

LOCAL GOVERNMENT IN KOREA

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Korea Research Institute for Local Administration



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CHAPTER 1

INTRODUCTION

The Korean administrative hierarchy consists of the central, provincial, and municipal levels. The current provincial boundaries were inherited directly from those of the late Chosen Dynasty (1896), being a legacy of a more than 1,500-year-old ancient nation. Korea had been considered a centralized state before local election was resumed in 1991 for local councils and in 1995 for elected provincial governors and mayors.

As for the local government structure, Korea has a two-tier system. The upper or regional level consists of provinces (Do) and metropolitan cities (metropolitan Si). The lower or basic local level is composed of municipalities, such as municipal cities (Si), rural districts (Gun, rural county) and autonomous urban districts (Gu, located inside metropolitan cities). And all municipalities in Korea have administrative sub-levels, Eup and Myeon in rural areas and Dong in urban areas.

Korea shows features similar to the German-style legislative framework, but the Korean constitution does not clearly guarantee the existence of provinces and municipalities nor provides for the distribution of responsibilities, while provinces and their affiliated municipalities perform both local tasks and delegated ones; so in practice these are quite powerful in the decision-making for their own “local affairs.” As a general principle of local self-government system, there are two fundamental tenets of administrative autonomy: the freedom of elected assemblies, as representative of local people, to make decisions and the existence of an elected executive, as head of local government.

According to the joint-research report by KRILA and KIPA in 2002

and the internal data of PCD (Presidential Commission for Decentralization) in 2006, the functions for which central Government took the final decision power are 72-73% of the whole governmental functions, whereas local governments take charge of only 24-26% of functions together with 2-3% of delegated functions assigned to local authorities by the central government. The average number of transfer-decision cases from the central to local is about 250 per year and the percentage of transfer completion is 62% in average during the decade.

Korean Local governments in 2009 employ about 278,000 staff and spend 138 trillion Won (roughly equivalent to 115 billion US dollars) a year, which accounts for around 39 per cent of public spending. Of this, only about 30% is funded by local tax. Local governments finance themselves by revenue from taxation transferred from central government, and by the revenue from locally raised taxes (e.g. property-based taxes) the levels of which are fixed largely by the central government, and limitedly by local councillors. They also receive central subsidies in the form of general grants for providing general running costs, including the salary of local public officials, which they are free to deploy as they wish.

There are, in 2009, over 3,731 elected council members (761 of upper-levels and 2,888 of lower-levels), 230 mayors and 16 Metropolitan and provincial executive presidents serving on 246 regional and local self-governments, having in average about 202,000 inhabitants.



CHAPTER 2

INSTITUTIONAL FRAMEWORK OF LOCAL GOVERNMENT

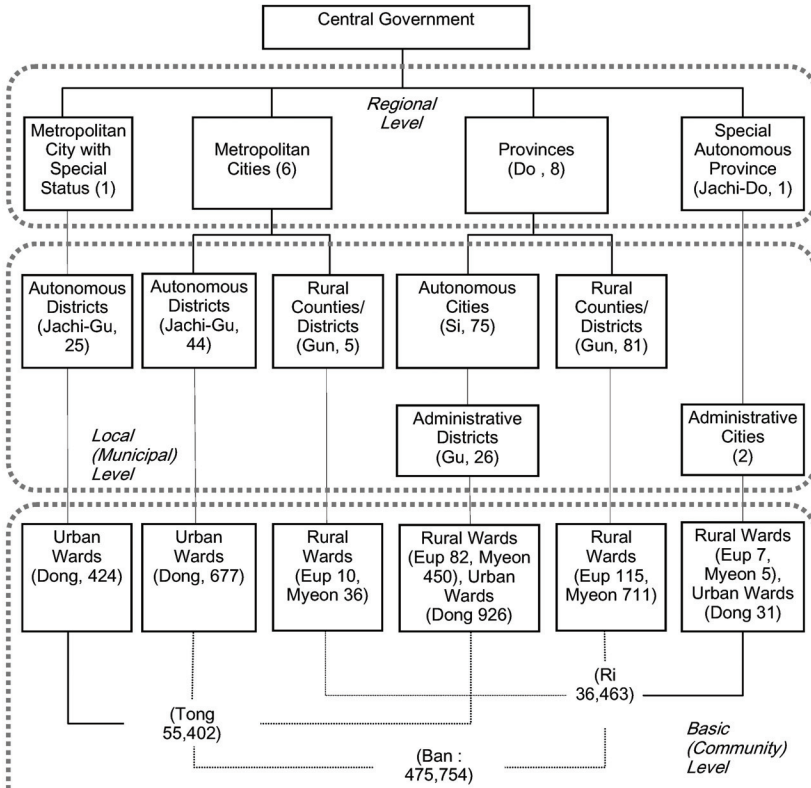


LOCAL GOVERNMENT STRUCTURE

The provincial level includes the Special Metropolitan City of Seoul, and 6 other metropolitan cities, and 9 provinces of which Jeju provincial government became (since July 1, 2006) the special Jeju Autonomous Provincial Government under the “Special Act for the Establishment of the Jeju Autonomous Provincial Government and International Free City”. It is entailed after the local referendum of the annexation of the 4 municipalities into the provincial sub-administrative units.

