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Assessment and recommendations

Assessment

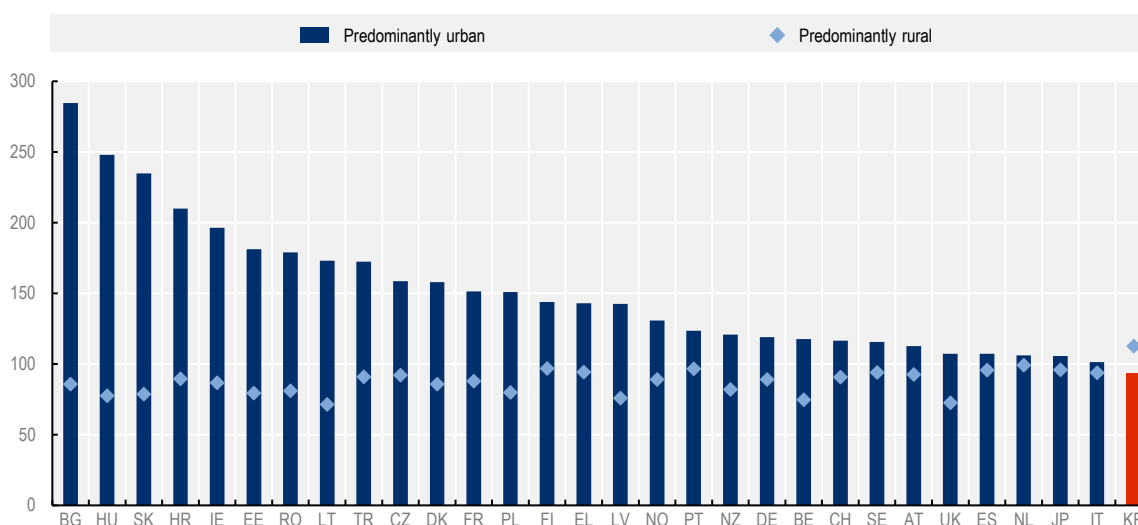
Korea has experienced strong growth, including in rural regions, yet some gaps remain in areas far from large cities and in places that have not benefitted from targeted development initiatives

Korea is one of the countries that achieved the fastest growth in the latter half of the 20th century. An export-driven industrialisation has delivered a dramatic increase in the income per capita and in overall living standards. Entering the 21st century, Korea's ongoing economic expansion has made it one of the most successful stories of productivity catch-up across OECD member countries. The industrialisation of Korea's economy over the last 60 years has shifted its specialisation from agricultural to industry and now to services and has been largely responsible for the country's convergence. In 2003, Korea's gross domestic product (GDP) per capita was 28 percentage points below the OECD average. In just a decade, the country was able to reduce the gap by 8 full percentage points. The annual GDP per capita growth rate has been 2.6 times higher in Korea than in OECD member countries on average, growing annually at a rate of 3.07 in GDP per capita during 2003-16.

Korea's rural regions have contributed much to national prosperity and have performed well when compared to OECD countries in terms of GDP per capita growth. The majority of Korea's predominantly rural regions also recorded GDP per capita growth that was higher than the national average during 2000-17 and this was achieved despite more than half of the rural areas having had initial levels of GDP per capita in 2000 that were already higher than the national average. Uniquely within the OECD, GDP per capita in Korea's rural regions is higher than the GDP per capita in urban regions (Figure 1.1). The average level of GDP per capita in rural regions was USD 41 302 in 2017, which was USD 5 310 higher than the national average of USD 35 992 and USD 13 140 higher than the OECD predominantly rural region average of USD 28 162.

Closer examination reveals that the high level of GDP per capita in rural regions is driven by those regions close to the large cities, while lower levels are seen in regions closer to small/medium-sized cities. Examining the economic performance within rural regions, growth is seen to be concentrated in specific areas that are the subject of government intervention; for example, in Jeollanam-do, the areas around the Gwangyang Bay Free Economic Zone and the Bitgaram Innovation City have been economic drivers.

