



Edited by
Harry W. Richardson,
Chang-Hee Christine Bae
and **Sang-Chuel Choe**

Reshaping Regional Policy



© Harry W. Richardson, Chang-Hee Christine Bae and Sang-Chuel Choe 2011

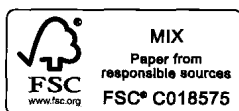
All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical or photocopying, recording, or otherwise without the prior permission of the publisher.

Published by
Edward Elgar Publishing Limited
The Lypiatts
15 Lansdown Road
Cheltenham
Glos GL50 2JA
UK

Edward Elgar Publishing, Inc.
William Pratt House
9 Dewey Court
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

Library of Congress Control Number: 2010932052



ISBN 978 1 84980 280 2 (cased)

Typeset by Servis Filmsetting Ltd, Stockport, Cheshire
Printed and bound by MPG Books Group, UK

Contributors

Chang-Hee Christine Bae, Associate Professor, University of Washington, Seattle, USA.

Sang-Chuel Choe, Chairman, Presidential Commission on Regional Development, Seoul, Korea.

Patrick Crézé, Director, DIACT, Paris, France.

Michael G. Donovan, Urban Specialist, OECD, Paris, France.

Andreas Faludi, Professor, Delft University of Technology, Delft, The Netherlands.

Thomas Farole, Senior Trade Specialist, World Bank, Washington, DC, USA.

Maryann Feldman, Professor, University of North Carolina, Durham, USA.

Sir Peter Hall, Professor, University College London, UK.

Eric J. Heikkilä, Professor, University of Southern California, Los Angeles, USA.

Hiroyasu Horio, Director for Regional Policy, Ministry of Land, Infrastructure and Tourism (MLIT), Tokyo, Japan.

Jae-Hong Jang, Director, Ministry of Knowledge Economy, Seoul, Korea.

Soon Nam Jung, Director, Ministry of Knowledge Economy, Seoul, Korea.

Rupert Kawka, Scientific Project Manager, Federal Office for Building and Regional Planning, Berlin, Germany.

Yong-Woon Kim, President, Chungnam Development Institute, Daejeon, Korea.

Somik V. Lall, Senior Economist, World Bank, Washington, DC, USA.

Young Geol Lee, Vice-Minister, Ministry of Strategy and Finance, Seoul, Korea.

Nichola Lowe, Assistant Professor, University of North Carolina, Durham, USA.

Takashi Onishi, Professor, University of Tokyo, Tokyo, Japan.

Sam Ock Park, Professor, Seoul National University, Seoul, Korea.

Harry W. Richardson, The James Irvine Chair of Urban and Regional Planning, University of Southern California, Los Angeles, USA.

Andrés Rodríguez-Pose, Professor, London School of Economics, UK.

Michael Storper, Professor, London School of Economics, UK; University of California-Los Angeles, USA; and Institut d'Etudes Politiques de Paris (Sciences Po), Paris, France.

Preface and acknowledgments

Most of the chapters in this book originated as presentations at a Conference held in Seoul in July 2009 organized by the President's Commission on Regional Development (PCRD) and financially supported by the Korea Institute for Advancement of Technology (KIAT). Although the focus is primarily on the new developments in regional policy in South Korea some of the chapters trace many of its origins to Western Europe and Japan.

Also, several chapters (by Lall, Heikkila, Bae and Richardson) were sponsored by the Pacific Rim Council for Urban Development. They also address issues relevant to Korea, if wider in scope.

Harry W. Richardson
Sang-Chuel Choe
Chang-Hee Christine Bae

Contents

List of contributors viii

Preface and acknowledgments x

PART I INTRODUCTION

1. Introduction: reshaping regional policy in Korea 3
Sang-Chuel Choe

PART II GLOBAL VIEWS

2. Regions and regional policy: a global view 21
Sir Peter Hall
3. Regional policy: what works and what doesn't 41
Somik V. Lall
4. Barriers and breakthrough strategies for cross-border cooperation 57
Michael G. Donovan