The current provincial jurisdictions were laid out 100 years ago, and there have been no major changes except for the autonomy achieved by the metropolitan cities from the provinces. Metropolitan cities are urban areas separated from provinces which are often former provincial capitals after 1945, and are based on the rationale that the interests of urban areas are better served by their own governments despite strong provincial disapproval. The Seoul Special Metropolitan City differs much from its counterparts in that its mayor is equivalent to central government ministers, unlike provincial governors.

Figure 1. Local Government Systems in Korea



Source : Official statistics of MOPAS (Ministry of Public Administration and Security, 2010)

The municipalities below these provinces concern the municipal cities (Si) and rural counties (Gun), and both are governed by political representatives, who include mayors and council members. These counties and municipal-level cities comprise of various administrative sub-units, namely, Dong (urban wards), Eup and Myeon (rural wards), according to the demographic criteria. Gun and Eup can change its status to a city

when population exceeds 150,000 and 50,000, respectively, or the urbanization level, measured as percentage of households engaged in industries and services, reaches 50%. A city with over one million inhabitants becomes a metropolitan city. The metropolitan cities, including Seoul, have autonomous districts (Gu) with a municipal status, like the other municipalities, governed by elected mayors and council members.

The local government system is based on Articles 2, 3 and 4 of the Local Autonomy Act, which defines provision for municipalities and provinces, thus outlines the basic principles of underpinning their organization. The Korean constitution recognizes the right to local autonomy as a general principle of state organisation laid down in Title VIII of the constitution. The constitution guarantees institution of the local councils (Article 118), stipulating the democratic and representative nature of their governmental bodies. It does not provide a priori for the existence of the province and metropolitan and municipal cities, but guarantees the right to implement local tasks within the legislation concerned, which offers various autonomy of the local government as a right. The local government structure is in fact guaranteed in the Local Autonomy Act. Local councils with elected representatives have been established since 1991, and local elections for the head of the local governments were scheduled for August 1995 for the first time.

Autonomous districts within Seoul differ considerably in terms of their population and surface area which each district's number of local residents show an average range from 200 to 600 thousands. It remains an open question whether these differences do reflect territorial distinctiveness and coherence. In other words, the scale of Korea's basic local governments generally fits the technical needs of territorial management, but at the same time these administrative units may be too large to encourage participative local democracy.

As far as metropolitan cities at regional level are concerned, the 6 metropolitan cities were granted their status as autonomous provincial governments in 1995. By placing an entire metropolitan area under the authority of a single metropolitan city, the central allows the

metropolitans to control over development and land use. However, this same administrative arrangement can also pose co-ordination problems between a metropolitan city and its neighbor province both of which are already separated from the other, considering especially that a metropolitan city with a population of over one million tends to exert economic and other influences beyond its own administrative boundaries. The boundaries of a metropolitan area cannot be definitively fixed since the appropriate boundary varies according to the function or goal in question.

TERRITORIAL CHANGES AND AMALGAMATION OF MUNICIPALITIES

Local boundary reform in Korea has progressed with its rapid economic growth and subsequent urbanization, having been creating various spillover effects and regional transport development. Annexation and amalgamation have been preferential means used for altering administrative jurisdictions for continually expanding metropolitan cities by the central government. The late-nineteenth-century provincial boundaries remained relatively unchanged until the end of Japanese colonial rule in 1945, and when the country was divided into South and North Korea thereafter in the same year. Few municipal boundary changes were made before the 1960s, while there were 24 cities at the municipal level at that period.

The central government shows two opposite types of amalgamation policy during the period of 1960~2000; at the first part of the decades from 1960s the “urban-rural separation” policies is prevalent, whereas the “urban-rural integration” policies predominate through the 1990s. The main department in charge of the local government, the Ministry of Public Administration and Security (MOPAS), preferred amalgamation by maintaining the idea that certain problems associated with fragmentation should be resolved through municipal amalgamations and that these municipal amalgamations would be more complicated after the municipal

elections for the head of the local governments.

Accordingly, the Ministry announced a plan for boundary reforms in early 1994, proposing amalgamation process and a list of affected municipalities. These municipalities were selected based on criteria such as the spatial scope of daily life, a shared regional identity of the local population, governance efficiency, and the existence of balanced growth between an urban core and its surrounding hinterlands. This reform of “urban-rural integration” in the 1990s contrasts with the earlier reforms of “urban-rural separation” since it sought to create consolidated municipalities containing an urban core and rural adjacent areas. Overall, the number of municipal boundary changes has increased to 74 cities by 2001.

A drastic change in amalgamation policy of municipalities has been initiated since the inauguration of the tenth President of Korea in 2008. The new governors reversed their predecessor’ strategy for local and regional administration in revealing the idea that all of regions and localities are already engaged in global competition and should enhance their own competitiveness apart from current administrative boundaries, establishing specialized and enlarged economic regions that will be required soon. The recent policies consequently aims at strengthening regional growth potential, which is believed to be vital for national competitiveness, rather than alleviating regional disparities.

