

Assessment and Recommendations

Assessment

Economic and demographic context

Over the last 60 years, Korea has experienced rapid growth, but benefits have not been spread across the entire territory. Although Korea has recorded one of the fastest GDP growth rates in the OECD and a significant increase in income per capita, areas and territories far away from large metropolitan areas are shrinking, ageing and in turn lagging behind. The national government has pursued development opportunities and well-being outside large cities in its recent national development plan to address these challenges as well as mitigating overconcentration of people and economic activity in Seoul.

The Korean economy has industrialised rapidly over the past 60 years, gradually shifting specialisation from agriculture to industry and then to services, and, in turn, driving the convergence process (OECD, 2021^[1]). At USD 30,000 in per capita income, Korea's GDP per capita has grown from 6% of the OECD average in 1970 to 97% in 2019. Capitalising on a well-educated population and an innovative manufacturing sector, Korea's GDP per capita growth has also outperformed the OECD average since the 2008 global financial crisis (OECD, 2021^[2]).

Despite the remarkable progress, economic activity in Korea remains highly concentrated geographically; the 7th most concentrated country in the OECD in terms of GDP, with 45% produced by Seoul and its region (Gyeonggi) in 2017. Despite the high level of concentration, Korea is the only OECD country that has higher GDP per capita levels in rural regions than in urban ones, with GDP per capita in rural regions standing 13% higher than the national average in 2017. Korea is also the only OECD country where labour productivity in rural regions is higher than in urban regions (OECD, 2021^[1]). This may reflect the fact that, although Korean rural regions are less diversified than urban ones, they are highly specialised in tradable sectors, particularly in manufacturing which is a key driver of regional competitiveness. Manufacturing alone contributes to over two-fifths of rural regions' GVA (OECD, 2021^[1]).

However, despite these positive output and productivity figures, well-being standards have not reached all rural regions alike. Korea has large regional disparities in 4 out of 11 OECD dimensions of well-being: in safety, jobs, education and community. While Jeju ranks within the top 25% of OECD regions in jobs, Gyeongnam region is in the bottom 40%. A similar picture exists for Gangwon and Jeju regarding education. In addition, all Korean regions except Jeju rank in the bottom 20% with regards to perceived social support networks (community). Regional disparities in hospital beds are above the OECD average. In 2017, Jeju, the region with the lowest number of hospital beds per inhabitant, had 7 hospital beds per 1 000 inhabitants compared to 22 in Jeolla (the top performer). (OECD, 2020^[3]).

In terms of settlement patterns, Korea is also highly concentrated. The share of the rural population has gradually decreased over past decades according to the national definition -- from 60% of the total population (or 18.2 out of 30.8 million) in the 1970s to only 19% of total population (9.7 out of 51.6 million) in 2018. According to the OECD Functional Urban Area (FUA) definition, 83% of Koreans live in cities bigger than 50 000 inhabitants and 76% lives in cities bigger than 500 000 inhabitants. This is higher than

the average share in the OECD (55%). Among OECD countries, Korea has the second highest share of the population living in FUAs (almost 42 million in 2015) (OECD, 2021^[1]).

Korea is facing overall population ageing and demographic decline bringing important challenges to some of its regions, especially in rural areas. Due to increasing life expectancy and low fertility rates, Korea's population is ageing more rapidly than any other OECD country. Since 1970, life expectancy has increased by 20 years, the second largest increase in the OECD. In 2018, life expectancy was 82.7 years, 1.9 years above the OECD average, rising from 80.2 years in 2010 (OECD, 2021^[2]). Furthermore, since 2015 Korea has experienced falling birth rates and is projected to consolidate as an aged society by 2025, with the share of elderly exceeding 20% of the entire population (Statistics Korea, 2019^[4]). Demographic change in Korea is so fast that its total population is projected to change from the fourth youngest population in the OECD in 2012 to the third oldest by 2050 (OECD, 2021^[2]). Due to a combination of declining births and a growing number of elderly, Korea reported the first decline in population in 2020 and is projected to fall by 12 million (current population 51 million) between 2020 and 2067, with the working-age population falling by 19 million (Statistics Korea, 2019^[4]). National figures however mask significant regional differences, with higher shares of elderly present in rural regions. Amongst non-metro regions in Korea, the share of elderly population is higher in non-metro regions with access to a small/medium-sized city (33% in 2018), when compared to non-metro regions with access to a metropolitan region (24%).

