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South Korean Regional Economic Management Policy

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Abstract: The second world war, which will remain an indelible mark in the history of mankind, has left many countries dry. Of course, the consequences of the war are still affecting some countries. But after the Second World War, only most of the countries were able to restore their economy. Among these countries, the country of South Korea, which is distinguished by its geographical location and history, has a special place. Because in the 50s of the 20th century, the country, which was destroyed by war, poverty reigned, and whose per capita population was lower than the countries of South America and Africa, achieved unprecedented economic development and legendary growth. South Korea, which turned from a backward country into a giant in the 1980s, has become the world's most advanced innovative country in the 21st century.

This article describes South Korea's path to the 10th place among the most innovative countries in the 2024 Global Innovation Index.

Keywords: regional, economic management, innovation, South Korea, Science, Global Innovation Index.

Introduction.

The second half of the twentieth century represents an age of integration. For the last fifty years, countries in almost all parts of the globe have been attempting to combine their separate national economies into larger economic regions and to engage in economic activities under various forms of integration.

Regional management implies the need to measure the contribution of regions to economic growth. The authors propose a method for measuring their contribution to GDP growth based on the rate of GRDP growth and the share of regions in GDP.

In order to improve the decision-making process, they use special production functions describing the operation of the national economy from a regional perspective and adapted to the process of regional growth management. These functions can be used to solve applied problems: in macroeconomic situation analysis and regional development forecasting, formulation of regional economic policy options, and simulation of the consequences of such policy at the national and regional levels.

Looking at the historical process of regional economic policy in Korea, the Republic of Korea experienced rapid economic growth and transformation since the early 1960s. It went from primary industries to a modern industrial and tertiary sector, resulting in shifts in population and economic activities concentrated to the Seoul metropolitan region. At the same time, a long history of Korean migration towards Seoul in order to persue opportunities in related to power and wealth might have contributed to a concentration of population. As the nation's capital and largest city, the Seoul metropolitan has the advantage of being the center for the major decision making bodies germane to the public resource allocation, communication and finance, as well as providing a skilled manpower and mass consumer market. During the 1970s and 1980s, Seoul continued to dominate the economy, but momentum of growth spread to areas near the capital and to the south-east provinces. Central government policies which sought to maximize national development in pursuing efficiency may have been one major cause of increased regional inequalities, and such tendencies toward polarization may have been exacerbated by the concentration of agglomeration effects in a few favored areas, that of Seoul and Pusan. Such concentrations of population and economic activity have become a major concern to policy makers who strive for balanced regional economic development.

I. FACTORS THAT PREVENT SUCCESSFUL REGIONAL ECONOMIC MANAGEMENT IN SOUTH KOREA

South Korea does not have natural resources. However, natural resources are not necessarily a nation's only endowments. Socio-economic, cultural, and political circumstances are also important. South Korea has compensated for its lack of natural resources by achieving the highest literacy rate among Organization for Economic Cooperation and Development (OECD) countries. The government has done this by investing heavily in education, science and technology, and a "knowledge-based" economy. The government also ensures that, through its support of industry-oriented research centers, there is a central locus of research and development in the disciplines associated with particular technologies.

At the same time, the following factors gave emphasis in the management of the regional economy of South Korea.

A. Historical factors

Although the details of local administration have changed over time, the basic outline of the current three-tiered system was implemented under the reign of Gojong in 1895. A similar system also remains in use in North Korea.

South Korea is made up of 22 first-tier administrative divisions: 6 metropolitan cities (gwangyeoksi 광역시/廣域市), 1 special city (teukbyeolsi 특별시/特別市), 1 special self-governing city (teukbyeol-jachisi 특별자치시/特別自治市), and 14 provinces (do 도/道), including three special self-governing provinces (teukbyeol jachido 특별자치도/特別自治道) and five claimed by the ROK government .[1][2] These are further subdivided into a variety of smaller entities, including cities (si 시/市), counties (gun 군/郡), districts (gu 구/區), towns (eup 읍/邑), townships (myeon 면/面), neighborhoods (dong 동/洞) and villages (ri 리/里) [S.Andrew 2018] .

B. The economic factors

Regional development is much more than industrial upgrading. It includes well-being, quality of life, good employment opportunities, and delivery of high quality public services. To move forward in regional development policy Korea needs to shift from a "de-concentration" logic towards policies with a place-based approach. Public policies are not meant to mould population distribution over the territory; they are meant to foster local development, to improve connectivity and linkages, and to create the best opportunities for education, employment and consumption. Regional development is not only about reducing population concentration in the Capital Region, it is also about creating the opportunities for development in all the regions. This requires empowering regions as agents of change and broadening the regional policy mix to include educational and social cohesion policies.

The Korean experience is shaped by several unique factors. There is no single response to development challenges. Each country needs to identify its current opportunities and challenges, establish its own priorities and develop its own strategy, matching continuity in efforts with experimentation of new policies when new challenges emerge, as Korea has been doing. However, the Korean experience might be helpful for developing countries which are in the process of fostering industrial development and catching up. It reveals the complexity of the relationship between industrialization and territorial development and it shows the importance of leadership and a high level of commitment to: i) regional development; ii) the design of mechanisms to target resources to regions; iii) the gradual and complementary policy approach in increasing spaces for bottom-up initiatives; iv) the identification of mechanisms to target functional and economic regions; and v) the use of monitoring and evaluation as learning tools.

C. The political factors

Economic activity is organized in spaces beyond regional administrative borders. The provincial level might be too small and actions need to be coordinated between different neighboring regions. Korea introduced "economic regions" as a space for policy action and targeted programs at developing industries in those economic regions. This required creating institutions to support economic development planning in the regions, such as the Leading Industries Offices and the Economic Regions Development Committees. The success of this policy will depend on the capacity to create synergies with the actions of pre-existing provincial-based agencies such as techno parks. At the same time, there are production development challenges which are highly localized and which benefit from a smaller scale of action than the regional one. For example, the development of localized industries such as tourism will require ad hoc support which is better managed at a smaller scale than the provincial one. The identification of local areas in Korea aims to foster development programs targeted to the specific needs of localities outside metropolitan areas. Too often regional development turns into a competition between regions to attract or develop specific industries. It is common to find that in regional planning exercises all regions want to specialize in fashionable industries such as biotech or nanotechnology. Mechanisms to support regional collaboration allow for the pooling of resources and the achievement of the critical mass required for development.