Such a political conviction has driven autonomous localities to amalgamate with neighbors since 2009. The central government announced financial incentives for the candidate localities to promote voluntarily amalgamation, while planned and implemented interrelated development of the four Supra-Economic Regions. As a result, the City of Changwon have completed the amalgamation with two cities in the Gyeongnam Province, namely the City of Masan and Jinhae, in the early 2010. Currently, there still continues in 2010-2011 a series of mediation and referendum activities between several municipalities to prepare for the amalgamation. The most active examples are the City of Cheongju and the Cheongwon Gun in the Chungbuk Province, the City of Guri and

Namyangju in the northern part of the Gyeonggi Province, the City of Seongnam, Hanam and Gwangju in the southern part of the Gyeonggi Province.



CHAPTER 3

LOCAL GOVERNMENT FUNCTIONS

THE PRINCIPLE OF LOCAL GOVERNMENT DISCHARGING

It is most likely that the Korean local government benefits from the German principle of “self-administration (Selbstverwaltung).” Local levels are on the one hand regulated by a framework law, the Local Autonomy Act, and their responsibilities are defined by legislation, but not clearly denoted enough to distinguish the responsibilities of provinces from those of municipalities. As a result, the scope of responsibilities among the two levels is extremely blurred and complex; a large number of tasks are shared (of local government responsibilities enacted, two-thirds are exercised jointly by the upper-level government and basic level localities). This may be attributed to the overlapping pattern of decision-making and roles of discharging the functions stipulated by the governmental statute of the Local Autonomy Act, though the distribution of responsibilities in detail among sub-national levels is set out in the Act and individual laws.

On the other hand, the system of Korean local administration is influenced by the structures inherited from the French model which is based on the unity and indivisibility of the state, and on the uniformity of the management scheme for local governments. Another characteristic in the Korean system is rigidly hierarchical such that, although local administrations are not “creatures” of the intermediate level as is in the federal system, the provinces and metropolitan city governments tend to exert great supervisory authorities over the municipal-level administrators,

such as governors of cities, rural districts, and autonomous urban districts.

THE FUNCTIONAL DIVISION

Article 117 of the Constitution stipulates the functional principle of sub-national governments: local governments must promote the convenience and welfare of citizens in the course of managing their affairs, and should rationalize their organizations and management, and should optimize their size. As mentioned above, the functional distribution is ruled by the provisions of the Local Autonomy Act (Art. 8-11), which regulates local governments should not manage their affairs in violation of laws, subordinate statutes or bylaws of the metropolitan and provincial governments.

The Local Autonomy Act lists the functions of the provinces and metropolitan governments and the basic level localities, and those that remain in the prerogative of the central government. First, the Acts stipulates the responsibilities that by their nature belong only to the central government. The centre conserves a regulatory role through the setting of objectives. They include national planning and nation-wide land use, etc. The second tasks which are practically the exclusive functions of the provinces and metropolitan governments are called “intermediating functions.” The third deals with the shared tasks and responsibilities among the central, provincial and local governments. These are of two types; those shared between different tiers of local governments, and those shared between central and sub-national governments. It shows the close connection with the implementation of social (health, education, social assistance) or environmental policies. The sharing is intended so that each level is granted parts of responsibilities in a given field or in a given dimension. Formal responsibilities may be in charge of one level but, owing to more than 400 subsidies or other factors, its clarity always remains clouded. The grey area induced by overlapping or complexity of responsibilities is not peculiar to the Korean system, and a review of task redistribution across levels of governments constantly forms a part of the reform agenda of many Napoleonic-style countries in Europe such as France, Italy, Spain, Portugal, and Turkey.

Article 11 of the Act specifies the responsibilities of the central government as follows: first, functions belong to the national sovereignty, e.g., diplomacy, defence, judicial system, tax administration, etc; second, those necessarily conducted by the nationally-uniformed means, price-policy, finance-policy, export-policy, etc.; and the responsibilities that require national standard and coordination, labor standard, weight and measurement system, etc.

The tasks of the metropolitan and provincial governments are characterized by the intermediary functions, which are: a. local affairs affecting more than two local governments' jurisdiction; b. affairs requiring uniformity within the provincial and metropolitan areas; c. affairs being necessarily consistent with some unit of upper-level local government; d. affairs related to the intermunicipal coordination between the central government and the basic-level localities within the jurisdiction; e. affairs managed by the principle of subsidiarity on behalf of the lower level localities; f. affairs appropriate to the regional government competences in consideration of the economy of scale; for example, in the fields of amenities, local public facilities jointly managed by more than two local governments. As for the basic level localities, they normally take the general-purpose responsibility of local affairs except the functions affected to the regional governments. However, cities with a population of 500,000 or more can manage a portion of provincial affairs such as health care, local public enterprise, housing and zoning.

The Korean constitution does not clearly state autonomous and general decision-making authority to sub-national governments. Legal protection of sub-national responsibility is less extensive than in federal systems as in Germany and the United States. In unitary country such as France, only the State has "responsibility for its own responsibilities," which means local governments cannot alone determine their fields of action. This subject requires at least a passing reference to the statute arrangements in force. That is why the responsibilities of sub-national governments are not normally mentioned in the constitution. Even where an intermediate (provincial) level exists between the national and the local level, its responsibilities are, not in the constitution, but generally set out in

specific legislation albeit being prior to the tasks of the municipalities in order of rank. Occasionally, as in France, the central government departments hold substantial prerogative regarding the distribution of competences. The amount of autonomy and freedom enjoyed by provincial and local governments in conducting their own policies depends, according to the Local Autonomy Act, on the power conferred on them by the Statutes, or Presidential decree.