Figure 1.1. GDP per capita gap between predominantly urban and rural regions, 2017



Source: OECD (n.d.^[1]), *OECD Regional Statistics (database)*, <http://dx.doi.org/10.1787/region-data-en>.

Though Korea's rural regions are in general less economically diversified than its urban areas, they are highly specialised in tradeable sectors including agriculture and fisheries, mining and, in particular, manufacturing. These sectors are a key driver of competitiveness in Korea's rural regions given that they compete in global markets. The share of tradeable goods and services to rural regions' gross value added (GVA) was 58% in 2017, 8 percentage points higher than the national average of 50%. Manufacturing alone contributed to over two-fifths of the rural regions' GVA and was also higher (42%) than the national average (32%). While jobs in the manufacturing sector support high regional GDP in rural areas, a relative dearth of jobs in the skilled professional occupations that are favoured by young people has been cited as a driver of youth outward migration from rural areas.

Despite promising economic performance, population ageing and decline pose significant challenges for rural Korea

Approximately 17.1% of Koreans lived in rural regions in 2018, based on the OECD TL3 regional typology, or 11% if applying the OECD regional definition based on access to cities (see Chapter 2 for details). This 11% under the access to cities definition compares with 29%, on average, across the OECD. Furthermore, most of Korea's rural population lives with easy access to a city. Compared to OECD TL3 rural regions, rural regions in Korea have the fourth shortest travelling time to the closest city. On average, the median travel time to the closest city is about 25 minutes. Of the 11% of the population who are rural dwellers, 7.8% lived in regions near a large city, while 3.4% lived in regions near a small/medium-sized city. Korea does not have any region that is considered remote rural (by the OECD definition).

In terms of population growth, according to the OECD TL3 regional typology, predominantly urban regions in Korea experienced the largest increase in their population share over the period 2001-17, increasing by 2.3 percentage points over this period. In contrast, the population share declined in intermediate and rural regions by 0.6 and 1.6 percentage points respectively. The fall in rural population is driven mainly by a decline in Jeollanam-do, the only Korean TL3 region categorised as having access to small- and medium-sized cities (but which is relatively distant from a large city). Jeollanam-do's population shrank annually by an average of 0.7% over the period. Migration patterns offer an explanation for the population decline in rural regions. These patterns show that predominantly urban regions are net recipients of migrants from other types of regions within Korea and that young people, aged 15-29, disproportionately leave regions

with access to a small/medium-sized city compared to other age groups. This age group is also particularly attracted to the country's large metropolitan areas.

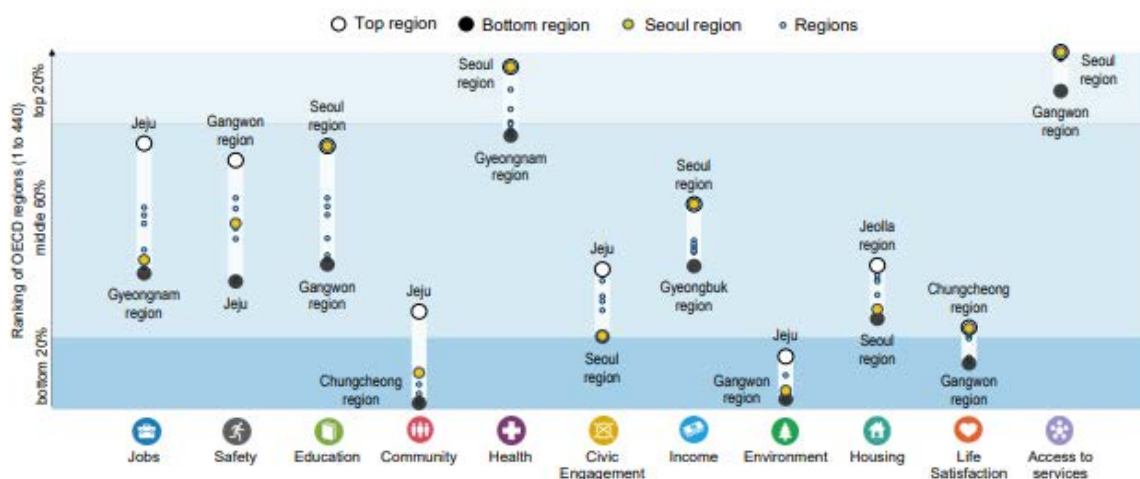
Consequently, the composition of the population differs between urban and rural regions and in particular the share of the elderly population is higher in rural regions. Approximately 18.3% of the rural population is elderly (+65 years of age), which was 4.5 percentage points larger than the share in metropolitan regions. On the contrary, the proportion of the working-age population in rural regions is 68.6%, 4.7 percentage points smaller than the proportion of the working-age population of the total population in metropolitan regions. The result is that the age dependency ratio in Korea's rural regions, at 27% in 2018, is considerably higher than in urban regions and is in fact the 7th-largest gap among OECD countries. Though this dependency ratio was slightly below the OECD average in TL3 regions, by 2.7 percentage points, it is increasing at a fast pace in rural regions, particularly in regions close to small- and medium-sized cities. In some rural counties, already upwards of 40% of the population is elderly.