2. South Korean regional economic management policy can be divided into several stages:

South Korean regional economic management Policy

The First Republic and Korean War	The Second Republic	The SCNR (Supreme Council for National Reconstruction)	The Third Republic	The Fourth Republic	Market restructuring	Currency crisis and present
1948 1960	1960 1961	1961 1963	1963 1972	1972 1981	1981 1997	1997 2024
the Farmland Reform Act of 1950	an Economic First Policy with State-led Capitalism, promoting	the first national Five-Year Plan (1962–1966) was implemented,	South Korea received US$800 million from Japan under	Heavy industries, electronics and steel	The eleventh largest economy in the world,	South Korea faced widespread economic disaster in the form of the East Asian

	amity and economic cooperation with Japan	expansion of agriculture and energy industries	property claims, and was mostly dependent on foreign aid	industries flourished, Money subsequently came pouring into the economy as consumer confidence in heavy industries grew	created a new labor law that retained the Federation of Korean Trade Unions, joining the Organization for Economic Cooperation and Development	financial crisis. The country's reserves were severely limited at US$6 billion, the majority of which was allocated for spending in the upcoming term

Fig. 1.1. South Korean regional economic management policy and planning strategy

2.1. The First Republic and Korean War.

During 1945–1950, United States and South Korean authorities carried out a land reform that retained the institution of private property. They confiscated and redistributed all land held by the Japanese colonial government, Japanese companies, and individual Japanese colonists. The South Korean government carried out a reform whereby South Koreans with large landholdings were obliged to divest most of their land. A new class of independent, family proprietors was created.

Large-scale cotton mills dominated South Korean industry in the eras of both import-substitution in the 1950s, and export-oriented industrialization from the 1960s.[1] The textile industry stood out among other local industrial sectors as the largest employer, the largest contributor in value-added manufacturer, and the leading earner of foreign exchange well into the 1970s. Cotton spinning represents the oldest of Korea`s industries with roots in the colonial era (1910-45) under Japanese rule.

President Rhee largely maintained the prewar bureaucratic structure. That is, he inherited the revived Japanese structure that General Hodge had used. Of course, Rhee continued to staff the bureaucracy with his supporters, who tended in an authoritarian and right-wing nationalist direction. The president continued as the strongest, analogous to the king in Chosun, the Japanese Governor-General, and General Hodge. This system retained a strong rule of man bias and lacked much of the Western-style independent rule of law, though that was in place pro forma. Local and provincial government was weak and appointed by the center. Their role was largely limited to implementing decisions made at and passed down from the center. The government was highly centralized and authoritarian. While Rhee seemed to be personally ethical, his government was very corrupt, the political class was seen as ineffective, and people took the government's talk of democracy more seriously than the government perhaps intended. They forced Rhee from power and in the political crisis a new republic emerged.

The Korean government responded to the increasing demand for agricultural land reform by enacting the Farmland Reform Act of 1949 and revising it in 1950. The reform was based on the principle of "compensated forfeiture and non-free distribution," whereby the government bought farmland from landlords at forced prices and sold it to farmers at below-market rates.

[1] Wo, Ki Do, "Wages and Labor Productivity in the Cotton Spinning Industries of Japan, Korea and Taiwan" in The Developing Economies 16,7 (June 1978): 182-98

The reform had many elements that ran counter to private property rights. The compensation to landlords was less than the market price, leading to big losses for the landlords (Yong-deok Jeon, 1997b)[2]. The Farmland Reform Act also banned farmland ownership by non-farmers, stipulated the maximum amount of landholdings per farmer, and prohibited tenant farming. Nevertheless, from the perspective of private property rights, “compensated forfeiture and non-free distribution” was a better option than “uncompensated forfeiture and free distribution” as espoused by left-wing groups and “compensated forfeiture and free distribution” by centrist groups. The most pressing task at the time was state-building, based on the support of farmers who constituted by far the largest part of the Korean population, even if this meant some infringements on the private property rights of landlords.

Agricultural land reform contributed not only to state-building, but also to redistributing wealth and reducing income inequalities. Everyone was now placed on a more or less equal footing, and individual effort and ability rather than family wealth became the most important determinant for individual success. Many believe that the Koreans’ characteristic diligence and their emphasis on education were motivated by this perception of equal opportunity. On the negative side, however, restrictions on farmland holdings hampered the growth of large-scale farming and contributed to the low productivity growth of the agricultural sector in later years.

In 1953, both North and South Korea were shattered by the destructive three-year Korean War that left upward of two million dead and cities and towns in ruin. Already poor prior to the war, neither country had very promising prospects for the future. However, in the first eight years after the conflict, North Korea carried out an impressive recovery under a highly organized, purposeful government that appeared to be laying the foundations for a modern industrial society. By contrast, South Korea during this time was characterized by political corruption and turmoil, sluggish economic growth, and dependency on massive aid from the United States… South Korea’s economic development in the first eight years after the Korean War was hindered by political upheavals and pervasive corruption. Syngman Rhee, the first president who had served since 1948, governed in an authoritarian manner but was unable to provide the effective leadership that South Korea needed to create a stable political system and pull itself out of poverty. His Liberal Party had no real ideology other than perpetuating Rhee’s rule and using his administration to personally advance the political and economic fortunes of its members. Nominally democratic with opposition parties and elections, Rhee and his Liberal Party supporters did not refrain from using bribery, electoral manipulation, and strong-armed tactics to maintain power. But rising discontent by a rapidly growing urban population, increasing public disgust with the regime’s corruption, and the disappointments over the slow pace of economic recovery and growth made Rhee’s hold on power increasingly tenuous. Losing its support, the regime took to increasingly extreme measures to maintain itself in power by pushing through a new National Security Law in December 1958 that made it easier for the government to crack down on critics under the name of endangering national security. In 1959, Rhee executed Cho Pong-am, who ran against him three years earlier. In 1960, Rhee stood for a fourth term, and the obviously fraudulent victory of his unpopular vice presidential candidate led to a violent student-led uprising in April that resulted in his exile to Hawai`i.