A general principle of “free administration” sometimes provides sub-national governments with legislative protection, that is to say, the right to guarantee any specific responsibilities remains in the hands of the legislator; some tasks delegated from central government and upper-level government do not guarantee them freedom in how those responsibilities are carried out. The degree of devolution in local government varies enormously according to the fields of tasks, but State sovereignty remains at the centre. For instance, legislative authority is never shared; it remains exclusively the responsibility of the national parliament. While sub-national governments have decision-making authority in their fields of responsibility, they may not exercise general regulatory power, or such power is at best limited as in the United Kingdom. The classic analytical criteria, by which “degrees of autonomy” could be determined, like the theoretical distinction between intrinsic and delegated fields of authority, are no longer fully valid. There are some systems in which the centre intervenes increasingly in the management of the “intrinsic” competences of sub-national governments. Over the years, delegated authority is being exercised with increased independence in various fields.



CHAPTER 4

THE FRAMEWORK FOR LOCAL ELECTIONS

With regard to local elections, the Public Official Election Act prescribes the right to vote and eligibility of election. As of the record date of the voters list, a national who is nineteen years of age or above and is registered as a resident in the district under the jurisdiction of the local government concerned has the right to vote for the local council member and the chief executive of the local government in the districts. According to the Article 34 of the Immigration Control Act, people who are registered in a foreign register of local autonomy concerned have a right to vote in local elections. The chief executives of the local governments include mayors of metropolitan cities, governors of provinces (Do), and heads of Si, Gun, autonomous Gu. As for electoral eligibility, a national who has registered as a resident in the district under jurisdiction of the local government concerned for sixty consecutive days or longer as of the election day and is twenty-five years of age or above is eligible to stand for elections for the relevant local council members and the head of the local government.

In Korean local election system, election districts are units of district into which the whole electorate is divided for electoral purposes. In the elections of heads of local/regional governments and regional superintendents of education administrative districts coincide with electoral one, so that there is little dispute, but in the elections of the regional/local councils, district delimitation is an all-important issue. At present, the elections of regional (Si/Do) councils adopt the small electoral district system, and those of local (Si/Gun/autonomous Gu)

councils also adopt the medium electoral district system. The election districts for regional council members are delimited by dividing the localities, and the districts for both regional and local councils members are decided in consideration of the population, administrative districts and transportation, etc. Elections of proportional members of both regional and local councils are region/local-based and the members are elected through an additional voting held based on a party-list.

The full number of regional (Si/Do) council constituency members varies with the number of localities (Si/Gun/autonomous Gu) of a region and the number of regional/local constituencies for the National Assembly. The full number of proportional representative regional council members is 10/100 of the full number of regional council members. Nevertheless, if the calculated full number of the proportional representative regional council numbers is fewer than three, it will be three. Accordingly, the minimum number is 19 as in Gwangju, Daejeon, and Ulsan, and the maximum number is 112 as in Gyeonggi. There are 761 regional council members nationwide, 680 being for regional constituency members, and 81 for proportional representatives.

The elections of autonomous local (Si/Gun/autonomous Gu) council members also adopt the medium electoral district, and the full number of the members is made in the range of 2 and 4. The name and territory of such election district and the full number of the members are prescribed by the Municipal Ordinance of the relevant region (Si/Do). The elections also adopt the proportional representative system, and the full number of proportional representative local council members is 10/100 of the full number of local council members. The elections of local council members adopt the medium electoral district and proportional representative system. There are 2,888 local council members nationwide, 2,512 being for local constituency members, and 376 for proportional representatives.

Table 1. Election District for Chief Executives during 2010-2014

Names of Regions	Metropolitan Cities and Provinces	Autonomous Gu/Si/Gun
Seoul	1	25
Busan	1	16
Daegu	1	8
Incheon	1	10
Gwangju	1	5
Daejeon	1	5
Ulsan	1	5
Gyeonggi	1	31
Kangwon	1	18
Chungbuk	1	12
Chungnam	1	16
Jeonbuk	1	14
Jeonam	1	22
Gyeongbuk	1	23
Gyeongnam	1	18
Jeju	1	-
Total	16	228

Source: National Election Commission

Table 2. Election District and Number of Regional Council Member

Regions	Districts	Local Council Members	Proportional Council Members	Total Members
Seoul	96	96	10	106
Busan	42	42	5	47
Daegu	26	26	3	29
Incheon	30	30	3	33
Gwangju	19	19	3	22
Daejeon	19	19	3	22
Ulsan	19	19	3	22
Gyeonggi	112	112	12	124
Kangwon	38	38	4	42
Chungbuk	28	28	3	31
Chungnam	36	36	4	40

Regions	Districts	Local Council Members	Proportional Council Members	Total Members
Jeonbuk	34	34	4	38
Jeonam	51	51	6	57
Gyeongbuk	52	52	6	58
Gyeognam	49	49	5	54
Jeju	29	29	7	36
Total	680	980	81	761

