論文

Korean Government's Balanced Regional Policies for Mitigating Economic Gap between Regions

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Abstract

This paper analyzes the properties and key performances of government's balanced regional development policies initiated to mitigate the widening economic gap between the Capital and local areas starting from Noh's government in 2003. The Noh's government put much emphasis on 'Balanced National Development', but the following governments, Lee and Park, focus more on 'Regional Development'. One of the key achievements would be the movements of public institutions to designated local areas (innovation cities) in relation with the region's strategic industry. For better understanding, Busan was selected as a case study focusing on finance industry, among three strategic industries such as finance, marine and film industries. In addition, some policy agendas are provided for successful and effective balanced regional development; comprehensive and customized strategic set of policies in each region, additional movements of public organizations, decentralization of government's rights in terms of taxation, and vitalization of active and persistent innovation clusters for collaboration of industry-university-research.

Keywords

Balanced Regional Policy, Economic Gap, Finance Industry, Busan, Innovation Cluster

JEL Classification: L8, R1, R5

1. Introduction

During the early period of Korea's economic development since 1962, Busan, the second largest city in Korea had played a significant role in the rapid growth of gross

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domestic product (GDP) from the perspectives of industrial structure and advantageous infrastructures such as internationally well-known seaport and low wage rates due to the abundance of labor forces from other cities. The competitive key industries were shoes, textiles and plywood with the properties of labor intensive.

However, those industries had lost their competitiveness since the middle of 1980's due to the industrial restructure caused by the advent of new technology coupled with further opening the Korean economy. As a result, the weight of Busan's economy in Korea began to gradually decrease with the reduction of population, which widened the economic gap between the Capital[1] area and Busan. The increasing economic gap implies the concentration of Capital area in all fields of the economy; capital, labor forces and administrative powers.

Under these circumstances, the purpose of this paper is to provide strategic policies for reducing the economic gaps between regions, especially between locals and Capital area by investigating the objects of balanced regional policy and its history and properties. The reduction in the economic gaps then would also lead to the sustainable economic growth which is pursued by many governments in recent years.

The paper is organized as follows; section 2 describes the backgrounds of balanced regional policy, and the properties of balanced regional policy and its performances are presented in section 3 and section 4 suggests case study for Busan focusing on the finance industry and followed by the concluding remarks and future agendas in the last section.

2. The Backgrounds of Balanced Regional Policy

The balanced regional policy was originated from the adverse effects of increasing economic gaps between Capital area and locals characterizing severe concentration in Capital area and scarce resources in locals, which led to serious economic and social problems in both areas in all aspects such as population density, housing prices, traffic jams and etc.

According to Kim (2008), the weight of population in Capital area was about 48.7%, while the size of land in Capital area was just 11.8% out of the whole Korea. Similarly, GRDP in Capital area occupied almost half of Korea's GDP, 48.1% using the data available in 2004 or in 2007 depending on the corresponding variables. He also showed that the up to 90% of all government administrative and government-invested institutions resided in Capital area, and 91 firms placed their headquarters in Capital area in top 100 firms while the corresponding firms' factories were located in various local areas. As stated in the above, the locals began to devastate in all resources such as population, number of decent big firms, government and/or government-invested agencies and available capital. This phenomenon was accelerated since the late 1970's when the Korean economy had shown rapid economic growth rates of as high as 9 to 10% per year. As all resources were congregated into Capital area, the GRDP in Capital area grew faster than that of locals, which forced the government to restrict the expansion of Capital area in the early stage of balanced regional policy. For example, no more construction of production facilities in Capital area was the typical action taken by the governments in 1970's. Table 1 in the below shows the growth rates of Korea's GDP from 1961 through 2017.