2.2. The Second Republic.

Following this “April Revolution,” South Korea had a brief experiment with a more democratic government. On June 15, 1960, a new constitution was drawn up that created a parliamentary cabinet form of government that placed real authority in the hands of Prime Minister Chang Myoon. But the new administration of the Second Republic, as it was called, was no more successful in providing effective governance than the Rhee regime. Its brief one year of rule was plagued by a series of strikes, as labor leaders, teachers, students, and others called for the removal of all members of the old regime

[2] Cho, Seok-gon,“ Changes in the Korean Land System in the 20th Century and the Farmer-owner Ideology,”in Byeong-jik Ahn (ed.), The Korean Economic History: A Preliminary Study, Seoul National University Press, 2001, pp.329-364 (in Korean).

and the enactment of laws addressing their grievances for improved working conditions, more freedom to organize, and better pay. The decision by the Chang government to devaluate the currency led to double-digit inflation, adding to the distress of wage earners, as well as making the business community uneasy.

Under the Rhee and Chang Myoon administrations, South Korea’s economy grew at a painfully slow rate. It averaged about 4 percent a year, less than 2 percent per capita when the high birthrate was factored in. Starting with the low point at the end of the Korean War, these growth rates meant that in 1961 the country was still extremely poor. Furthermore, most of this modest growth can be accounted for by the massive amounts of aid the United States poured into the country. Washington financed most of the ROK operating budget, paying the entire cost of its large military. From 1946 to 1976, the United States provided $12.6 billion in economic assistance; only Israel and South Vietnam received more on a per capita basis. To put this into comparative perspective: $6.85 billion was given in this period to all of Africa and $14.89 billion for all Latin America. The greatest amounts of aid came in the decade that followed the Korean War, yet during this time, there did not seem to be much to show for it. Partly, this was because much of the assistance to Korea was relief, including food and building materials for reconstruction, not for long term development. With such aid, the basic infrastructure was largely rebuilt by the late 1950s, bringing South Korea back up to its prewar level. Still, American officials complained of aid funds being misallocated for political purposes and by the apparent inability of the Rhee administration to generate sustained economic growth. The Americans felt that South Korea was a “rat hole” swallowing up assistance without producing sustained economic progress.

2.3. The SCNR (Supreme Council for National Reconstruction)

The Supreme Council overthrew the Second Republic of Korea in the May 16 coup in May 1961 and established a provisional military government composing largely of officers who were involved in or supportive of the coup. The Supreme Council was headed by the chairman, the de facto head of government with dictatorial powers, while President Yun Posun was retained as a figurehead. The Supreme Council prioritized South Korea's economic development and political stability, suspending the National Assembly and most political freedoms, and founding the Korean Central Intelligence Agency to combat pro-North Korean and other anti-government activity. Park Chung Hee served as Chairman of the Supreme Council from July 1961 until his victory in the 1963 South Korean presidential election, and the Supreme Council was dissolved upon the inauguration of the Third Republic of Korea in December 1963.

The Supreme Council prioritized the economic development of South Korea and was the first South Korean government to introduce economic planning, with the first South Korean five-year plan inaugurated in 1962. Although the Second Republic had laid the groundwork for such economic plans, it had not been able to put them into practice due to the May 16 coup. The Ministry of Foreign Affairs and Trade enacted policies to encourage and promote export. Currency reform reduced the exchange rate of the South Korean won to US dollar, mainly to prevent money laundering by fraudsters who hid large amounts of money and to weaken the economic influence of Overseas Chinese investors on the South Korean economy.

In late 1963, the Supreme Council began the program with the government of West Germany to recruit South Korean nurses and miners as Gastarbeiter. The costs of the nurses and miners sent to West Germany were largely paid for by the South Korean government, with only their wages and some language services paid for by their employers in West Germany. The Gastarbeiter South Koreans have since been argued as a major cause of South Korea's rapid economic growth in the late 20th century (Lee,2005).

2.4. The Third Republic

The third Republic of South Korea was the government of South Korea from December 1963 to November 1972. The Third Republic was founded on the dissolution of the Supreme Council for National Reconstruction that overthrew the Second Republic and established a military government in May 1961. Park Chung-hee, the Chairman of the Supreme Council, was elected President of South Korea in the 1963 presidential election.

The third republic was presented as a return to civilian government under the National Assembly but in practice was a dictatorship under Park, Supreme Council members, and the Democratic Republican Party. The third republic prioritized South Korea's economic development, anti-communism, and strengthening ties with the United States and Japan.

Park was re-elected in the 1967 presidential election, and the National Assembly forced through a constitutional amendment to allow him to seek a third term, and he was re-elected in the 1971 presidential election. Park declared a state of emergency in December 1971 and announced plans for Korean reunification in a joint communique with North Korea in July 1972. Park launched the October Restoration in October 1972, declaring martial law, dissolving the National Assembly, and announced plans for a new constitution. The third republic was dissolved on approval of the Yusin Constitution in the November 1972 constitutional referendum and replaced with the fourth Republic of Korea.[1] The CIA World Factbook: Introduction – Background

TABLE 1-1

Sources of Economic Growth

	1956-1960	1963-1973
Import Substitution	34.4	10.6
Export expansion	18.0	35.8
Domestic Demand and Technical Change	47.6	53.6
TOTAL	100.0	100.0

Source: Frank et al. (1975).

The first and second five-year economic plans of 1962-1971 focused on establishing enterprises to supply basic industrial materials. The state-owned Korea Oil Corporation was established in 1962 to help meet the demands of transportation and synthetic fiber manufacturing. The Korea Oil Corporation later merged into the SK Group. Pohang Iron and Steel Company (POSCO), established in 1968, supplied the other basic material for future industrialization, i.e., steel. Agriculture played a key role in the South Korean economy at the start of the 1960s, accounting for forty percent of the GDP. To meet agricultural demands, the Korea Fertilizer Corporation was established in 1967 (Shing 2007). The company was founded by Samsung and then donated to the government after an incident involving illegal saccharine imports.

Japan was also important in South Korea’s economic development. Park normalized relations with Tokyo in 1965, over the heated objections of Koreans who feared a return of Japanese dominance, if not a revival of colonial hegemony. Korean cheap labor and Japanese capital and technology were a good match. In the years after the treaty, Japan was a major foreign investor in South Korea, second only to the United States. In the decade after the treaty, trade between the two countries expanded more than ten times; Japan supplied nearly 60 percent of foreign technology between 1962 and 1979 (Stewart P. Lone and Gavan McCormack 1994).