Source: National Election Commission

Table 3. Election District and Number of Local Council Member

Regions	Districts	Local Council Members	Proportional Council Members	Total Members
Seoul	160	366	53	419
Busan	70	158	24	182
Daegu	44	102	14	116
Incheon	40	97	15	112
Gwangju	25	59	9	68
Daejeon	21	55	8	63
Ulsan	19	43	7	50
Gyeonggi	151	363	54	417
Kangwon	51	146	23	169
Chungbuk	46	114	17	131
Chungnam	61	152	26	178
Jeonbuk	72	173	24	197
Jeonam	82	211	32	243
Gyeongbuk	102	247	37	284
Gyeognam	95	226	33	259
Jeju	-	-	-	-
Total	1,039	2,512	376	2,888

Source: National Election Commission



CHAPTER 5

LOCAL GOVERNMENT ADMINISTRATION

LOCAL COUNCIL

In Korea, there are local councils and members of local councils elected by a residents' universal, equal, direct, and secret vote. According to the Local Autonomy Act, the term of office of the local council members is 4 years and none of local council members may concurrently hold any of the public offices listed in Article 35 while they can be offered a monthly stipend by the Presidential Decree and the Municipal Ordinances by the revision of Article 33 of the Act in 2009. With regard to competence of local council, local councils have authority to decide by resolution the matters of the following:

- Enactment, revision and abolition of Municipal Ordinances
- Deliberation and confirmation of a budget
- Approval of settlement of accounts
- Imposition and collection of user fee, commission, allotted charges, local tax and entrance fee
- Establishment and disposal of public facilities
- Acceptance and resolution of petitions
- Matters concerning interchange and cooperation with foreign local governments
- Other matters under its competence pursuant to Acts and subordinate statutes

As for local council session, the regular session of each local council is held twice each year. The Municipal Ordinance of the local

government prescribes the date of assembly and other matters necessary for operation of the regular session. The chairman of the local council convenes the extraordinary session within fifteen days after receiving a request from the head of the local government or from one-third or more of all the registered council members.

EXECUTIVE ARRANGEMENTS

As for chief executive of local government, there are mayor, governor, and head position by government level in Korea. The Seoul Metropolitan Government and the other 6 Metropolitan Cities have the mayor, and Jeju Special Autonomous and other Provinces (Do) have the governor, respectively. The localities (Si/Gun/autonomous Gu) have a position of the heads of themselves respectively. Like the local council election, the head of the local government is elected by a universal, equal, direct, and secret vote of residents. The term of office is 4 years and the head of the local government continues to hold office for three terms at the maximum.

The head of the local government represents the local government and has the general control of affairs. Unless the affairs of the central government are prescribed by the Acts and subordinate statutes, by delegation to the mayor/provincial governor and the head of localities, the affairs are enforced and administered in the regions and localities. The head also controls and executes the affairs of the local government concerned and the affairs delegated to the head of the local government by Acts and subordinate statutes. Moreover, the head may delegate part of the affairs under his competence to its auxiliary organs, administrative organs under its control, and subordinate administrative organizations under the conditions as prescribed by the Municipal Ordinances or Municipal Rules. The head may delegate or entrust part of the affairs under his control to the competent local government or a public institution or its organ (including its office and branch office). The head directs and supervises personnel under his control taking charge of matters concerning appointment, dismissal, training, service, disciplinary sanction, etc.

If a resolution of the local council exceeds its powers and violates the

Acts and subordinate statutes, or is determined to be greatly detrimental to the public interest, the head of the local government may request reconsideration, specifying the reasons, within twenty days from the transferred date. If a decision of the local council is considered to include an expenditure that cannot be executed under the existing budget, the head of the local government may request reconsideration, specifying the reason, within twenty days after the resolution transfer.

ADMINISTRATIVE STRUCTURES

Local/regional governments may, if necessary within the scope of affairs under their jurisdiction, establish under the conditions as prescribed by the Presidential Decree an autonomous policy agency (limited to Jeju Special Autonomous Province), fire fighting organization, training organization, medical organization, test and research organization, and organization directing small-and-medium enterprises, etc. A local/regional government may establish an office by the Municipal Ordinance of the local government under the conditions as prescribed by the Presidential Decree, when the local government needs to perform specific affairs efficiently. A local/regional government may establish under the conditions as prescribed by the Presidential Decree a branch office for the convenience of remote residents and for promoting the development of specific areas. If it is necessary to perform independently part of the affairs concerned, a local/regional government may establish by the Presidential Decree or Municipal Ordinances collegiate administrative organizations.

Table 4. Organization of Regional (Si/Do) Governments

	Subordinate Organizations(Line/Staff)						Affiliated Organs	Biz Offices
	Offices	Bureaus	HQs	Directors General	Officers	Divisions		
Seoul Metro City	1	9	4	13	69	46	30	27
Metro Cities	10	45	9	23	50	245	60	100
Provinces (Do)	14	72	16	30	52	375	162	107

Source: Statistical Yearbook (2010), Ministry of Public Administration & Security

Each non-autonomous urban ward (non-autonomous Gu) has a head of it, and each community/village/town (Eup/Myeon/Dong) has a head of itself. The head of a non-autonomous urban ward (Gu) is appointed by the head of the relevant municipality (Si) among the local public officials in general service. The head of each community/village/town is appointed among local public officials in general service by the head of the relevant locality (Si/Gun/autonomous Gu). Head of subordinate administrative organization manages the affairs of the central and local governments under its competence, and direct and supervise his subordinates. In order to conduct division of duties for the affairs of local governments concerning education, science and athletics, separate organizations shall be established in the local governments.