<Table 1> Korea's GDP Growth Rates since 1961

unit: %

term	1961–1970	1971–1980	1981–1990	1991–2000	2001–2010	2011–2014
01	4.94	10.44	7.40	9.71	4.53	3.68
02	2.46	6.51	8.29	5.77	7.43	2.29
03	9.53	14.79	12.18	6.33	**2.93**	2.90
04	7.56	9.38	9.86	8.77	4.90	3.31
05	5.19	7.34	7.47	8.93	3.92	2.80
06	12.70	13.46	12.24	7.19	5.18	2.90
07	6.10	11.82	12.27	5.77	5.46	3.10
08	11.7	10.3	11.66	**-5.71**	2.83	
09	1.41	8.39	6.75	10.73	0.71	
10	12.87	**-1.89**	9.30	8.83	6.50	
average of 10 years	7.44	9.05	9.74	6.63	4.43	

Source: Kim (2018)

As shown in Table 1, the average GDP growth rates of 70' and 80' for two decades were above 9%, representing amazingly high growth for 20 years since the Korean government officially initiated her export-oriented development strategies in 1962. As noted in the above table, however, negative growth rates were realized in 1980 and 1998 reflecting oil price shock and East Asia foreign exchange crisis. In 1980, the negative economic growth was partly attributed to domestic political turmoil together with world-wide oil price shock. Except two specific years, 1980 and 1998, Korean economy showed very high and consistent growth rate until early years of 2000.

Due to the burst of IT bubbles in the early years of 2000, Korean economy showed quite severe drop of GDP growth rate in 2003, from 7.43 to 2.93%. Despite government's stimulating economic policy, the growth rates did not go up as she did in the past 20 years. In the meantime, Korean economy was further globalized since 2000 by making many FTAs effective, which also made the Korean economy more dependent on the foreign economies in spite of the expansion of economic territory for exporting goods and importing materials. Another important policy taken by the government during this period was balanced national policy by Noh's administration (2003-2008). As a result, the Korean economy again obtained very low growth rate of 0.71 in 2009 because of the global financial crisis. After the crisis, though there have been quite speedy recoveries with the help of international coordination triggered by G20[2], Korean economy's potential growth rate has been significantly reduced, which in turn showed low GDP growth rates around 3%.

<Table 2> The Trends of GRDP and per capita GRDP in Selected Regions

unit: million ₩

region	2003	2007	2011	2015	growth rate for 12 years
Seoul	203,336,792	249,484,652	303,812,518	344,426,006	1.694
	20.25	24.78	30.16	**34.65**	1.711
Gyunggi	159,674,974	212,643,897	276,154,982	352,856,905	2.210
	15.73	19.23	23.35	28.40	1.805
Incheon	39,276,664	51,638,293	61,854,353	75,674,836	1.927
	15.26	19.54	22.45	26.25	1.720
Busan	46,238,523	56,193,270	66,647,601	78,238,069	1.692
	12.67	15.88	19.17	22.66	1.788
Daegu	27,593,321	34,388,093	41,447,963	48,868,979	1.771
	10.90	13.85	16.69	**19.80**	1.817
Gwangjoo	16,613,038	22,310,449	27,788,989	32,516,321	1.957
	11.60	15.32	18.50	21.59	1.861
Daejeon	18,551,621	22,775,080	29,683,859	34,061,848	1.836
	12.77	15.25	19.42	22.08	1.729
Ulsan	36,793,160	50,081,523	68,747,862	69,673,899	1.894
	34.63	46.40	61.82	**59.87**	1.729

Source: Kim (2018)

Table 2 in the above represents the trends of GRDP and per capita GRDP in selected regions focusing on the capital area and some locals excluding minor cities such as Jeonjoo, Jeju and Kangwondo. Seoul's per capita GRDP in 2015 is the highest among the three capital regions and second highest in all areas. Even though Ulsan is located in the southern part of Korea, not included in Capital area, ranks number one in per capita GRDP because of specialized industrial structure composed of shipping and automobile. In fact, Ulsan was designated as the complex of heavy industry by the government in late 1960' during the government-driven economic development stage like Pohang for a steel industry[3].

Another important feature is that Daegu's per capita GRDP in 2015 is the lowest in all regions, 19.80 million won, while that of Busan 22.66 and Gwangjoo is between the two regions. The three southern cities are still major administrative points in the corresponding areas, but the per capita GRDP is lower than that of the Capital area, even though the three cities had played crucial roles during the early stage of Korea's rapid economic development by specializing in labor-intensive industries such as textile, glasses, clothes and shoes.