Policy responses to demographic changes

Demographic decline is a crucial issue impacting several important dimensions of public policy, three of which are critical for regions and rural places: (i) workforce dimension: the labour force steadily ages and shrinks; (ii) social dimension: shrinking local populations may alter social relationships within communities; (iii) governance dimension: with population and economic decline the local tax base falls at the same time as demand for public services rises.

The Korean national government has recognised demographic challenges as a key policy priority at the highest level. Three presidential committees and a task force provide a forum for identifying new policies and programmes to improve conditions across the national territory. To tackle current trends including low population growth, polarisation, low fertility, population ageing and localisation, the government is pursuing sustainable and balanced national development. The government's "Vision and Strategy of Balanced National Development", published in February 2018, sets the goal of "establishing a regional-led independent growth foundation". The vision puts a special emphasis on decentralisation, inclusiveness and innovation, and identifies three major strategies to be developed within a "Five-years Plan for Balanced National Development". The first providing a stable and decent life in all the regions, the second vitalising regional space, and the third increasing regional innovation and job creation.

The policy approach of Korea aims to reduce the concentration of population and economic activities in metropolitan areas. However, as currently conceived, it does not explicitly identify rural development as a contributor to balanced growth. Although it is likely that some rural places will not be able to survive due to demographic decline and the geographical rebalancing of people, the number and geographic distribution of rural communities in Korea will also depend on the government's policy choices on where to invest to increase productivity and provide public services. Strengthening rural policy in Korea should thus be considered as an additional crucial step to support overall development goals and the economic and social cohesion of the country.

Recommendations

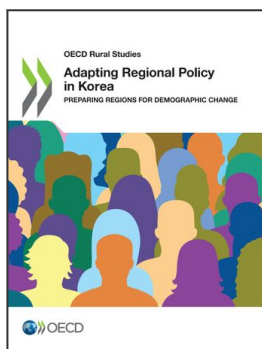
Korea now faces a major adjustment as it deals with the twin challenges of demographic decline and ageing whilst also adapting to rapid technological change. Although the adjustment will affect all parts of the country, Korean rural regions, which are home to small settlements, minor cities and remote areas, will likely suffer the most.

This study identifies eight broad policy recommendations for Korea that can help respond to current economic and demographic trends and ensure social cohesion. They also aim to help rural communities in adopting technological change and raising the quality of rural public services.

<p>1. Define a clear and coherent national rural development strategy that integrate responses to demographic decline across all aspects of rural policy</p>	<p>The Korean government is engaged in efforts to spread economic activity and population outside Seoul to create more spatially balanced growth and reduce increasing congestion costs in the capital city. Much of this effort involves creating a network of secondary cities. While Korea has a clear urban strategy, it currently lacks a parallel rural strategy that could add to the current focus on achieving a more balanced growth and increased prosperity for all citizens wherever they live.</p> <p>A clear and coherent national rural development strategy with spatially targeted support needs to go beyond the standard set of rural policy instruments to valorise new sources of growth, including the silver economy (the elderly workforce), the white economy (the economic opportunities of healthcare), together with opportunities brought by the green economy.</p>
<p>2. Develop new labour policies specifically tailored to support rural areas within a context of demographic decline</p>	<p>Demographic decline has started to impact the labour force with retirements exceeding new entrants especially in rural regions from Korea. In this environment, it is crucial to increase labour force participation rates, ensure that workers are not “underemployed” and raise the productivity rates of rural firms. These policies should support the components of active labour market policies (ALMP). Examples of possible initiatives include:</p> <ul style="list-style-type: none"> • Policies to enhance the utilisation of the current labour force largely by increasing participation rates of underutilised workers (e.g. youth, women, disabled) or slowing the rate of retirement. • Policies to enhance worker skills to utilise new technologies and to allow higher productivity to drive future economic growth. Improved workforce training is a key part of this but it is clear that skill development must be tightly coupled to employer needs, which will vary by industry and often by size of firm if they are to be effective. • Policies that try to increase the number of potential workers, either through (i) increasing birth rates, (ii) improving the local quality of life to attract and/or retain people (especially youth), (iii) providing family friendly environments in secondary cities and rural areas, and (iv) encouraging in-migration (both internal and from abroad).
<p>3. Increase the attractiveness of rural areas by supporting the provision of quality services</p>	<p>The cost and quality of local services are sensitive to population shrinking through reductions in the user-base and the number of specialised workers and facilities. To maintain quality services, rural regions facing demographic decline must develop tailored responses to their specificities, make the most of economies of scope and scale, embrace digital and innovation solutions to delivery services and account for long-term forward looking demographic scenarios. The following actions can help improve the delivery of services in Korean regions facing demographic decline:</p> <ul style="list-style-type: none"> • Increase the place sensitivity of service delivery, especially in relation to education and health care, e.g. by considering the economic and social well-being of each community, their demographics, access to digital infrastructure and digital skills. • Develop innovative approaches to tackle demographic challenges locally, e.g. by expanding the use of digital technologies to deliver quality services through co-location, collaboration and co-production processes across levels of government. • Encourage collaboration with other proximate communities to deliver services on a regional basis to provide services more effectively and reduce costs. • Develop reliable data and estimates of the costs and access to services arising from demographic and geographical differences, e.g. to help adapt the provision of services to different territorial realities and ensure cost efficiency and a sufficient level of access for all territories. • Foster digital education to facilitate the use of telemedicine, teleworking and distance

