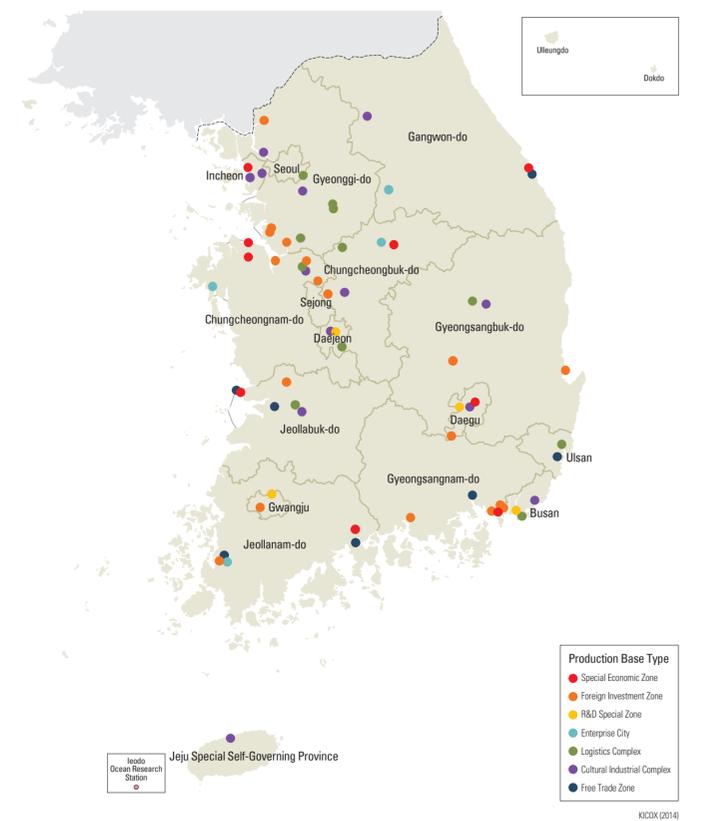
Designation of Industrial Complexes



Contribution of Industrial Complexes to Regional Economy

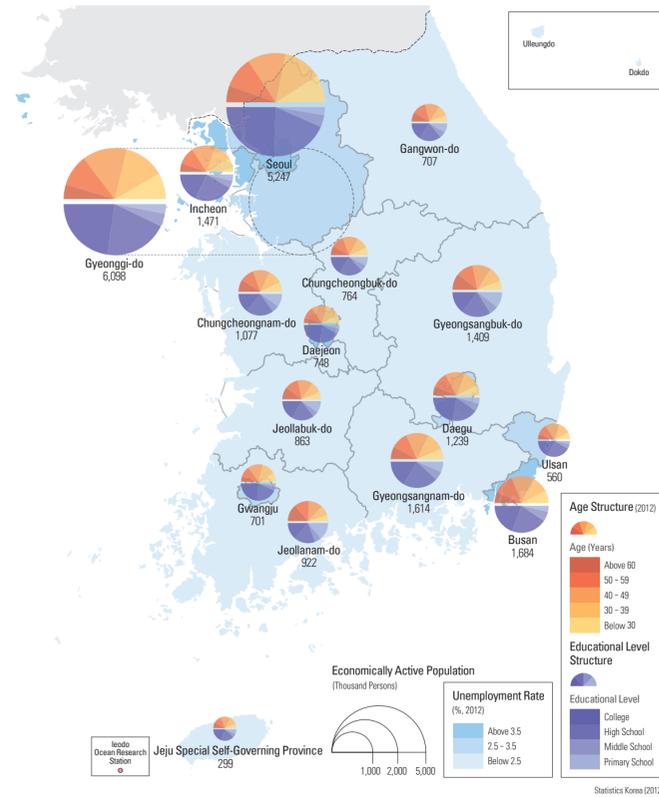


New Industrial Production Bases