Judging from Table 3 in the below, there is no significant change in economic volume between Capital and local area in the past 12 years from 2003 through 2015 due to the rising city, Daejeon. One plausible explanation for this unchanged economic volume is the locational property of Daejeon, not in the capital area, but in the local. According to Table 2 in the above, Daejeon's per capital GRDP is 22.08, which is just below that of Busan.

<Table 3> The Change in Economic Volume between Capital and Local area

unit: %

Economic zone	2003	2015	change in 12 years
Capital	49.4	49.4	0
Local	50.6	50.6	0

Source: Kim (2018)

However, if we consider the central area, which includes the capital area and middle part, the economic volume has increased by 2.2% in 12 years from 2003, which in turn shows the decrease by 2.2% in southern area shown in Table 4.

<Table 4> The Change in Economic Volume between Central and Southern area

unit: %

Economic zone	2003	2015	change in 12 years
Central	62.3	64.5	+2.2
Southern	37.7	35.5	-2.2

Source: Kim (2018)

This fact also explains the relatively low per capital GRDP in three southern cities already noted in Table 2. Another point we have to look at is the apparently declining population in those cities. Thus the per capita GRDP would be smaller than it is if the population is unchanged.

In short, the economic gap between the capital and local area has been widened even since the late president Noh's aggressive balanced national development policy from 2003. This outcome implies that the balanced regional policy should be pursued for the sustainable development of the national economy in two aspects; the short-run strategy and the long-run strategic policy. For the short-run strategy, future-oriented industry should be developed and cultivated to replace the declining industry. For the long-run strategic policy, however, structural changes in terms of industry-focused economy and economic zones. These short-run and long-run strategies will be discussed more in the later section.

3. The Properties of Balanced Regional Policy and Key Performances

3.1. Short History of Balanced Regional Policy

The first government-led explicit balanced regional policy was the late president Noh's "Balanced National Development Plan (2004–2008)". Under this plan, the government set balanced regional development as the top priority in the national policy agenda and pursued legal and financial infrastructure for securing the policy instruments in order to achieve the proposed policy goals; balanced regional development focusing on mitigating the increasing economic gap between capital and local area as emphasized in Kim (2008). The Noh's administration employed the "Regional Innovation System" (frequently called RIS) as a base of key policy agenda. One of the representative policies was to develop 11 innovation cities in 13 provinces excluding 3 provinces in capital area partly ignoring the characteristics of each region, which in turn led to a split between the prime goal of balanced regional development and the strategies used by RIS. Another weakness of RIS approach is that it was ambiguous on operational policy and unclear definition of spatial size coupled with uniform policy instruments. This flaw in the policy implementation with uniform policy mix without enough consideration of urban hierarchy naturally led to poor efficiency and lower effectiveness of regional policy[4].

The second government-oriented policy for regional development initiated by President Lee put much emphasis on regional development rather balanced policy by grouping 16 provinces into 5+2 economic zones[5] according to the criteria of historical, cultural and geographical identity. Then, the ultimate policy goal is to create competitive regions with better jobs and quality of life by setting four goals; enhancing the competitiveness of the corresponding regions, regional specialization according to the characteristic of each region, decentralization and regional autonomy and inter-regional cooperation for collaborative development. In case of Busan, which is included in Dongnam (south-east area) economic region, automobile and components industry was selected to enhance this region as center for key industry & logistics.

Following previous two region-oriented policies, Park's government propelled so-called HOPE project of forming living zones for region & happiness, setting vision of "Happiness to people and Hope to region." For this purpose, 63 rather small zones were created instead of 5+2 economic regions of the former government, and cooperative & collaborative projects between cities and/or provinces together with 15 region-specialized development projects and promoting project for economic cooperative zone were aggressively designed and pursued.