PART III INTERNATIONAL EXPERIENCES

a. Europe

5. Cohesion, coherence, cooperation: EU policy beyond hard territoriality 83
Andreas Faludi
6. Cohesion policy in the European Union: growth, geography, institutions 102
Thomas Farole, Andrés Rodríguez-Pose and Michael Storper
7. Policies for regional competitiveness 124
Patrick Crézé
8. Strengthening metropolitan regions for growth and innovation 129
Rupert Kawka
9. Regional Development Agencies in England 146
Harry W. Richardson

b. Other

- | | | |
|-----|---|-----|
| 10. | Development of regional plans and economic base strategies for sustainable development in Japan
<i>Takashi Onishi</i> | 155 |
| 11. | Emerging issues and the experiences of economic regions: the case of Japan
<i>Hiroyasu Horio</i> | 171 |
| 12. | Constructing regional entrepreneurial advantage: consensus building, technological uncertainty and emerging industries
<i>Maryann Feldman and Nichola Lowe</i> | 193 |

PART IV INCOME VS. SPATIAL EQUITY

- | | | |
|-----|---|-----|
| 13. | Identity and inequality in planning: implications for regional development
<i>Eric J. Heikkila</i> | 225 |
| 14. | Inequity and regional development policies
<i>Chang-Hee Christine Bae</i> | 240 |
| 15. | The New Economic Geography and regional development policies
<i>Harry W. Richardson</i> | 255 |

PART V KOREA

- | | | |
|-----|--|-----|
| 16. | Fiscal policy and regional development
<i>Young Geol Lee</i> | 277 |
| 17. | Regional development policy in Korea: the past, present and future
<i>Jae-Hong Jang</i> | 281 |
| 18. | Long-term strategies for regional development policies in Korea
<i>Sam Ock Park</i> | 302 |
| 19. | The role of economic regions and metropolitan economies in Korea's regional policy
<i>Soon Nam Jung</i> | 321 |
| 20. | Building a regional governance system for mega-economic regions in Korea
<i>Yong-Woon Kim</i> | 329 |

PART VI CONCLUSIONS

21. Conclusions	347
-----------------	-----

Harry W. Richardson and Chang-Hee Christine Bae

<i>Index</i>	353
--------------	-----

PART I

Introduction

1. Introduction: reshaping regional policy in Korea

Sang-Chuel Choe

REGIONS IN THE KOREAN CONTEXT

Korea is well known for remarkable economic success over the past half-century. Comparing with the 1960s, gross domestic product (GDP) per capita has risen more than 200 times, and exports have increased over 1000 times. Korea became an OECD member country in the mid-1990s, hosted the 1988 Olympic Games, 2002 World Cup, and is going to host the G20 summit in November 2010. Now, in the twenty-first century, Korea is ranked as the 14th-largest economy and is geared up to become an even more active actor in the global economy.

Along with this growth story, the national territory and regions in Korea have been rapidly reorganized and reshaped. From a traditional agricultural and rural society up to the 1960s, Korea is now one of the most urbanized and industrialized societies in the world. Roads and railroads, logistic ports, international airports, industrial complexes, nuclear power plants and many other facilities have been constructed while more than 90 percent of South Koreans now live in urbanized areas.

In spite of these accomplishments, Korea is still struggling for successful regional development. Entering the twenty-first century, Koreans have focused on local developmental rather than national issues, quality of life more than economic issues, and local and regional governance rather than centralized administrative issues. Such a shift in concern is derived from the growth in mature civil consciousness during the decades of economic growth and from a cumulative desire for self-reliant development at the community and regional levels.

In recent years, balancing development in the South Korean territory has become a more important and challenging policy issue. While the national economy and the Capital Region seem to show promising prosperity, a large portion of Korea still suffers from regional problems such as population decline, lack of vitality, loss of competitive potential, deterioration of settlement conditions, and so on. That is why the Korean

government now places a greater emphasis on regional development policies, especially since 2008, when President Lee Myung-Bak came into power, and the Korean government established a new scheme for regional development policies. Policy principles include interregional cooperation, competition and decentralization. We call this new policy framework the reshaping of regional policy. Against this backdrop, I am going to review how Korea deals with regional development issues, how the Korean government is implementing new regional policies, and what challenges we are facing.