The U.S. market and Japan’s investments and technology transfers greatly facilitated South Korea’s economic transformation. Japan was also a useful model for imitation. During the colonial period and after, Koreans learned much from Japan about what a non-Western country could do to successfully modernize and industrialize. As one Korean put it, the policy of his country’s business community was “Do what the Japanese have done, but do it cheaper and faster.” (T. W. Kang 1992).

During this decade, the nation’s financial infrastructure developed in parallel with the establishment of basic industries. Special purpose banks such as the Korea Development Bank (KDB, established in 1954) provided channels for loans to new corporations. Owing to its specialized purpose, the KDB did not accept deposits as did normal commercial banks. Other special purpose banks such as the National Agricultural Cooperative Federation (NACF), Medium Industry Bank (MIB), Central Federation of Fisheries Cooperatives (CFFC), and Citizens’ National Bank were also established to support farmers, fishing industries, small- and medium-sized firms, and housing developers. The Korea Housing Bank was established in 1967 to finance housing for low-income families. In the same year, the Korea Development Finance Corporation (KDFC) was launched to facilitate the creation of private enterprises by providing medium- and long-term financing. Another special bank, introduced in 1967, was the Korea Exchange Bank (KEB), which dealt with foreign exchange.

In the 1970s, there were changes in the direction of economic development—a shift to heavy industry and the production of capital goods, accompanied by more restrictive policies on direct foreign investment. The change was motivated by a desire to become economically and politically autonomous. The United States started to appear less reliable as a military and political partner, as it established relations with the Peoples Republic of China in 1971–1972 and, as Americans began their withdrawal from Vietnam, President Nixon began calling for a reduction of U.S. forces in Korea. It now seemed to the leadership more urgent to make the country more economically self-reliant, able eventually to manufacture its own armaments and capital goods and to compete with North Korea’s own heavy industrial development. Self-reliance was reinforced in 1973 by new restrictions placed on direct foreign investment. The shift to these heavy and chemical industries required the government to play an even greater role in aiding and guiding industrial development. The companies favored by the Park regime were able to grow and expand, some into industrial giants.

The change in economic direction was accompanied by a more authoritarian turn by the Park regime. In 1963, the country was returned to civilian rule, although in reality, the power was still in the hands of the military. Park was elected three times in semi-open presidential elections: 1963, 1967, and 1971. Then, in 1972, he declared martial law and promulgated a new constitution that gave him nearly dictatorial powers. Using these powers, Park redirected the economy toward the development of heavy and chemical industries inaugurating the HCI (heavy and chemical industry) phase of South Korea’s economic development. In 1973, six industries were targeted: steel, chemical, metal, machine building, shipbuilding, and electronics. This stage of industrial development was concentrated in five small provincial cities, four of them in Park’s home area, Kyŏngsang, in the southeast part of the country: Yŏsu-Yŏchŏn, for petrochemicals; Ch’angwŏn, for machine-building; P’ohang, for steel; Okp’o, for shipbuilding; and the Kumi complex for electronics (Woo,1991).

TABLE 1-2

Annual Percentage Growth of GNP and Major Sectors,

1963 to 1973

(1970 constants price)

Year	GNP	Agriculture, Forestry, &Fishery	Mining &Mfg.	Social overhead & Services
1963	8.8	8.1	15.7	7.4
1964	8.6	15.5	6.6	3.0
1965	6.1	-1.9	18.7	9.9
1966	12.4	10.8	15.6	12.6

1967	7.8	-5.0	21.6	13.8
1968	12.6	2.4	24.8	15.4
1969	15.0	12.5	19.9	14.6
1970	7.9	-0.9	18.2	8.9
1971	9.2	3.3	16.9	8.9
1972	7.0	1.7	15.0	5.8

Source: Bank of Korea, Economics Statistics Yearbook, 1973, pp.298-299

In third Republic, real GNP grew rapidly from 1963-to 1964, average about 8 percent per annum. The only relatively bad year was 1965 when agricultural production decline almost 2 percent (Table 1.2). From 1966 to 1969 GNP grew up dramatically to average about 12 percent per annum again, but only 1967 year it was 7.8 percentage for declining of agricultural product.

During 10 years' government tried to improve social overhead and service and increased share of agricultural product in GNP. 1966 to 1969 year services dramatically grew up and it took highest level 15.4 percent in 1968.

2.5. The Fourth Republic

In the Fourth Republic period, there was a time lag before the economy realized the benefits of matured investments related to the Heavy and Chemical Industrialization Policy of the third five-year economic plan (1972-1976). Exports gained momentum in the mid-1980s when low interest rates, low oil prices, and low exchange rates of the Japanese yen to the U.S. dollar, in accord with the 1985 Plaza Agreement, gave South Korea a competitive edge in world markets in heavy and chemical manufactures. These favorable factors are often dubbed the 'three-lows' among Korean economists. The rate of return on capital reached a peak level in 1988, the same year the Olympics were held in Seoul.

In 1972, Park initiated the intensive promotion heavy industry through what came to be known as the Heavy and Chemical Industry (HCI) policy. Modest financial sector liberalizations that had been undertaken in the late 1960s were reversed in 1972, when interest rates were lowered and direct government control of the banking system was increased in order to channel capital to preferred sectors, projects, or firms. In order to finance large-scale projects, special public financial institutions were established, and private commercial banks were instructed to make loans to strategic projects on a preferential basis. By the late 1970s, the share of there "policy loans" had risen to 60 percent (Yoo, 1994). These loans carried, on average, negative real interest rates, and the annual interest subsidy grew from 3 percent of GNP in 1962-71 approximately 10 percent of GNP on average between 1972 and 1979 (Pyo, 1989). With such a large share of national income at stake, the allocation of these highly subsidized loans became the focus of intense political activity.