Table 5. Organization of Local (Si/Gun/autonomous Gu) Governments

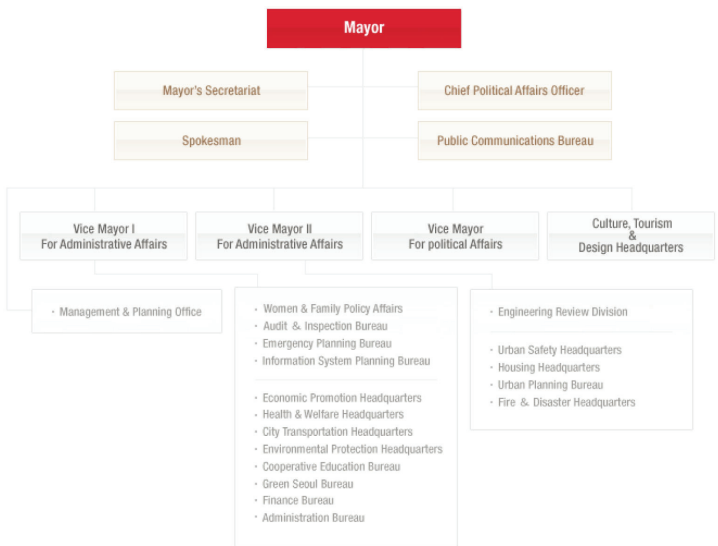
	Subordinate Organizations (Line/Staff)		Affiliated Organs	Biz Offices	Branch Offices	
	Offices & Bureaus	Divisions				
Si(75)	275	1,773	156	361	11	
Gun(86)	7	1,141	171	165	-	
Gu	Autonomous(69)	265	1,553	69	42	5
	Non-autonomous(26)	-	208	-	-	-

Source: Statistical Yearbook (2010), Ministry of Public Administration & Security

The organization charts below are the exemplary administrative structure of Seoul Special City (as a metropolitan city) and Seocho-Gu (autonomous district). The administrative organization of the City of Seoul is divided into the Seoul Metropolitan Government as the executive branch, and the Seoul Metropolitan Council as the legislative body. Seoul has a three-tier administrative system: ‘Si (city),’ ‘Gu (district)’ and ‘Dong (village).’ The Seoul Metropolitan Government has 1 mayor and 3 vice mayors (two for administrative affairs and one for political affairs), and mayoral organizations such as Culture, Tourism & Design Headquarters, Secretariat, Spokeman and Public Communication Bureau. In the city government, there are 1 office, 1 division, 9 bureaus, 7

headquarters, 9 bureaus and affiliate offices. There are also 16 city-supported public organizations and corporations, namely Seoul Metropolitan Subway Corp., Seoul Metropolitan Facility Management Corp., Seoul Medical Center, Seoul Agricultural & Marine Products Corp., Seoul Housing Corp., Seoul Metropolitan Rapid Transit Corp., Seoul Business Agency, Seoul Development Institute, Seoul City Credit, Sejong Centre, Seoul Foundation of Women & Families, Seoul Foundation for Art & Culture, Seoul Welfare Foundation, Seoul Philharmonic Orchestra, Seoul Volunteer Center, and Dasan Call Center.

Figure 2. Organization Chart of Seoul Metropolitan Government

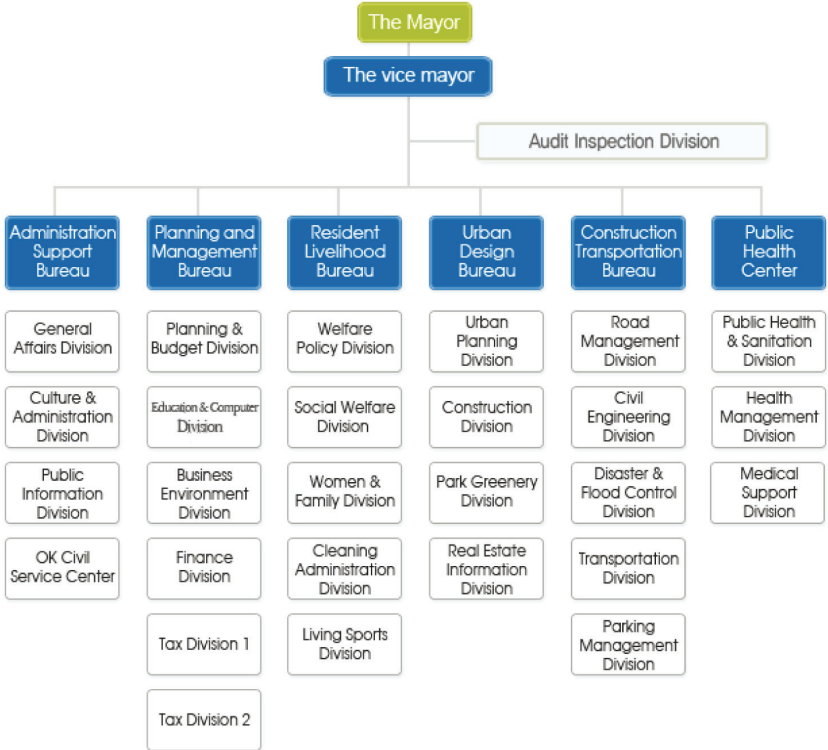


Source: Seoul Metropolitan Government

The Seocho-Gu office deals with all sorts of civil affairs including alien registration, cultural and physical development programs, taxation, maintenance and construction, urban sanitation and health. The Seocho-Gu office as autonomous urban ward (Gu) is engaged in the following: civil affairs such as residence certification, seal impression, disposal of refuse,

and regional parking problem like notification of resident first parking system.