<Table 5> Short History of Government's Balanced Regional Policy

	Term	Main Body	Key Policy	Others
Noh's Admin.	2003.2–2008.2	presidential committee for balanced national development	· Movements of public institutions to local area · Building clusters for regional innovation in many cities	Financial institutions moved to Busan; KSD, KAMCO
Lee's Admin.	2008.2–2013.2	presidential committee for regional development	· Dividing the national economy into 5+2 big economic zones · Specialize each zone with the region's advantageous industries	Put emphasis on regional development, rather than balanced
Park's Admin.	2013.2–2017.3	presidential committee for regional development	· Construct innovation centers for creative economy in selected cities to promote economic cooperation with conglomerates	SAMSUNG, LOTTE, HYUNDAE
Moon's Admin.	2017.5–	presidential committee for balanced national development (2018.3)	· Movements of public institutions to local area (second round) · Decentralization; taxation (national vs local)	More weights on local tax

In this process, big enterprises such as SAMSUNG and HYUNDAE were forced to make economic alliances in designated zones. In spite of positive effects of those projects on specific zone, economic concentration on capital area was rather aggravated. The current government, president Moon, emphasizes again the importance of balancing the regions in implementing the regional development policy originated from Noh's government. President Moon reestablishes presidential committee for balanced national development focusing on movement of public institutions and decentralization. Table 5 in the above summarizes the properties of each government's regional development policy.

3.2. Key Performances of Balanced Regional Policy

Since the first government-led regional policy in 2003, many efforts were made to push regional developments and mitigation of the economic gap between capital and local areas with slightly different perspectives depending upon the corresponding government's policy orientation as already discussed in the previous section. One of the outstanding achievements would be the movements of public institutions to designated local area along with the employees according to the relevant law. It took almost 10 years to implement the first-round movements of such institutions; 10 innovation cities and one administration-complex city, Sejong.

The movements had a great impact on the region in many aspects such as increase in local taxation and population, though there were unwanted adverse effects as well such as inefficiencies caused by geographical distance between Seoul and local, and inconvenience caused by departure from home living area.

<Table 6> The Number of Public Institutions and Employees Moved to Local Area

destination	No. of Institution	No. of Employee	Classification in terms of No. of Employees		
			less than 50	between 50 and 200	more than 200
Innovation cities	115	41,548	7	44	64
Sejong	20	4,098	2	9	9
others	19	5,460	1	8	10
total	154	51,106	10	61	83

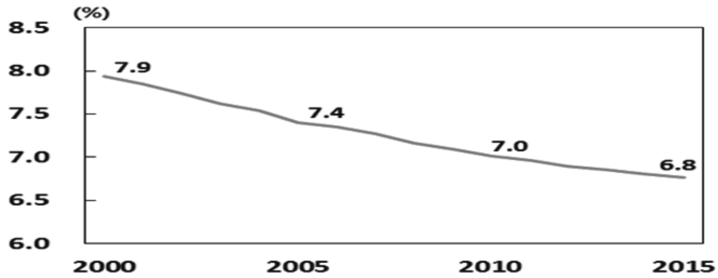
* The numbers in this table are as of April, 2017. The data are from KIET (2017).

According to Table 6 in the above, 115 institutions moved to 10 innovation cities with 41,548 employees, and 64 out of 115 are quite big in terms of employees, more than 200. In case of Sejong, located in the middle part close to Daejeon, 20 organizations moved with more than four thousand employees. In total, 154 institutions with 51,106 employees moved to local area from capital area, mainly from Seoul.

4. Case Study of Busan: Focusing on Finance Industry[6]

4.1. The Overview of Busan's Regional Economy

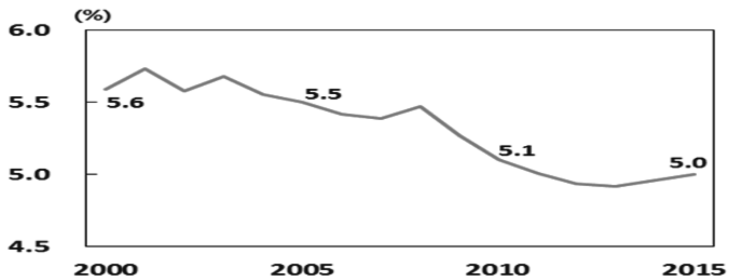
Busan had been a leading city which led the national economy for more than 20 years from the early 1960's by specializing labor-intensive light industries equipped with worldly-known seaport in the south-eastern part (Busan, Ulsan and Kyungnam province) and hence boasted its high reputation compatible with Seoul. Since the middle of 1980's, however, Busan's national status and its economic weight began to fall as economic concentration towards Capital area was being intensified.