	learning/education.
<p>4. Enhance and refine labour market matching policies in rural areas</p>	<p>Normally, less effort is placed in formal matching processes in rural areas than in urban locations, also because of the smaller number of rural people which tends to increase the unit cost of a formal matching service. Typically, the combination of long distance, low density and small local economies results in small and poorly connected local labour markets distributed across the rural territory with limited potential for people to identify work opportunities. The cost of commuting in rural regions is also an impediment to work especially for lower wage, lower skilled workers because public transport is scarcely available. Nevertheless, with a small and often a semi-autonomous labour force and an evolving set of job skill requirements, good matching processes in rural labour markets are crucial to the functioning of labour market and ultimately the resilience of the community. The following actions can improve a better matching in the Korean context:</p> <ul style="list-style-type: none"> • Define and implement a comprehensive strategy at the national scale to reduce the skills mismatch in the medium and long term, involving regional key stakeholders. This may require improving the relevance of education and training for the labour market through strengthened channels of communication between education and workplace actors, as well as public-private partnerships. • Enhance the function of Public Employment Services (PES), which can act as labour market mediators in strengthening the efficiency of the matching process. This may be accomplished through advanced profiling tools and well-trained staff, establishing standards for the type and quality of PES, producing more data and information to help local stakeholders better understand the local context. Digitisation offers a unique opportunity to expand the provision of PES. However, in addition to online offerings, an expansion of PES services, with a core of walk-in offices, can maximise benefits for employers and job seekers. Partnership is also crucial for PES to make the best possible contribution to a global ecosystem with a range of actors providing employment services. • Set up incentives for increasing the co-ordination of players and the synergy of resources to focus on talent-based growth strategies. These may also be inserted in Smart Specialisation Strategies for rural regions. If the community has a chamber of commerce or there is a business retention and expansion programme in place these organisations, or ones playing a similar role, would be well-placed to support a job-matching initiative. • Strengthen the offer of on-the-job training and apprenticeship programmes (especially dedicated to the unemployed and young people), which and make them more consistent with the skills required by the labour market and future needs • Explore opportunities for increasing the opportunity for job-sharing and part-time work to expand the pool of potential workers who may be willing to work, but not full-time. Such a programme could be especially attractive to women and older workers who might otherwise remain out of the labour force. For example: women may have low participation rates because they have major household care responsibilities for children or elderly relatives. Providing quality care at low cost and in close proximity to the home or place of work, extended paid time off for new mothers and fathers, and flexibility in working hours to deal with family emergencies could increase female participation rates. The elderly may not participate because they no longer wish to, or are unable to work full time. By creating part-time jobs or facilitating the sharing of a single job among several individuals it may be possible to increase their participation rates.
<p>5. Adopt a smart specialisation approach at the regional level to support rural SME and the social economy</p>	<p>The underlying rationale of smart specialisation is to concentrate efforts and resources focusing only on a few, well-defined priorities to maximise key productivity factors. In the Korean context, clear opportunities exist for agriculture and fisheries, tourism and manufacturing. To take advantage of these opportunities:</p> <ul style="list-style-type: none"> • Korean rural regions should develop more sophisticated smart specialisation strategies combining industrial, educational and innovation policies to generate unique assets and capabilities stemming from specific industry structures and knowledge bases. To this end public investments for research, technology and innovation should be focused on regional knowledge strengths to mobilise those assets and transform them into higher value-added activities. <p>In addition, Korean rural regions should explore alternatives to traditional firms. The social economy or social enterprise serves as a complementary alternative to either for-profit firms or government as a provider of goods and services. These could include co-operatives, various forms of social enterprise and worker-owned firms. Because these firms have broader objectives,</p>