Figure 3. Organization Chart of Seocho-Gu



Source: Seocho-Gu Office



CHAPTER 6

LOCAL GOVERNMENT CIVIL SERVICE

LOCAL PUBLIC OFFICIALS

The Korean civil service system is divided into national and local public officials. National public officials are recruited and paid by the central government, and deal with national administrative affairs. Local public officials responsible for local administrative affairs are recruited and paid by local governments. The total number of local public officials in each local government is regulated by the bylaw based on criteria prescribed by a presidential decree. The Local Civil Service Act regulates appointments, examinations, qualifications, wages, services, verifications of status, disciplinary punishments, and educational activities. According to the Act, local public officials are appointed by the head of the relevant local government, while national public officials also can be employed in local governments under the conditions as prescribed by the interchange of personnel between the central and local/regional governments by Art. 30 of the Act and etc.

CLASSIFICATION OF LOCAL PUBLIC OFFICIALS

According to the Local Government Civil Service Act, local public officials are classified into career service and special-career service officials in order to define the basis of personnel administration and to attempt democratic and efficient operation of local administration. In a grade level of local public officials, there are nine grades in general

services and ten grades for labor or technical services.

Career service officials are employed based on their performance and qualification, and their status is guaranteed. There are general government service, specified government service, and technical-skilled service officials in career service. Local public officials in general services deal with administrative affairs related to technology, research, and general public administration. Specified government service officials are educational public officials, autonomous police officials, local fire-fighting officials, and other officials in charge of special duties. In technical service, public officials are involved in technical tasks and classified by their skill.

Meanwhile, special-career service officials are political service officials who are elected by the people, appointed with the consent of local council, or by stipulation on law and bylaws; special service officials who are secretaries, chiefs of subordinate administrative organizations, or are stipulated according to laws and bylaws; professional service officials who are engaged in research and technology under contract with local governments for specified periods; and labor/technical service officials who are engaged in simple physical works.

As of December 2009, there are 278,303 local public officials including all levels of local governments. The number of regional (metropolitan Si and provincial Do) government officials is 78,896 and local (Si/Gun/autonomous Gu) government official is 199,434 including officials in towns and villages (Eup/Myeon/Dong).

Table 6. Number of Central/Regional/Local Government Officials at the end of 2009

	Career service officials			Special-career service officials			Total
	General Service	Specified Gov'tal Service	Technical Service	Political Service	Extra-ordinary Civil Service	Contractual Service	
Central Government	107,850	461,704	42,430	113	1,760	1,633	978,087
Regional (Si/Do)	30,893	34,440	11,137	19	662	1,682	78,869
Local (Si/Gun/Gu)	119,516	68	27,798	221	2,838	1,961	152,402
Towns (Eup/Myeon/Dong)	41,683	-	5,330	-	5	14	47,032
Regional/ Local Sub-Total	192,092	34,508	44,265	240	3,505	3,657	278,303

Source: Statistical Yearbook (2010), Ministry of Public Administration & Security



CHAPTER 7

THE CENTRAL-LOCAL RELATIONSHIPS

OVERVIEW

The heads of a central administrative agency or the mayors of metropolitan cities, the provincial governors may advise, recommend, or guide on affairs of local governments and, if necessary, he/she may request local governments to present materials. If financial or technical support is necessary for a local government to handle its own affairs, the central/regional government may provide such financial or technical support to such local government. In case of metropolitan cities and provinces (Si/Do), the ministers of the central government shall guide and supervise the affairs of the central handled by local governments or heads of them under entrustment. In case of localities (Si/Gun/autonomous Gu), on the other hand, the affairs of the central shall be primarily guided and supervised by the regional (Si/Do) governor and secondarily by the competent Minister. Where the head of a central administrative agency and the heads of local governments have a different opinion on the handling of affairs, a consultation/conciliation organization may be established under the Prime Minister in order to consult and compromise the differences.

COOPERATION AMONG LOCAL GOVERNMENTS

A local government or the head of it may entrust a part of the affairs under its competence to any other local government or the head of it to

manage such a part of its affairs. In this case, the head of the entrusting government shall make a report to the Minister of Public Administration and Security and relevant central administrative agency if a party or its head entrusted with such affairs is in the regional level (Si/Do) or the head of it. Likewise, the head of the local government shall make a report to the mayor of the relevant metropolitan city or the provincial governor if a party or its head entrusted with such affairs is in the local level (Si/Gun/autonomous Gu). In addition, if a local government receives a request to jointly manage affairs or to consult, mediate, approve or support the performance of affairs from another local government, then it shall cooperate with the other local government within the limit of Acts and subordinate statutes.