<Figure 1> The Weight of Busan's Population

Source: Kim and Park (2016)

More specifically, as indicated in Figure 1 and 2, the weight of GRDP in 2000 was 5.6% in the national economy, but it became 5.0% in 2015, while that of population fell by 1.1% from 7.9% to 6.8% in the same period. (More detail, see Kim and Park (2016))



<Figure 2> The Weight of Busan's GRDP

Source: Kim and Park (2016)

Under these circumstances, Busan metropolitan city proposed finance industry as a new growth engine with characteristics of high value-added service sector for the future of

Busan since the early 2000's. As a result, Busan was designated as a financial center specializing in marine and derivatives finance together with Seoul in 2009.

4.2. The Properties of Finance Industry in Busan

Before the official balanced regional policy, local government initiated its own strategic industries from the late 1990' in accordance with the introduction of local autonomy system in 1996. In case of Busan, finance industry was selected as one of the region's strategic industries from the first stage, which started from 1999. Despite the declining weight of Busan's GRDP in the national economy, that of finance industry has rather increased to 6.9% by 1.1% between 2000 and 2015, partly because of government-led regional development policy originated from the Noh's government in 2003. In the same period, GRDPs of all other sectors decreased except service sector as shown in Table 7.

<Table 7> Trend of Sectoral Weight of GRDP

(unit: %, %p)

	Busan			Seoul		
	2000(A)	2015(B)	(B-A)	2000(A)	2015(B)	(B-A)
manufacture	20.2	19.6	-0.6	6.4	6.3	-0.1
service	69.6	71.8	2.2	87.9	89.9	2.0
(finance)	5.8	6.9	1.1	11.2	11.5	0.3
construction	5.7	5.3	-0.4	4.3	2.9	-1.4
others[1)]	4.5	3.3	-1.2	1.4	0.9	-0.5

Note: 1) Agriculture, fishery, mining, electric, gas and waters.
Data: KOSIS

Table 8 in the below shows that the GRDP of finance sector in selected cities, Busan and Seoul between 2000 and 2015.

<Table 8> GRDP of Finance Industry

(Unit: trillion K ₩, times, %)

	2000(A)		2005	2010	2015(B)		(B/A)	Average of annual(2000–2015)
Nation	32.2	(100.0)	53.7	71.7	78.6	(100.0)	2.4	6.1
(Busan)	1.9	(5.9)	3.2	4.3	4.7	(6.0)	2.5	6.2
(Seoul)	16.3	(50.6)	25.7	32.9	37.1	(47.2)	2.3	5.6

Note: (　) denotes the relative weight to the nation.
Data: KOSIS

As expected, there is a huge gap in the GRDP between Seoul and Busan, but Busan's GRDP increased by 2.5 times while that of Seoul by 2.3 times during the same period. However, Seoul's GRDP is 7.9 times of Busan's in 2015 even though the government's balanced regional development policy was initiated to reduce the economic gap between the capital and local areas from 2003.

4.3. Some Achievements of Busan's Promotion Policy for Global Financial Center

As described already, finance industry was selected as one of the strategic industries in Busan from the first stage and thus the headquarter of Korea Exchange was located in Busan when there was a significant structural changes in security-related institutions in 2005. In addition, financial institutions such as Korea Securities Depository were decided to move to Busan by law in accordance to the Noh's balanced national development policy. In the meantime, Busan was also designated as one of the two financial centers in 2009 by the government; Moonhyun area was developed for a Busan's financial center in the first stage. Therefore, the designated public financial institutions were supposed to move to this Moonhyun area by 2014, and the existing organizations such as Korea Exchange, Bank of Korea Busan Branch and Korea Technology Finance Corporation also moved to the same area, together with several private institutions, for example, BNK financial group[7].