The combination of a population that is both declining and ageing is creating significant challenges for rural communities. Local and regional governments are struggling to maintain adequate service levels in the face of fiscal constraints, rising costs and a diminishing labour market. In Chungcheongbuk-do and Jeollanam-do, two regions studied as part of this report, local respondents reported that they were failing to meet national service standards in 11 of 14 and 13 of 14 service areas respectively (2018 data), spanning issues such as healthcare, education and living infrastructure (e.g. water, heating, transit). Regional governments have been responding to these challenges by adopting innovative approaches, such as the use of subsidised taxis as a way of maintaining transit services in those areas where bus services are no longer viable.

Public well-being in rural regions show scope for improvement, with all regions showing a need for improvement in environmental and community life indicators

Recent years have seen an increased focus across the OECD on performance measures that go beyond GDP to examine more broadly the quality of life that people enjoy. This includes factors such as leisure time, health, social connections and environmental quality. Rural life, with its proximity to green spaces and nature, stronger community bonds and more relaxed pace can offer an outstanding quality of life. To examine well-being across countries at the regional level, the OECD developed the regional well-being framework, which in Korea is applied at the TL2 level.

Figure 1.2. Distribution of Korean TL2 regions compared to all OECD TL2 regions, 2020



Note: Relative ranking of the regions with the best and worst outcomes in the 11 well-being dimensions, with respect to all 440 OECD regions. The eleven dimensions are ordered by decreasing regional disparities in the country.

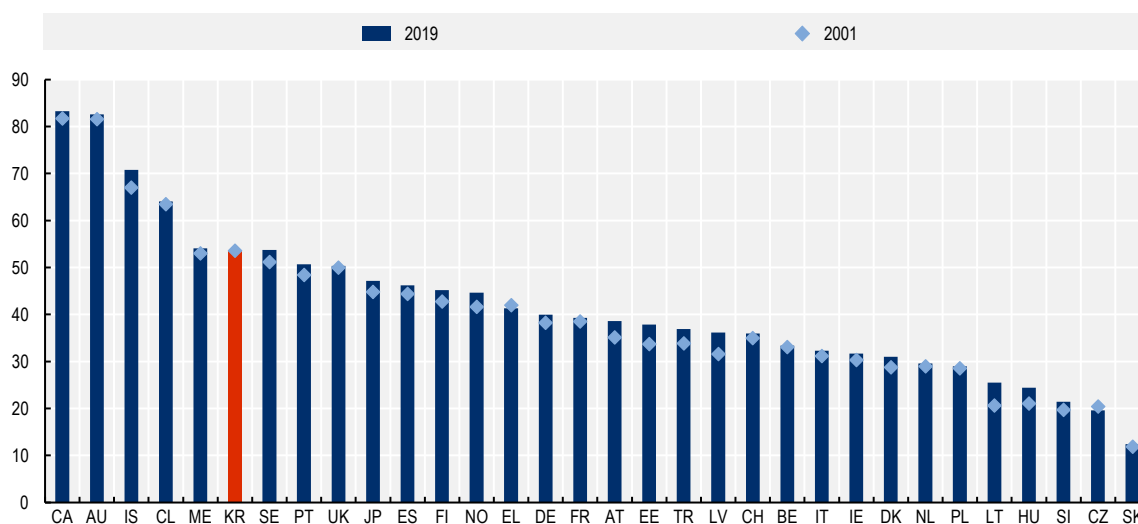
Source: OECD (2020_[2]), *Regions and Cities at a Glance 2020 – Korea*, <https://www.oecd.org/cfe/Korea-Regions-and-Cities-2020.pdf>