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Despite the fact that many foreign experts believed South Korea was neither read nor large enough to support a heavy industrial base, the plan was largely successful. The economy grew by double digits despite a less favorable international situation in the 1970s. In the decade from 1972 to 1982, steel production increased fourteen times. The petrochemical industry did not become that competitive, but others such as steel, led by the state-owned Pohang Iron and Steel Company (POSCO), did. POSCO operated the world's largest steel-making complex, an efficient operation that successfully competed in the world steel markets. Shipbuilding was another success story: in the 1980s, South Korea became the world's second largest shipbuilder, with a reputation for being able to complete orders for new ships quickly and on time. These successes were tempered somewhat by the fact that the energy-intensive industries were launched at a time of sharp increases in petroleum prices, in 1973–1974. However, the outflow of foreign exchange to pay for costlier imported oil was soon compensated in part by the inflow of earnings from Korean construction companies and their workers in the Middle East. Thus South Korea weathered the economic crisis quite well. More serious problems were inflation, which reached an annual rate of 40 percent in late 1979, and the country's mounting foreign debt. The country has become a major borrower to finance not just new investments but also huge infrastructure projects, such as expanded power generation, telecommunications, port facilities, and roads.

Investment in the heavy and chemical industries saw a major advance in the first half of the 1970s due to government support. By 1979, the amount invested in the sectors reached KRW 4.1 trillion. The same year, the initial production target was reached. Table 1-3 shows the composition of investment resources, showing that 30.9 percent of investment was obtained from the capital of private companies participating in the business; 61 percent of external investment funds was obtained from domestic capital. The proportion of foreign capital was maintained at levels lower than initially planned (Yangjin 2018).

Table 1-3 Investment in the heavy and chemical industries (1973–79)

Categories	Domestic capital (KRW1 million)	Foreign capital (US$1,000)	Sum (KRW 1 million)	Self-funding (KRW1 million)	Self-funding ratio (%)
Investment in equipment	2,006,648	3,158,672	3,552,804	1,207,043	34.0
(steel)	(603,319)	(1,374,939)	(1,268,164)	(593,910)	(46.8)
(nonferrous metals)	(113,634)	(177,866)	(199,447)	(48,149)	(24.1)
(Machinery)	(150,067)	(120,698)	(208,605)	(75,979)	(36.4)
(shipbuilding)	(492,750)	(1,211,995)	(1,095,357)	(200,829)	(18.3)
(Electronics)	(452,394)	(258,120)	(577,521)	(165,175)	(28.6)
(Chemical)	(196,484)	(15,054)	(203,710)	(123,001)	(60.4)
Support facilities	200,737		200,737		
Base construction	154,882		154,882	72,546	46.8
Human resource development	71,214	56,395	98,565		
Research development	89,785	79,823	128,807		
Sum	2,523,266	3,294,890	4,135,795	1,279,589	30.9

Source: Kim Kwang-mo. (1988, p. 312).

Higher investment in the heavy and chemical industries also affected employment. From 1972 to 1979, the number of employees grew an annual four percent, and the number of jobs increased much faster than it did in the 1960s. Unemployment fell from 4.5 percent in 1972 to 3.2 percent in 1978; the rate averaged 3.9 percent over the period. With the construction boom in the Middle East, the goal of US$10 billion in exports was achieved in 1977, and the government reported the country's first surplus in its international balance of payments. Table 1-4 shows the economic growth and employment conditions in 1970s Korea.

Table 1-4 Economic growth and employment in 1970s Korea

	GDP growth rate	GDP growth by demand sector				Employment		
		Final Con-sumption	Fixed invest-ment	Exports	Imports	Employ-ment growth rate	Unemploy-ment rate	Rate of partici-pation in economy
1972	6.5	5.5	2.4	41.1	0.9	4.4	4.5	57.7
1973	14.8	7.7	26.3	55.4	36.7	5.4	3.9	58.4
1974	9.4	7.8	13.8	5.5	17.6	4.4	4.0	58.9
1975	7.3	5.8	9.5	20.0	2.9	2.4	4.1	58.3
1976	13.5	7.6	25.5	37.9	24.9	6.2	3.9	59.7
1977	11.8	5.7	32.6	20.2	20.7	3.2	3.8	59.4
1978	10.3	8.1	35.1	13.6	27.7	4.7	3.2	59.9
1979	8.4	8.1	9.6	1.2	12.1	1.4	3.8	59.5
1980	-1.9	1.2	-12.0	8.6	4.0	0.6	5.2	59.0

Source: Bank of Korea, Economic Statistics System, quoted in Committee on the Sixty-year History of the Korean Economy (2010).

2.6. Market restructuring

Chun Doo-Hwan, then a major general in the Republic of Korea Army, seized power in 1980 after the second oil shock and while Korea was suffering from a sudden rise in prices, recession, and political instability. His administration deviated from the previous growth-oriented policy of its predecessor and prioritized stability. The government was no longer fixated on supporting the economy through fiscal policy or deficits, and tried to focus on recording surpluses. It also greatly reduced the rate of increase of money in circulation until the mid-1980s (the rate of increase of currency in circulation was 21.3 percent in 1982 but was lowered to 7.2 percent in 1984), and focused on price stability. To resolve worsening profitability and the decline in investment efficiency caused by overinvestment in the heavy and chemical industries in the late 1970s, the government turned to investment adjustment and industrial rationalization. Another objective was to transform the government-led economic system to one led by the private sector, as well as to strive to open and liberalize the economy and fan competition. Like the policy seeking to rationalize industry, these initiatives were initially unsuccessful. The centrally planned economy remained mostly the same, and liberalization stayed in the planning stage. Attempts were made to liberalize the financial system through market principles, and the financial market and banks were privatized. Preparation was also made to liberalize capital transactions abroad.

The 1985 Plaza Accord was an agreement to depreciate the US dollar in relation to the Japanese yen and German mark to improve the international balance of payments of the US, Japan, and Germany. The US was consistently reporting trade deficits as it imported more than it exported, and Japan and Germany saw trade surpluses year after year. The agreement got its name from the Plaza Hotel in New York, where it was signed; afterwards, the yen's value against the dollar increased 51 percent from 1985 to 1987. In response, the won's value against the dollar changed little but greatly fell against the yen. The international price competitiveness of Japanese goods thus worsened while that of Korean goods improved greatly. For example, if a Korean product was the same price as a Japanese one in 1985 after the change in the exchange rate, the domestic price of the Korean product remained the same but its international price dropped to half of that of the Japanese product. Furthermore, crude oil prices, which had skyrocketed after the second oil shock of 1979, continued to decrease over this time, and international interest rates remained low due to the recession in developed economies other than Japan and Germany. The low value of the won, low price of crude oil, and low interest rates formed the “three lows” that provided an extremely favorable macro-economic environment for the Korean economy.