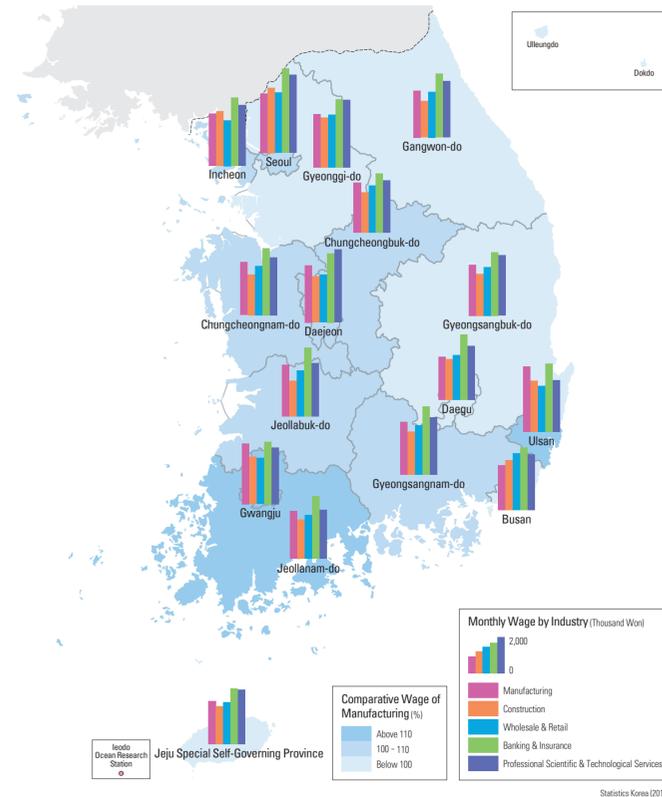


Regional Development Outcomes: Human Capital, Research and Development

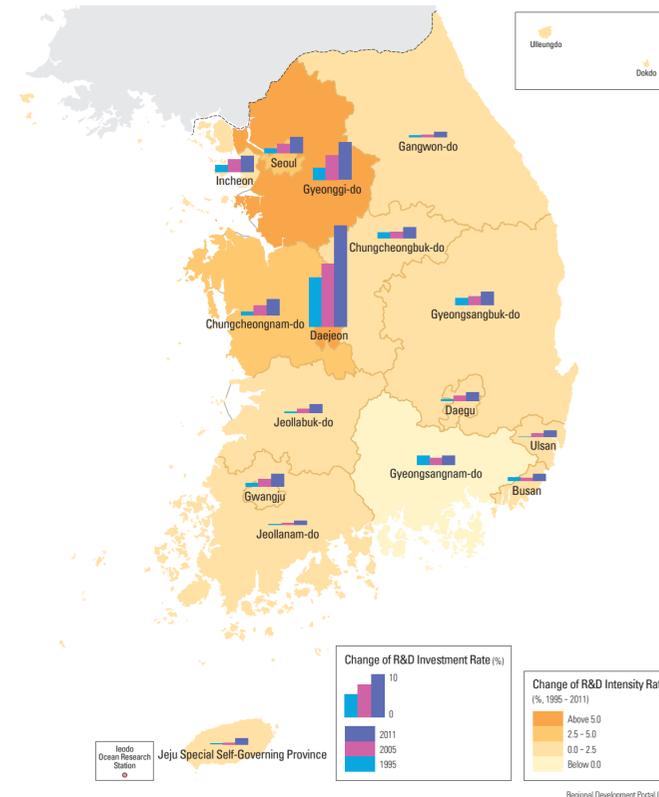
Structure of Economically Active Population