Korea has achieved virtually equitable access to broadband (depicted as access to services) throughout the country, with all of its regions performing in the top 20%. Its rural dwellers, therefore, do not suffer the impediments of access that are common to rural people in several other OECD countries. However, all regions of Korea score poorly on the environment and on the strength of community, areas where rural regions might be expected to have some advantage. Survey respondents reported that a lack of recreational green space was among the factors making it difficult for Chungcheongbuk-do to attract and retain young professionals. Meanwhile, in both Chungcheongbuk-do and Jeollanam-do, poor air quality as a result of industrial discharges was cited as a significant concern, one exacerbated by the regional government's lack of an air quality management system and limited oversight capabilities of their region's industrial facilities. Resolving these issues may help rural regions deliver higher well-being so that their people can enjoy more of the benefits inherent to rural life, thereby making them more attractive and competitive places to live *vis-à-vis* the country's major urban centres.

The policy of balanced national development has yielded results but further efforts are needed to include rural areas

Compared to other OECD countries Korea's population is very concentrated (Figure 1.2). This high level of concentration (both in terms of population and economic output) has driven national policy responses over the past decades, with measures put in place in an effort to reduce the high level of concentration and instead promote balanced national development. The balanced national development agenda is multifaceted but includes major initiatives such as the establishment of the multifunctional administrative city of Sejong and ten Innovation Cities, along with the relocation of hundreds of government ministries, agencies and other public institutions (with many of their employees and families) from the capital region to these new developments across the country.

Figure 1.3. Index of geographic concentration of population, TL3, 2001 and 2019



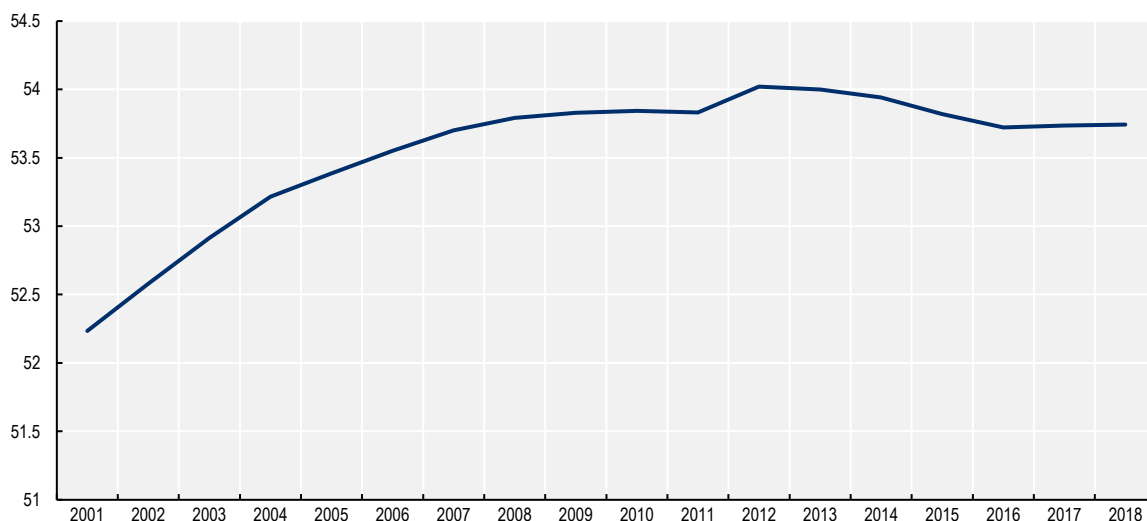
Source: OECD (n.d.^[1]), *OECD Regional Statistics (database)*, <http://dx.doi.org/10.1787/region-data-en>.