	they can be viable in rural areas that offer either a too small a profit margin for a conventional business, or a too limited opportunity for growth.
6. Promote rural entrepreneurship and innovation	<p>Technological innovation can be difficult in rural regions because they lack most of the underlying characteristics, such as, formal research and development organisations, pools of investment capital and a core group of scientific and engineering professionals. However, innovation can also include a new product, a new service or a new way of delivering services. Innovation in rural areas relies to a great extent on the action of local entrepreneurs. The key issue for public policy is identifying ways to stimulate latent entrepreneurs to act on their ideas and to develop better support mechanisms for them when they do choose to act.</p> <p>Example to support innovative rural entrepreneurs in Korea may include:</p> <ul style="list-style-type: none"> • ensuring that existing support for innovation does not discriminate against rural entrepreneurs (e.g. focusing only on formal innovation systems where science-based research and development activity is a prerequisite); • assisting small rural business in moving from identifying an idea to developing a business plan and starting a business; • supporting the creation of community development finance institutions which provide revolving loan funds to local SMEs and start-ups; • favouring senior entrepreneurship and/or incentivising older people to play a role in promoting entrepreneurship by others by becoming business angels or by mentoring younger entrepreneurs.
7. Strengthen support for building local development capacity in rural communities	<p>Rural communities are small places, but must still carry out most of the functions of larger places, although in different ways and with less complex procedures. These include developing a strong civil society and supporting economic development. In smaller places some functions are carried out by paid workers, others by volunteers and others are not provided. With demographic decline, the capacity of smaller local governments to carry out existing responsibilities becomes more challenging. Consolidation of local governments to achieve some minimum efficient scale can help in these cases making national government support for capacity building an important function. Various programs have been introduced across the OECD countries, such as LEADER in the European Union or Community Futures in Canada, with the goal of strengthening local economic development. The hallmark of these programs is they provide financial support for a specific period to allow the recipient places to undertake a development activity that is both community defined and endorsed by a large share of the local population. As a result, not only does the community gain from the specific program, but it also benefits from a strengthened sense of cohesion and a recognition that positive change is possible.</p>
8. Explore new ways to organise how local governments in rural areas carry out their activities	<p>Over time, there has been many innovations in how local governments carry out their responsibilities in rural areas of OECD countries. Korea has provided a number of these examples. However, there is considerable scope for adopting examples from other countries that can enhance the quality of life in rural areas of Korea and provide better support for rural business. Specific area where innovations should be supported include the following areas:</p> <ul style="list-style-type: none"> • Identify ways to determine which services it is essential to provide by government, and which might be provided by the private or third sector. Considering the possibility of finding alternative providers of public services may bring significant cost savings and opportunities to reallocate scarce public funds to higher priority actions. Equivalent services may be provided by relying on a different mechanism such as local volunteers, a private contractor or a sharing agreement with a number of nearby places in a similar situation. • Allow regions and localities to have a greater autonomy from the national/regional governments to allow more flexibility in how services are provided locally. • Put in place source funding for regions and localities different from standard ear-marked national transfers payments. For example, in the European Union the LEADER programme has provided a new more flexible source of funding to rural areas to undertake local projects that could not be financed from standard public sources.



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