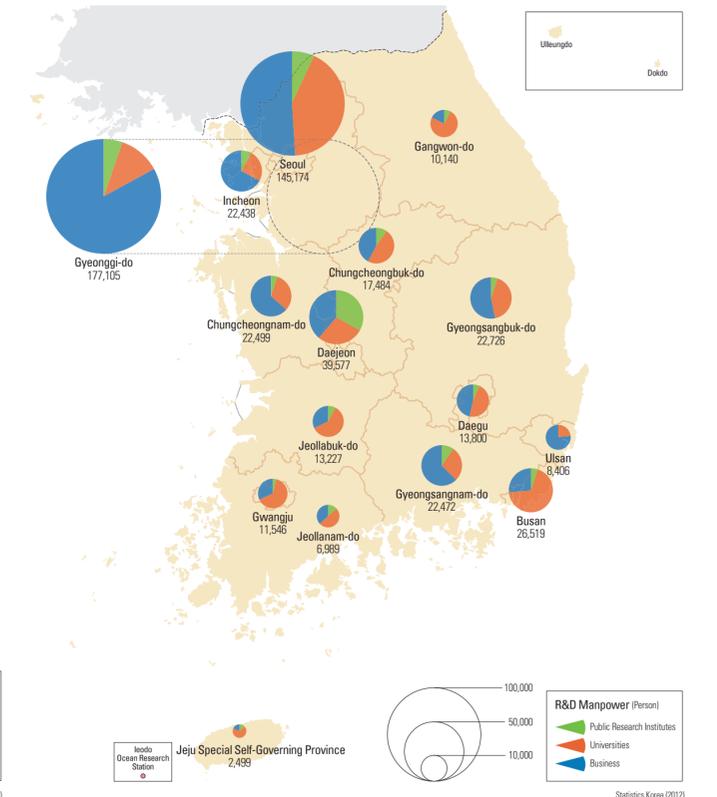
Wage Level by Industry



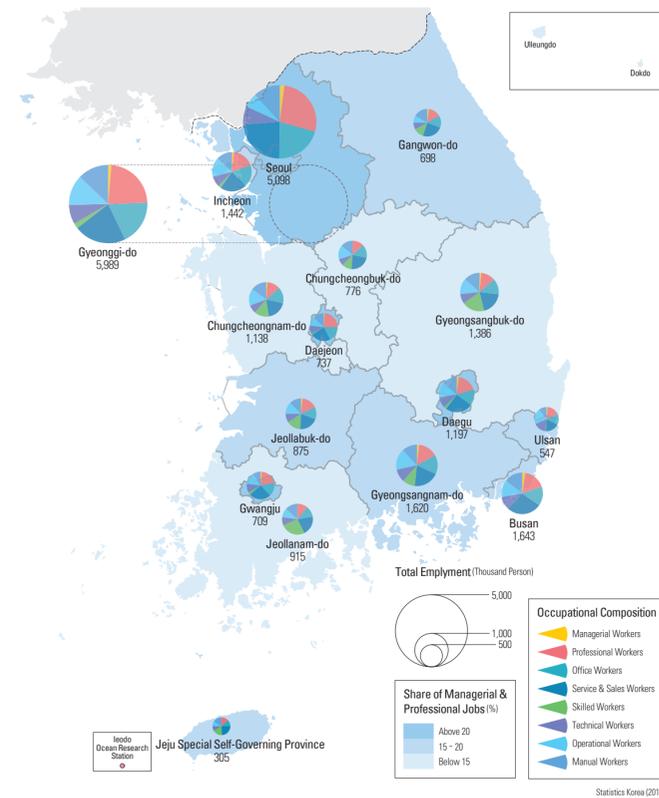
Changing R&D Investment Rate and Intensity Rate



R&D Manpower

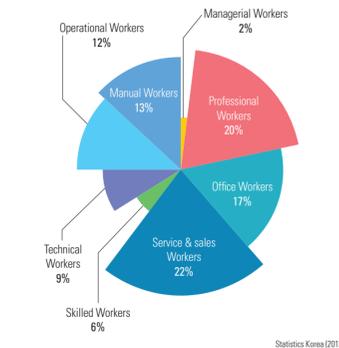


Occupational Structure



Employment structures within individual provinces are experiencing remarkable transformations due to regional industrial growth. At the national level, professional workers, clerical workers, and manual workers have increased in number rapidly to collectively become a polarized growth group of occupations. On the contrary, technicians and related technical workers, as well as heavy machine operators, equipment, and assembly workers have all decreased. People working in service and retail represent the largest share of employed workers, but this trend seems to be decreasing.