PCRD AND THE SHIFTING PARADIGM OF REGIONAL POLICY

The region is a comprehensive and complex arena where people live and where government and business carry out diverse activities. Local governments as well as the central government have a responsibility to use and develop the regions and national territory effectively, enhance their competitiveness and preserve the land and the environment. In Korea, a small and densely populated territory, an effective and systematic development of its regions is imperative. Korea in the twentieth century was focused on national economic growth. However, the twenty-first century can be an era of rediscovery of regions and reshaping regional policy.

The institutional setting for regional policy in Korea may be best explained by the establishment of the Presidential Committee on Regional Development (PCRD). As a region is a very comprehensive mixture of land, nature, people, culture and economy, so must be regional development policy. A single agency where the mission is specialized in a specific sector cannot cope with all the regional issues. Hence, the Korean government established an agency through which all policies and administrative measures for regional development can be coordinated and synthesized. Thus, the PCRD is orchestrating regional policies of government agencies such as the Ministry of Knowledge Economy; the Ministry of Strategy and Finance; the Ministry of Education, Science and Technology Development; the Ministry of Public Administration and Security; the Ministry of Culture, Sports and Tourism; the Ministry of Food, Agriculture, Forestry and Fisheries; the Ministry for Health, Welfare and Family Affairs; the Ministry of Environment; and the Ministry of Land, Transport and Maritime Affairs. In addition, the PCRD has prominent experts and scholars among its members.

The global financial crisis that erupted in 2008 has drastically changed the global and domestic economic environment. Accordingly, the Korean

government clearly has altered its philosophy for regional development policy. It could be called a paradigm shift in regional policy.

In the past three decades, the geographical boundaries of regions have been enlarged and cooperation beyond regional boundaries has been enlarged. Interregional cooperation to achieve more economies of scale and connectivity has been extended even across the national border. This trend is consistent with worldwide concerns about mega-city regions and regional competitiveness, suggesting that competitive regions such as major metropolitan areas (or mega-city regions) will play a greater role in the global economy rather than nation states. It is reasonable to suggest that advanced nations everywhere promote national development via selective concentration around global mega-city regions.

Many countries have adopted larger spatial units for regional planning and policy, such as the United Kingdom's nine Regional Development Agencies, France's 22 regions, and the Japanese eight mega-local regions. After the establishment of the European Union, European countries with the assistance of the European Council launched various initiatives and carried out many cross-border cooperative projects.

Under the current global economic structure, national borders cannot be barriers that hinder the mobility of factors of production such as capital, labor and technology. Because of the development of information technology, economic networks can be created ubiquitously across the globe. Thus, it is imperative for a nation to pursue 'open regions' that facilitate the maximum transfer of resources and capital. It is then inevitable for the geographical unit of regional policy to become larger.

It is difficult for 'closed regions' to maintain the current level of development, not to mention sustainable development. In order for a region with limited resources and capacity to become a larger economic region, networking with other regions is essential. Regions which are geographically dispersed but functionally connected can reap the synergistic benefits of cooperation. This logic in principle can be extended further to larger geographical scales covering transborder spaces. In other words, a region cooperating with others can create more viable and competitive economic regions.

In the twenty-first century global competition has been intensified, centering on global mega-regions, with the implication that regional policies will play a more important role. All countries are now striving to nurture green growth engines, such as eco-friendly industries and renewable energy strategies. Regional policies build a spatial foundation for each region to attract and develop new industries, while ensuring their effectiveness and competitiveness. Parallel with setting the larger spatial units for regional development policy, strategies for regional competitiveness

and the enhancement of growth potential become the focus of policy attention.