There are indications in the data that this major national endeavour is yielding results. Seoul's share of the national population has declined from 21.3% in 2001 to 18.8% in 2018. Meanwhile, in absolute terms, Sejong saw its population more than double from 2012 to 2018, adding 219 161 more residents. The neighbouring rural region of Chungcheongnam-do also increased its population, by 284 160 during 2001-18, representing a 13% increase. According to the geographic concentration index, Korea's high

level of demographic concentration (Figure 1.4) first increased from 2001 to 2011 and then this trend reverted and started to decline from 2011 to 2018.

The extent to which this represents a true rebalancing of the country, as opposed to merely a more spread out capital region, is unclear. Within functional urban areas (FUAs), the commuting zones of large metropolitan areas grew by 48% over the period of 2000-15, the highest growth over this period. Similarly, the commuting zones of medium-sized urban areas grew by 23%. Notably, the share of the national population living in Gyeonggi-do, the province surrounding Seoul whose residents may commute into the capital, grew from 20% in 2001 to 25% in 2018. The population share amongst region types, according to the access to cities definition, shows that the large metropolitan regions of the country increased their share of the national population by 1 percentage point (from 65.7% to 66.8%). Meanwhile, amongst rural regions, those with access to large cities increased by 0.6 percentage points and those close to small- and medium-sized regions decreased by 0.8 percentage points. Efforts to rebalance the country have so far been a largely urban story, with some evidence that people have moved from one urban area (Seoul) to other urban areas elsewhere in the country. There has been relatively little change in the country's settlement patterns with respect to the relationship between urban and rural areas, indicating that further steps may be needed to achieve balanced national development that is more inclusive of rural regions.

Figure 1.4. Geographic concentration index among Korean TL3 regions, 2001-18



Note: The geographic concentration index depicts the spatial distribution of the population within Korea, comparing the resident population weight and the land area weight over all TL3 regions. The index ranges between 0 and 100: the higher its value, the larger the regional concentration.

Source: OECD (n.d.^[1]), *OECD Regional Statistics (database)*, <http://dx.doi.org/10.1787/region-data-en>.

One area of opportunity for rural regions is in strengthening their linkages with urban areas. The close proximity of most rural dwellers to major cities, coupled with investment projects like the Innovation Cities initiative provide several opportunities to better connect rural with urban in ways that can improve the economic performance and well-being of both.

An ambitious decentralisation agenda is creating new opportunities and challenges for subnational governments

Korea is currently undergoing two simultaneous waves of decentralisation. First, through initiatives like Innovation Cities, the institutions, state-owned enterprises and ministries of the government, hitherto

centralised in Seoul, are being relocated to new urban developments throughout the country, including to a new administrative capital in Sejong. Second, the central government is transferring authority over 400 different tasks from national ministries to the local and regional governments, alongside boosted fiscal capacity to help them deliver on these. Greater local autonomy will also extend to the Innovation Cities, where the local and regional governments are expected to have a greater say in how these initiatives proceed in their “second season”.

The central premise of the decentralisation agenda is to empower the regions to raise their economic performance and well-being and thereby better compete with Seoul to attract and retain a greater share of the country’s talent and enterprise going forward. However, those outcomes will only be possible if the subnational governments are ready to take on all of their new responsibilities and are equipped with the human and fiscal resources needed to make the most of them. While capacity-building efforts are underway, there may nevertheless be a learning curve as the subnational governments adjust to their new role and explore the possibilities these changes will unlock for them in the development of new growth engines, including through working together with other subnational governments.

There may be a risk, especially in the early days of devolution, that subnational governments will take safe harbour in copying each other. Already, several of Korea’s regions have adopted similar development strategies, for example targeting the same industrial sectors for growth, and there is a risk that they will compete with rather than complement each other. Going forward, the central government may shift from a role of mandating approaches to one of co-ordinating strategies between subnational governments and facilitating dialogue to identify and develop complementarities across regions instead.