Occupational Distribution



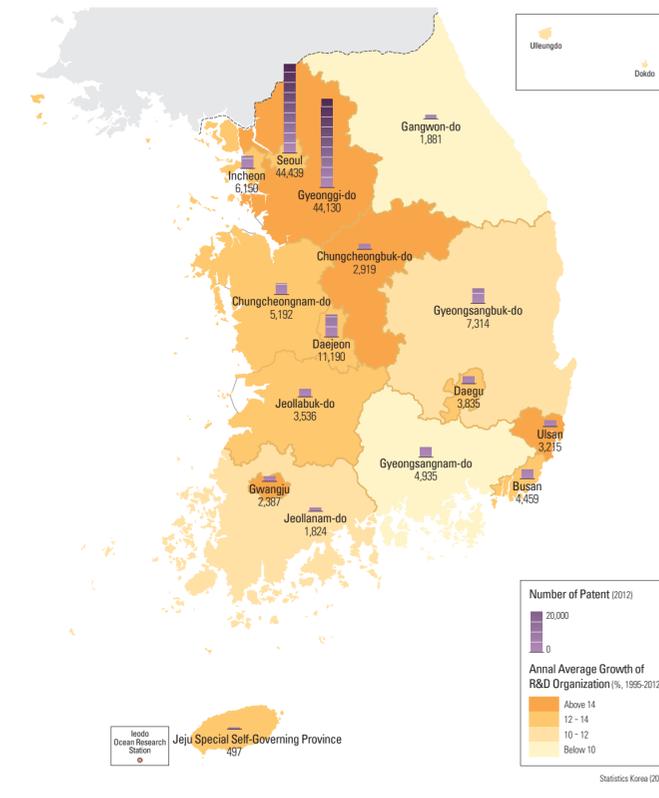
Regional Wage Disparity by Industry: Coefficient of Variation



Average Monthly Wage by Industry



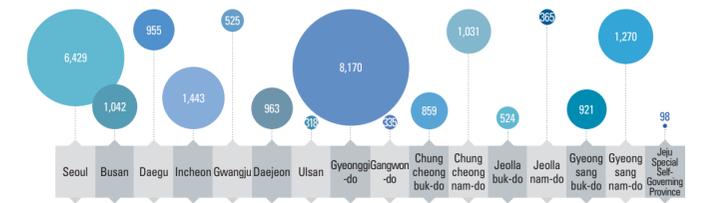
R&D Organization Growth and Patent



With the transition to knowledge-based and creative economies, research and development (R & D) and regional innovation-related capability became critical factors in determining both the outcome of regional development and regional growth potentials for the future. Even though research and development investment as a percentage of GDP in Korea is now higher than the OECD average, the Korean government still maintains its focus on intensifying innovation capacity for regional industrial growth. This policy to continue research and development support is based on the argument that regional innovation-oriented policies can indeed support regional innovation, promote technological transfer effects, and improve continuous and self-sustainable regional growth.

The research and development investment that contributed to the remarkable economic success in Korea shows clear spatial disparity across different provinces. This spatial disparity is considered a significant regional problem; however, it can be used to gauge the effects of disparity on regional economic growth, and furthermore it could have a decisive impact on the future potential for regional growth. Spatial inequality in research and development is also apparent in the distribution of research and development organizations across the provinces. The capital region consisting of Seoul, Incheon, and Gyeonggi-do alone accounts for 63.5% of total organizations devoted to innovation in the nation, which is to say it clearly is the key hub for research and development activities in Korea.

R&D Organizations by Si - Do



R&D Manpower by Si - Do