Another important factor in the paradigm shift of regional policy is localization and decentralization. Main territorial policy goals in Korea in the 1980s addressed the widening disparity among regions and the concentration of population in the Capital Region. For example, the Second Comprehensive National Territorial Plan (1981–90) had four objectives: inducing the population to move to provincial areas; searching out development potential nationwide; upgrading citizens' welfare standards; and preserving the natural environment across the nation. In particular, various measures including the Capital Region Readjustment Planning Act were implemented to reduce the concentration of population and industry in the Capital Region. In the 2000s, the Korean government tried to empower local governments by relocating central administration functions and public organizations from the Capital Region to the provinces and attracting businesses there. However, these efforts did not bring about substantial results. Recognizing these shortcomings, the Lee Myung-Bak government altered its policy direction from declaratory 'balanced regional development' to 'regional specialization and competition' that attempts to implement effective self-reliant localization policies.

CURRENT REGIONAL POLICY ISSUES IN KOREA

Korea has faced social conflicts arising from the concentration of resources and economic activities in the Seoul Metropolitan Region (Capital Region). About 49 percent of the total Korean population is concentrated in the Capital Region, which covers only 12 percent of the national territory. Apart from population, cultural and social resources, quality job opportunities and high-quality services are also concentrated in the Capital Region. Such a heavy concentration, in spite of agglomeration benefits, not only increases congestion costs but also aggravates the social divide between the Capital Region and the rest of the country.

Accordingly, regional disparities have become the main issue of regional policy. Although the gap in gross regional domestic product (GRDP) among regions in Korea has been one of the smallest among the OECD countries, the demand from the non-Capital regions for better living conditions such as employment, income, social infrastructure, education, culture and welfare facilities have risen significantly.

Another problem is the weak global competitiveness of the Korean regions when compared internationally, and it deserves policy attention. The Capital Region is the third-largest region in terms of population, and

ranks ninth in terms of the size of GRDP among the 324 regions of OECD countries. However, its rank for per capita GRDP is quite low. This suggests that the Capital Region needs to improve its global competitiveness based on its scale. Korea's second-largest region, the Dongnam Region located in southeast Korea, ranks 29th in terms of population and 49th in terms of GRDP but 81st in terms of per capita GRDP. This region (as well as other regions in South Korea) requires substantial improvement in productivity to become more competitive among regions.

In 2003, the former government (the administration of President Roh Mu-Hyun) established the *Presidential Committee on Balanced National Development* (reorganized as the PCRD in 2008) in order to deal with regional development issues. The Roh government emphasized balanced national development with a variety of policy measures including the relocation of the Capital, the dispersal program of government offices, the designation of enterprise zones, and other policies. The expected results of the balanced national development policy did not materialize in spite of government investments in several key projects. Despite the possible normative values of balanced national development, the strategies adopted by the previous administration did not pay sufficient attention to the practicality and effectiveness of regional policies.

The balanced national development policy lacked 'balance' in the sense that it simply pursued regional equity per se. If global competitiveness is a key factor for regions to survive in the globalization era, it should have been fully incorporated into regional policies in addition to the longstanding goal of domestic regional balance. Indeed, most countries in Europe and North America are actively pursuing the reorganization of economic regions to achieve global competitiveness. It is an excellent time for Korea to reshape its regional policy by using the momentum arising from globalization and decentralization.

The relocation of the Capital, the dispersal program of government offices, and regional strategic industry projects which were initiated by the balanced national development policy did not meet people's expectations. Unfortunately, these projects did not produce the intended results because of their impracticability. The simultaneous launching of these development projects, involving a large-scale compensation for land, resulted however in a significant rise in land prices in Korea. Balanced national development policy, in spite of its good intentions, did not take advantage of the momentum of decentralization. A participatory approach in the policy-making process was encouraged but ended up with the usual top-down approach and a politically negotiated allocation of resources between regions. As a result, local governments became more dependent on the central government's decisions for resource allocation among regions.

Thus, interregional rivalry and conflicts in resource allocation intensified. Furthermore, the participatory approach inadvertently promoted competition among central ministries and agencies so that too many overlapping regional development projects were initiated and implemented.

The issue of deregulation was sidelined for the sake of balanced national development policy. Pro-growth forces, emphasizing Korea's global competitiveness, demanded the removal of regulations imposed on the Capital Region. The solution sought in balanced national development policy was to develop the non-Capital region first and deregulate the Capital Region later. However, the result was unsatisfactory to both pro-growth and pro-balance forces. The conflicts between the Capital and the non-Capital regions were consequently aggravated.