The Korean economy immediately responded to the three lows. First, as the relative price competitiveness of Korean exports got a huge shot in the arm, exports rose 24.5 percent from the previous year in 1986, 21.9 percent in 1987, and 11.7 percent in 1988. Thus the country saw its first current account surplus in 1986 of US$4.7 billion. In 1987 the nation recorded its highest surplus of US$14.5 billion. Between 1987 and 1989, the surplus amounted to US$34.6 billion. The volume of foreign loans over that time had increased to 59.3 percent of GDP in 1985, but began to decrease in 1986. By 1990, the ratio of foreign loans to GDP had dropped to 18.1 percent, the lowest since 1961. The amount of foreign exchange reserves also nearly doubled from US$7.7 billion in 1985 to US$15.2 billion in 1989.

Korea saw rapid economic growth at this time as well. After undergoing structural adjustments following the recession of 1980– 81, recovery came swiftly. GDP growth reached 8.3 percent in 1982, 12.2 percent in 1983, and 9.9 percent in 1984. After the arrival of the three lows, growth registered 12.2 percent in 1986, 12.3 percent in 1987, and 11.7 percent in 1988. Employment also consistently went up while unemployment dropped. In 1988, the jobless rate dropped to two percent for the first time. Prices remained stable during this time as well, thanks to pro-stability measures of the early 1980s. In the decade’s latter half, Korea could achieve growth, price stability, and a favorable international balance of payments, the three primary objectives of macroeconomic policy. A popular phrase at the time was that the country was seeing “the greatest economic boom since Dangun (the mythical founder of the Korean nation).

Table 1-5 Macroeconomic trends in 1980s

	GDP growth	GDP growth by demand sector				Employment		
		Final Con-sumption	Fixed invest-ment	Exports	Imports	Employ-ment growth rate	Unemploy-ment rate	Rate of partici-pation in economy
1980	-1.9	1.2	-12.0	8.6	4.0	0.6	5.2	59.0
1981	7.4	5.3	-2.9	15.2	5.4	2.5	4.5	58.5
1982	8.3	6.6	10.3	6.0	4.0	2.5	4.4	58.6
1983	12.2	8.3	16.4	14.9	10.1	0.9	4.1	57.7
1984	9.9	6.8	11.5	14.5	8.9	-0.5	3.8	55.8
1985	7.5	6.5	5.4	2.2	0.1	3.7	4.4	56.6
1986	12.2	8.5	13.4	24.5	18.7	3.6	3.8	57.1
1987	12.3	7.7	18.5	21.9	19.3	5.5	3.1	58.5
1988	11.7	9.0	13.6	11.7	13.5	4.1	2.5	58.5
1989	6.8	10.3	16.9	-3.6	16.0	3.0	2.4	60.0
1990	9.3	9.8	24.7	4.9	13.3	3.1	2.4	60.6

Source: Bank of Korea, Economic Statistics System (ecos.bok.or.kr). Employment data from Statistics Korea, Korean Statistical Information Service (www.kosis.kr)

Yet the economic boom fueled by the three lows did not last long. Because of the continuous surplus in the current account balance, US pressure to strengthen the Korean currency increased. Thus the won appreciated and the gap between the won and yen exchange rates decreased. And as foreign currency flowed into Korea, inflation reared its ugly head again from 1988. Eventually, the real effective exchange rate45 rose rapidly in 1989 and reached an even more appreciated state than in 1985. Exports decreased 3.6 percent in 1989 and the current balance deficit returned to Korea.

2.7. Currency crisis and present

As Korea overcame the 1997 crisis, the situations of many insolvent financial institutions were resolved through procedures such as liquidation and mergers and acquisitions. Korea's number of banks dropped from 33 in 1998 to 19 at the end of 2004 (see Table 1.6). More than 771 non-bank financial institutions closed, and many others underwent restructuring through closure, business transfers, and sell-offs. The number of merchant banks fell dramatically from 30 to just two. Banks were encouraged to affiliate with non-bank financial institutions to form financial holding companies. Thus, four major banks—Woori, KB Kookmin, Shinhan, and Hana—had begun operating under their respective holding companies by the end of 2008. By the end of 2015, the banking sector (including trust funds) constituted the largest share, with 56.3% in total financial sector assets, followed by insurance companies (21.9%), credit cooperatives (11.3%), investment traders and brokers (securities companies) (7.9%), postal savings (1.5%), and mutual savings banks (1.0%; see Table 2). After the 1997 financial crisis, the banking sector share declined continuously from 70% in 2000 to 56.3% in 2015, mostly due to strong growth in the non-banking sector, including insurance and security companies. The share of insurance and security companies more than doubled from 2000 to 2015.

Table 1-6. Changes in Numbers of Financial Institutionsa (as of Period-Ends)

		1998-2004			2005-2010				
	1997	Newly Established	Mergerb	Exitc	Newly Established	Mergerb	Exitc	2010	2016
Financial Holding Companies	-	3	-	-	6	-	-	9	9
Banks	33	-	9	5	-	1	-	18	17
Mutual Savings Banks	231	13	28	103	7	1	14	105	79
Credit Unions	1,666	9	107	502	5	39	70	962	904
Merchant Banks	30	1	7	22	-	1	-	1	1
Securities Companiesd	36	19	4	8	11	4	-	50	44
Collective Investment Business Entitiesd	31	24	2	6	39	6	-	80	165
Life Insurance Companiese	31	4	5	9	1	-	-	22	25
Non-life Insurance Companies	14	4	1	2	2	1	-	16	18

Total	**2,072**	**77**	**136**	**657**	**71**	**53**	**84**	**1,263**	**1,262**

Notes:

a Excludes branches of foreign financial institutions.

b Numbers of financial institutions ceasing to exist following mergers.

c Includes revocations (and applications for revocations) of licenses, bankruptcies, and liquidations.

d Financial investment business entities under the Capital Markets Act.

e Excludes postal insurance.