Contracts are opening a new path towards regional development autonomy and local capacity building

The Korean government has recently begun leveraging contracts between the central and local governments as an additional means to foster regional development and greater autonomy. These Regional Development Investment Agreements (RDIA) support comprehensive multi-year regional development plans through which the regions can obtain multi-year financial support from the central government. The rationale behind the agreements is to enhance the local governments’ capacity to realise their own regional development agenda and to break the policy silos that exist among central ministries that have hitherto tended to impose sectoral approaches on regional policy. Contracts across levels of government like these represent a practical and flexible option for co-ordination across levels of government, which allow establishing roles and responsibilities without changing the constitution. The RDIA is a type of policy-sharing contract, a form of contract that allows common decision-making, dialogue and collective innovation. These contracts favour information sharing, mutual understanding and can generate trust across levels of government.

Eleven pilot contracts are currently underway following their launch in 2019. Local government participants include major metropolitan areas but also non-metropolitan areas and small cities. A diverse range of existing experience and competencies may therefore be expected and the central government has prepared for this by making consulting support from regional policy experts available to participants. These consulting teams consist of three to five experts from the Korea Research Institute for Human Settlements and a regional innovation committee, and one recommended by a line ministry. Initial results from the pilot projects show that they are having a positive impact, not just in terms of the project being delivered but in helping improve local planning and implementation capabilities in the participating local governments.

Recommendations

Further decentralisation should proceed with close monitoring of fiscal and human capacities at the regional and local level

In January 2021, local and regional governments across Korea will take over the delivery of 400 tasks from the central government. These local and regional governments likely have diverse skill levels and breadth of capacity given that they serve a wide array of populations. For example, the provincial governments, serve populations that range from less than 1 million in Jeju-do to over 10 million in Gyeonggi-do. Small rural counties might be particularly resource- and capacity-constrained. The central government is decentralising both an array of tasks and new fiscal capacity to help deliver those tasks, though a detailed costing for each region remains in development (led by the Special Committee on Assessing Transfer Costs).

Though mechanisms are in place to help subnational governments prepare, there is a risk that a one-size-fits-all approach may not deliver its expected results. Indeed, capacity development should be tailored to local needs and characteristics of local governments, following a careful assessment of systemic needs. When developing capacities all four types of capacities need to be considered: i) administrative capacity; ii) institutional capacity; iii) strategic capacity; and, iv) financial management capacity. As capacities are developed and might change over time, it is important to ensure ongoing monitoring and adaptation of support.

The government could experiment with an asymmetrical, context-dependent approach to decentralisation that adjusts to territorial capacity, at least in the near-term. Looking further ahead, the decentralisation of tasks should be accompanied by the fiscal authorities and go beyond additional grants or shared taxes if meaningful autonomy is to be secured. Subnational governments must develop their own-source revenues and over time achieve a balanced basket of revenue sources that provides them predictability and the capacity to mitigate shocks.

Strengthen co-ordination between subnational governments and with local stakeholders

With decentralisation proceeding across several fronts, regional and local governments in Korea are becoming more empowered to set their own course. This raises the importance of co-ordination between subnational governments and for them to consult closely with local stakeholders to best tailor their approaches to local contexts. Approaches towards this include:

- **Horizontal co-operation agreements** between subnational governments to help them more efficiently deliver public services and achieve shared priorities by pooling resources and talent. Such agreements hold great potential for smaller regions that face the largest capacity constraints.
- **Consultation fora**, such as the Central & Local Governments Policy Council, can be an additional tool to foster co-operation across levels of government. Ad hoc committees have the advantage to address challenges as they arise while standing commissions and intergovernmental consultation boards are important to create a culture of regular co-operation and communication. While it is important to avoid multiplying co-ordination mechanisms with no clear roles or large transaction costs, consideration may be given to setting up a forum specifically to discuss rural and regional development approaches, share good practices and identify complementarities across different parts of the country.
- With respect to **external stakeholders**, reaping the benefits of greater involvement of local actors in policy design and implementation requires that some care be taken in designing participatory processes, especially in legal and regulatory frameworks, as these can impose costs and may result in pro forma or “box-checking” exercises.