RESHAPING REGIONAL POLICY AFTER 2008

In 2008, the Lee Myung-Bak government launched the PCRD to set up new regional development policies. The PCRD faces three major challenges. The first challenge is the potential and imminent impact of the process of globalization on regional development. Globalization is transforming cities and regions around the world. The global financial crisis beginning in 2008, unanticipated by policy-makers and experts alike, has caused immediate and pervasive impacts on regional economies. Although variations exist among countries and regions, a few commonalities are apparent with regard to the spatial consequences of the crisis. They are epitomized by highly concentrated development in a limited number of mega-city regions that aggravate regional disparities among mega-regions and smaller regions. However, the formation of the mega-city region is a common phenomenon to gain a competitive edge in this era of unlimited and borderless competition among nations and regions. Populist and domestic-oriented balanced regional development policies undertaken by the former government need to be redefined. As a result, the incumbent government of President Lee Myung-bak has introduced a new three-tiered spatial scheme of the Supra-economic Region, Economic Region and Local Area development.

Secondly, the last decade has also seen an unprecedented momentum towards the decentralization of power and responsibilities in Korea. Paradoxically, decentralization has been happening at the same time as globalization. A gap between rising local demands asking for an equal share of national resources and regional potential has become a serious political issue which tends to impair national and regional competitiveness. The key task is how to achieve a national consensus between balanced regional development and regional competitiveness.

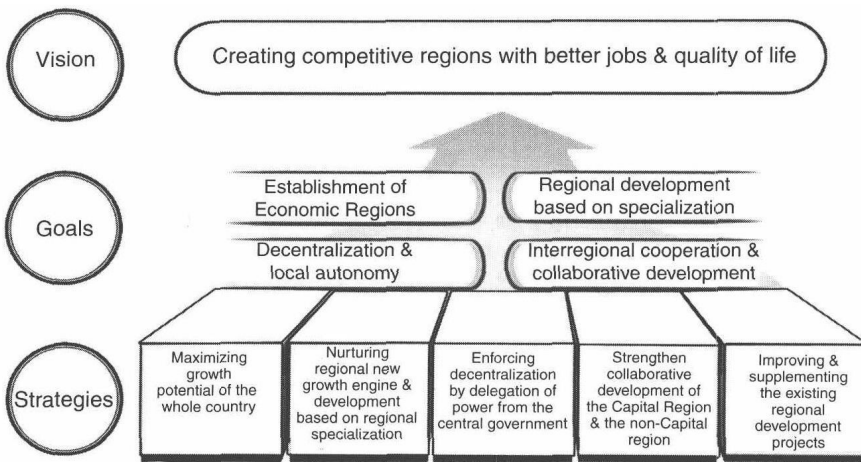


Figure 1.1 Goals and strategies of the new regional policy

The third challenge is how to institutionalize a regional development system within a given political and administrative structure. Departmentalism in the central government, volatile central–local relationships and contested stakeholders (including civil organizations) need to be brought into the process of planning and implementation.

Global climate change adds another challenge to regional development. The Korean government is strongly engaged with the global mandate of climate change and green growth as one of the most important national agendas. This new agenda item must be addressed in regional policies.

To tackle these challenges, the PCRD is geared up to advance new regional development policy with five key strategies (Figure 1.1). First, the new policy frame is centered on the three-tiered approach along with different geographical scales: (1) the Economic Region scheme is to regroup upper-tier local governments (16 metropolises and provinces) into seven Economic Regions; (2) the Local Area scheme is to provide quality-of-life services and income-earning opportunities for all of the residents in lower-tier local governments (163 cities and counties); and (3) The Supra-economic Region scheme is to create four Supra-economic Regions along the coastline or the national border with an additional Inland Supra-economic Region for the promotion of cross-economic region and cross-border cooperation. Details on the three-tiered approach will be explained below.

Second, the government will nurture new regional growth engines and promote regional development based on specialization. More specifically, selected strategic industries for each economic region will be fostered to improve global competitiveness. Synergistic effects of diverse strategic