Source: The Bank of Korea website (http://www.bok.or.kr/broadcast.action?menuNaviId=2371) and the Financial Supervisory Service's Annual Report.

Similar to those in other economies, the banking institutions in Korea face fast and unprecedented changes with the emergence of innovative financial services, such as internet-only banking and fintech businesses. Korea's two internet-only banks, "K bank" and "Kakaobank," were officially launched in 2017. They brought about a new wave of competition in the banking sector, as they provide financial consumers with lower banking transaction costs and easier access to banking services than commercial banks. Financial innovations, such as digital payment, transfer services, crowdfunding, and automated wealth management, may point to a drastic transformation of the traditional banking system.

The policy for regional development in Korea evolved from specialised programmes targeting specific regions to a more articulated scheme in which different programmes support industrial development on different spatial scales (supra and intra-regional scales).

The paradigm shift in policy, from balanced growth to competitiveness, required adjustments in governance, in resource allocation, and in the policy mix (Table 2).

During the first phase (1998-2003) regional policy was a "specialised" policy implemented through specific programmes targeting strategic industries in few selected provinces. The Ministry of Commerce, Industry, and Energy introduced the Regional Industrial Promotion Programme (RIPP) to develop industrial clusters outside the Capital Region (e.g. textiles in Daegu, footwear in Busan, optical electronic industries and photovoltaics in Gwangju, and machinery in Gyeongnam Province).

Throughout the second phase (2003-08), the government introduced balanced development as a national priority. It established the legal foundations for the national policy on regional development and introduced the first governance improvements towards more decentralised policy approaches. In this phase the objective was to reduce disparities between regions and favouring deconcentration outside the Capital Region. Major policy tools have been the techno parks.

In the third phase (2008-11) regional development policy started to focus on mobilising growth in regions. In this phase the government increased the resources for regional development; designed new programmes to foster cross-regional collaboration, mainly managed by the Ministry of Knowledge Economy; and created Economic Regional Committees to support bottom-up initiatives and development planning in regions.

Today regional policy aims to mobilise untapped sources of growth and marshal innovation potential in all regions by stimulating bottom-up initiatives and networks. The logic shifted from a distributional to a discriminatory approach which targets all regions but in a differentiated way according to their challenges and potentials. The new paradigm calls for a greater space for private sector development and local government actions. The transition is recent and it is still ongoing, but the evolution in governance and resource targeting, as well as in the policy mix, are promising steps.

Evolution of policies for regional development in Korea

KOREA		1998-2003 Kim Administration	2003-08 Roh Administration	2008-12 Lee Administration
National development strategy	Main growth Model	Export-led growth – focus on the knowledge economy		
		Globalisation	Balanced growth	Green growth
Regional development policy (RDP)	Phase	Origins of RDP specialised policy targeting specific industries in specific regions.	Expansion of RDP and creation of legal framework.	Consolidation, focus on “Economic Regions”.
	Rationale	Finding new sources of growth Consolidation of democracy at provincial and local level.	Promoting balanced growth Addressing excessive concentration in Capital Region.	Supporting regional competitiveness.
	Main targets	Promotion of industrial development in 4 selected provinces.	Promotion of industrial development in all Korean provinces.	Promotion of industrial development by targeting functional regions (economic regions, provinces and local areas).
	Governance	Central government initiative	Establishment of the Presidential Committee on Balanced National Development (PCBND) Creation of Regional Innovation Agency (RIA).	Creation of Presidential Committee on Regional Development (PCRD) Establishment of Economic Region Development Committees (ERDC).

KOREA		**1998-2003 Kim Administration**	**2003-08 Roh Administration**	**2008-12 Lee Administration**
National development strategy	Main growth Model	Export-led growth – focus on the knowledge economy		
		Globalisation	Balanced growth	Green growth
	Plan and Resources	No major institutional changes for addressing regional development.	5-Year Plan for Balanced National Development (2004-08) Special Account for Balanced National Development.	5-Year Plan for Regional Development (2008-13) Special Account for Regional Development.
Regional development policy (RDP)	Policy programmes and tools.	Regional industry promotion programme (RIPP) (4 major specialised industries in 4 metropolitan cities and provinces).	Regional industry promotion programme (RIPP) (in the 4 provinces and support to additional 9 provinces) Techno parks.	Leading Industries (5+2 Economic Regions) Strategic Industries (provinces) Region Specific Industries (local areas).

Source: OECD Development Centre; draws on and updates KIM, D., D. LEE, G. KIM, S. JUNG and M. CHO (2011), Regional Industrial Policies in Korea, background document elaborated for the OECD Development Centre by KIET, unpublished.

3. KEY PRINCIPLES FOR SUCCESSFUL REGIONAL POLICY IN SOUTH KOREA

3.1 Introduction

The review of past regional policies and 6 key cases of Park Geun-hye Administration is helpful to explore the characteristics of regional policy in this administration. In particular, MOLIT is in charge of implementing these 6 key projects, which has provided many meaningful lessons and suggestions. Even though there are arguments about the requirement of successful regional policy, this section attempts to deduce key principles for successful regional policy in South Korea.

3.2 Strategies of creative regional specialization

Previous growth models focused on industrial development did not reflect regional characteristics and demands due to uniformed resource distribution and overdevelopment of special districts. It mostly supported hardware infrastructure development such as road and did not emphasize new and creative ideas related regional specialized resources. Standard and unified projects prevented local economic development. For differentiated development from those of other regions, it is important that each local municipality is encouraged to voluntarily develop an optimal development strategy that will reflect regional characteristics and make use of unique growth potential through the bottom-up approach. In other words, it needs to make a specialized regional development strategy which is attractive to people by combining specialized resources, industries, tourism and culture and develop a specialized ecosystem of the creative economy in each region. This specialized strategy also needs to consider the limits such as gradual decrease of population, ageing society and specific regional situation. This strategy should make the best out of regional characteristics and strong points under a long and mid-term vision and should focus on complementing and upgrading existing hubs such as Innovation Cities and High Tech Urban Industrial Complex rather than developing new hubs.