Besides the movements of financial institutions, legal and institutional infrastructures were made by both local and central government; Busan International Financial City Promotion Center was established in 2007 and private-based International Financial Forum was also organized to boost the government policy. In 2018, graduate MBA program was launched to supply the necessary experts in two parts, marine and derivatives by two local universities[8].

5. Future Agendas and Concluding Remarks

As shown in the case study of Busan, the economic gap between the Capital and local area has not shrunk in spite of various types of government-led balanced regional development policies since 2003. The following agendas should be pursued in order to obtain the balanced regional development and lead to a sustainable economic and social growth in the future.

First, substantial decentralization of government rights in terms of taxation and appointments of key positions both in central and local government as clearly stated in

Han (2017) should be proceeded. For this purpose, significant and reliable revision of related laws and regulations should be performed both in the short-run and long-run perspectives. More specifically, the weight of local relative to national taxation should be raised up to 40% in the long-run, which is at present only 20%.

Second, comprehensive and customized policies for each region's set of strategic industries should be developed and pursued from the long-run perspective to get international competitiveness. For example, finance, film and marine-related industries were selected for future growth engines in Busan according to the government's balanced regional development policy. Thus, quite a few public institutions in those sectors moved to Busan area, but they failed to create the corresponding industry due to the lack of comprehensive and consistent policy at both central and local government levels. In case of finance industry, active financial market is not formed despite the government's designation of financial hub in 2009.

Third, additional movements of public organizations should be implemented to designated local areas to mitigate the existing economic gap between the Capital and local area step by step. For the second round of movements, we should utilize the experiences in the first round to minimize the adverse effects caused by them; in this case we need to consider social and technological changes in addition to economic factors. As is known already, one important phenomena is the advent of 4^{th} industrial revolution in all fields of the economy.

Fourth, it is imperative to develop 10 innovation cities for active and fruitful university-industry research clusters to raise the region's innovative capacity, which would contribute to the region's development. In this case, the role of university should be emphasized in sense that the university could provide new technology and human capital with the relevant-specific industries in the region. In other words, the vitalization of innovative clusters would make a very important role in diffusing the positive effects of regional development policies.

Lastly, the greater economic zone beyond the former 5+2 economic zones set by President Lee's administration should be formed in the southern part of the Korean peninsula including Busan, Daegu, Gwangjoo, Kyungnam, Kyungpook, Jeonnam. This greater zone would exploit the economy of scale and scope together with more efficient markets for both inputs and outputs, then have a competitive role with the Capital area.

As described in the above, many agendas are ahead of balanced regional development policy, and some of them should be pursued with the agreements of both central and local governments in addition to economic efficiency. Again, it should be noted that balanced regional development policy is not just for locals, but for the whole nation in order to bring about sustainable economic growth and social stability in the long-term perspective.

Notes

1 The Capital area includes Seoul, Gyunggi and Incheon.

2 G20 summit meeting was officially launched in 2008 to tackle the adverse effects of 2008 global financial crisis and it includes emerging economies such as China, India and Korea together with traditional advanced countries; USA, Japan and Germany.

3 In 60' and 70', specific cities such as Ulsan, Pohang and Gumi were designated as a specialized industrial complex by the government; for example, Gumi for electronics.

4 Jang (2009) discussed the flaws of Noh's balanced national policy as well as the achievements, before describing President Lee's regional development policy. He pointed out uniformly-applied policy to various regions.

5 The 5+2 economic regions are Capital, Chungcheong, Honam, Daekyung,and Dongnam region, and two independent regions; Kangwon and Jeju. Unlike Noh's government, Lee's government explicitly included Capital region for regional development. As mentioned, the Capital region includes Seoul, Incheon and Kyunggi.

6 This section summarizes some parts of Kim and Park (2016).

7 Currently, 18 public and private finance-related institutions are located in Moonhyun area, which was selected as a global financial center in 2009. In 2018, Korea Ocean Business Corporation was established and located in Busan, not in Moonhyun area to promote and assist shipping-related business.

8 Two local universities, Pusan and Korea Maritime national universities were selected through open competition, and they would get significant financial support from both central and local governments for 4 years.

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