- To provide incentives for participation and ensure good quality, government grants can be adjusted based on meaningful citizen involvement in outputs. Tournament-based output grants and recognition awards are another tool to encourage citizen engagement from a higher-order level of government.
- Digital tools can provide an opportunity to facilitate participatory processes, especially in rural areas. Pilot projects can quickly show advantages and challenges.

To broaden the benefits of major initiatives, like Innovation Cities and Free Economic Zones, strengthen the linkages between urban and rural areas.

Korea is making progress in its efforts to achieve more balanced national development but further steps are needed to more fully include rural communities in that process. Opportunities to more tightly integrate rural communities with cities include:

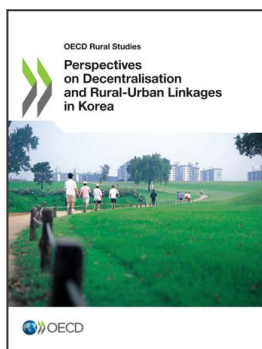
- Working with urban business incubators and accelerators, and with cluster organisations to expand the availability of their services to rural entrepreneurs and small- and medium-sized enterprises (SMEs) through digital delivery channels and co-operation agreements with rural business support organisations.
- Expanding local hiring and procurement mandates for the public institutions and organisations recently relocated to the Innovation Cities. This could also include working with local education institutions to ensure that people are given training that is tailored to the hiring organisation's needs.
- Creating incentive programmes to encourage cities and their surrounding rural counties to forge regional brand identities, co-operation agreements for service delivery and regional development strategies that give them greater weight than the city acting alone.
- Accelerating innovation and strengthening emerging clusters by taking steps to identify and leverage the particular geographical assets of rural areas and the region-specific talents of rural people in support of the emerging clusters in Innovation Cities.

Support service delivery in rural communities through innovative, efficient channels

Subnational governments are struggling to deliver adequate service levels in low-density, depopulating rural areas, particularly in cases of challenging terrain (islands, mountains). The availability of quality public services is important not only to current residents but also as a consideration in attracting and retaining new people. Initiatives are underway that could potentially slow or reverse the depopulation of rural areas, for example the Smart Farm Innovation Valley initiative led by the Ministry of Agriculture, Food and Rural Affairs (MAFRA); however, the success of initiatives like these may be hampered if the young families they intend to attract cannot find good quality schools in the area for their children. To maintain service levels in a cost-effective way, the country may consider:

- Leveraging its very good connectivity to deliver telemedicine, online learning and other key public services through digital channels. Though these services are within the jurisdiction of subnational governments, the technology needed to deliver them digitally may be best developed or co-ordinated at the national level to minimise duplication of effort. For these services to be most effective, it is important that targeted recipients have access to digital devices that they know how to use, which may require training support, particularly for the elderly.
- Integrated service delivery, another approach that may be implemented to improve rural service delivery in an efficient way. Four forms of integration that may be deployed include:
 - **Colocation:** Putting multiple services together in one building to reduce cost. For example, a health clinic, school, post office and other basic public services could be combined into a single community hub in rural areas.

- **Collaboration:** Brings together different departments/agencies to share their information and training. This can help reduce gaps in service provision by providing opportunities for horizontal and vertical service integration. By sharing knowledge, institutions and agencies can ensure rural dwellers have knowledge of and access to services.
- **Co-operation:** Entails different levels of government communicating and working together on multi-agency teams. This form of integration strives to lower the costs of delivering services and reduce duplication. One area identified where deeper co-operation may be possible is between the national government's Smart Farm Innovation Valley and the provincial government's Changnong Town in Jeonnam.
- **Coproduction:** A form of integration that involves the community and non-profit groups, also known as the third sector, in providing services. By partnering with citizens and local organisations, public service providers can ensure products and programmes reflect the needs of the community as identified by the people receiving the services. Engaging citizens and citizen organisations in the design, production and delivery of services leads to higher satisfaction and cost reductions.



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