3.3 Government's package support including deregulation and budget

As many local areas lack specialized resources, growth potential and creative workforce compared to big cities, the government should provide them with differentiated package support including budget, deregulation and various incentives. But, rather than reckless resource distribution, the government needs to focus its support on encouraging local municipalities to find the most optimized specialization strategy through a sound competition. It is important to promote the development of diverse regional growth hubs such as High Tech Urban Industrial Complex, Investment Leading Zone and Regulation Free Zones that recently finds optimized specialization projects that develop through a public contest. In order to successfully implement the regional specialization strategies developed by each region, deregulation on location and industry and budget support customized for each specialization project will be necessary and a package of each ministry's policy support will maximize synergy effect. Furthermore, it is important to promote best practices such as Pangyo Creative Economy Valley that provides tax benefits to attract start-ups, incubating, infrastructure and spatial integration for communication between companies in other regions so that they can benchmark it and create good jobs.

3.4 Strong innovation network within the region

Regional specialization strategy will not be successful without a close network between innovation organizations within the region. Diverse organizations such as private companies, the Center for Creative Economy and Innovation, research institutes, public corporations, Innovation City Cluster and Techno Park and local municipalities need to identify ideas for regional specialization after careful consideration and make a long and mid-term vision. A package of deregulation and budget support customized for each region's specialization strategy and close cooperation with the government to implement the strategy will determine the success or failure of the strategy. To this end, the network of innovation organizations within the region should create an ecosystem of the creative economy that connects commercialization to production and export. The innovation organizations should cooperate with each other and actively share their ideas so that they can focus on creating new growth momentum and actually contribute to the creative economy.

3.5 Environment to attract creative people

In order to pursue constant and long term regional economic development, it is crucial to secure creative people who can play an important role in developing realistic specialization strategies and constantly implementing them. A region's income level and employment will be improved when creative people working in cultural, ICT or other creative industries such as management and financial experts, public management experts, science and information engineers, education administrators, research experts and creative service providers gather to live and settle in the region. Diverse efforts will be needed to continuously attract competitive and creative workforce in a changing environment represented by low birth rate, aging population, low growth and fierce technical competition. High quality living environment should be created by enhancing urban amenity with better cultural and residential environment and public services including various public transportation. Public investment needs to be increased to provide more tax benefits for start-ups, improve infrastructure, support incubating of business start-up and enhance public transport convenience. These efforts should create a deep rooted culture where creative people focus on technology innovation with local patriotism and pass their knowledge and technology on to their next generations. And such culture will lead the region to successfully implement its long-term vision in the future.

4. CONCLUSION

Korea pushed ahead with diverse regional development policies such as designating Innovation Cities, Corporate Cities and special districts and supporting lagging areas. But those policies were not successful due to decentralization of local municipality capacity, overdevelopment and various regulations on industry and location. Therefore, the government has been turning its focus from the previous growth model of the industrialization age toward the creative economy to secure new growth momentum and promote regional development. On this context, this article has dealt with various experiences and key principles of regional policy in South Korea, focusing on to promote growth hubs through select and focus while meeting the demand of our citizens which is to improve the quality of life in a changing environment such as low global growth, low birth rate, aging population and fierce competition for high tech scientific technology. In conclusion, the key words of Korea's regional policy are regional specialization, bottom-up approach, government's package support, innovation network and environment for creative people.

Korea has been gradually increasing the space for bottom-up initiatives in regional development. Regions today receive more resources to implement regional development plans and can, to a certain extent, decide on their own priorities by choosing from a menu of regional development programmes offered by the central government.

Increasing the space for bottom-up initiatives requires investing in capacity building at the local level. Korea nurtured improvements in the quality of public administration at the local level by promoting secondment practices from central to local governments and vice versa and by increasing the standards and variety of public administration training programmes.

However, Korea's regional policy might be faced with unpredictable risk factors caused by the growing income gap, rapid climate change, arrival of the era of aging society and uncertainty surrounding global economy. Therefore, much research on resilient economy and inclusive growth is being conducted to respond to such threats. As local economies are faced with a series of problems such as changes in economic and social structure, disasters caused by climate change, dispute between the Seoul Metropolitan Area and other local economies, the gap between cities and rural areas and dispute across different groups and generations, various indices and analysis methods are being developed to help local economies implement delicate and customized programs and address such problems through their own policies. For example, to measure a region's capability to recover or resilience, indices for segmented areas (e.g. labor force as human capital, infrastructure as physical capital, R&D as innovational capital) are being reviewed. In addition, measures of enhancing social networks and increasing social capital, more specifically, strengthening flexibility of labor market, maintaining sustainability of basic infrastructure, upgrading the ability of driving innovation through convergence, securing stability of economic structure through promotion of industrial diversity and business competitiveness and guaranteeing social service, are being suggested as policy directions (Ha et al., 2014). Furthermore, to address income inequality, a variety of inclusive growth policies, that include measures of upgrading tax exemption and tax reduction systems, expanding health insurance, strengthening educational supports (e.g. supports for childcare) and increasing job opportunities, are being implemented (Yoon, 2014). When it comes to inclusive growth, the 'Service Standards for Farming and Fishing Villages' and the 'Sustainability and Evaluation of Infrastructure for Urban Life' were adopted. The Service Standards for Farming and Fishing Villages was introduced with the aim of bridging public service gap between cities and rural areas. 31 essential categories for daily lives of residents (e.g. residence, transport, education, health care, welfare, culture and IT) were designed and a goal for each category was set. For cities, since the adoption of 'Sustainability and Evaluation of Infrastructure for Urban Life' in 2013, a total of 8 categories comprised of 30 sub-categories, such as land use, industry, economy, environmental conservation, culture, landscape, transportation, housing, social welfare, disaster prevention and safety are being evaluated. Such evaluation helps cities to check by themselves what lacks in infrastructure and in which parts the city lags behind others and become a basis for their urban development plans. However, to get tangible outcomes in terms of inclusive growth and sustainable development, direct and indirect governmental supports are essential. In other words, it is necessary for the government to relax regulations, provide financial support for promotion of both regional economic growth and job creation and strengthen institutional devices for equal distribution of fruits of economic growth. In particular, the government needs to thoroughly check the social safety net for the poor in society. It is recommended for the government to focus on direct and indirect supports to dilapidated areas with decreasing population by reducing tax and other financial burdens as well as granting a special status in terms of application of regulations and providing subsidies. Such efforts will not only attract more investors for businesses but also create quality jobs and ensure basic service and social safety net for people.

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