Dispute Resolution Among Local Governments

If a controversy arises due to different views on disposing of affairs among local governments or heads of them, the Ministry of Public Administration and Security or the metropolitan/provincial governor may, upon request of the parties concerned, mediate the dispute. In order to deliberate and resolve matters necessary for the mediation of any dispute and matters to be consulted, a central mediation committee for local/regional government disputes shall be established under the jurisdiction of the Ministry of Public Administration and Security and a regional dispute mediation committee for local government disputes under that of the metropolitan city or the province.

Administrative Consultative Council

A local government may form an administrative consultative council in order to handle jointly parts of the affairs related to two or more local governments. In this case, the head of the local government shall report it to the Minister of Public Administration and Security and the head of central administrative agency concerned if the regional-level government is a member of it. Likewise, if local-level one (Si/Gun/autonomous Gu) is a member of it, the head of the local government shall report it to the head of the regional governor.

Intergovernmental Corporative Body

If it is necessary to handle jointly one or more affairs related to multiple municipalities, two or more local governments may establish a corporative body of local government. Through a decision of the local councils concerned, the intergovernmental organization shall establish rules and obtain the approval of the Minister of Public Administration and Security in case of regional-level participations, or the approval of the regional governor in the case of local-level participations. If the localities affiliated by two or more regional governments, the corporative establishment has to get the approval of the Minister of Public Administration and Security.

Consultative Council of Heads of Local Governments and Councils

The heads of local governments or the chairmen of local councils, who are included in the following list, respectively establish a national consultative council in order to promote mutual exchange and cooperation and to deliberate on mutual issues:

- Mayors of metropolitan cities/Provincial governors
- Chairmen of Metropolitan/Provincial (Si/Do) councils
- Heads of Localities/Municipalities (Si/Gun/autonomous Gu)
- Chairmen of Local/Municipal Councils



CHAPTER 8

OVERVIEW OF LOCAL FINANCE

FISCAL YEAR AND ACCOUNTING SYSTEM

It is important first to know the fiscal year and the accounting system in a country in order to understand its public finance. In Korea, both central and local governments start their budget on January 1 of every year, closing all prospective spending on December 31. The accounting of local governments is classified into general accounts and special accounts. The general account is the basic accounting system to monitor administrative activities of a local government. Special accounts are again divided into those for local public enterprises and for others. The public enterprise special account is an account system that manages independent profitability of tap water business, sewage business, public development, local development fund, and subway business.

THE ROLE OF LOCAL PUBLIC FINANCE

The size of public sector in Korea has steadily grown during last decades as shown in Table 7. The share of central governments expenditures in GDP peaked in 2009 reaching 20.5%. In 2009, the size of the local public sector represents 12.9% of the gross domestic product. The size of local government expenditures has grown much faster than the central government.

However, despite of the significant size of local governments, the degree of local autonomy in Korea is quite limited. Under the current

local autonomy system, the functions of local governments and the central government are not clearly defined and many policy decisions are made at the central level. Especially in education, there is a large discrepancy between the size of local expenditure and the extent of local autonomy. The central government assumes the primary financial responsibility for education while local governments deliver the educational services, acting as agencies of the central government.

Table 7. Government Expenditure in GDP

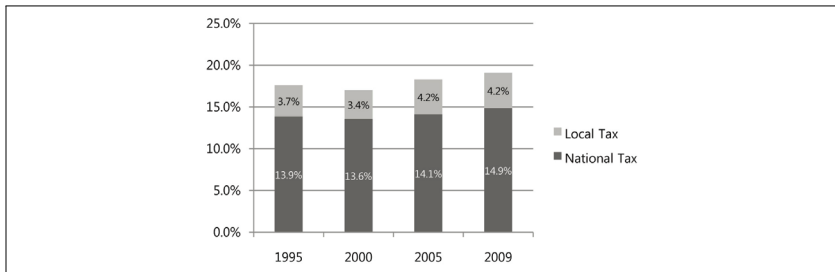
(Unit: billion KRW, %)

	1995	2000	2005	2009
Nominal GDP	409,653.6	603,236	865,240.9	1,063,059
Central Government	72,915	123,915.6	167,933.2	217,472.3
Local Government	36,664.3	65,054.9	92,367.3	137,534.9
% of GDP				
Central/GDP	17.8%	20.5%	19.4%	20.5%
Local/GDP	9.0%	10.8%	10.7%	12.9%

Source: 2010 Budget Summary of Local Governments (MOPAS, 2010)

Looking at the other side of public sector, in 2009, the ratio of national tax to GDP is 14.9%, which has been increased by 1.0% point since 1985. With the emphasis of local decentralization, the ratio of local tax to GDP has increased more than national tax, from 3.7% to 4.2% partly due to the introduction of local education tax in 2001, which is still considered as low by local authorities.

Figure 4. The Ratio of Local & National Tax to GDP



Source: Statistical Year Book of National Tax (2010, 2005 and 2010), KOSIS

The local revenues include local tax, non-tax revenue, local shared tax, national treasury subsidy and local government borrowings. According to the 2010 budget published by the Ministry of Public Administration and Security, the size of total local revenue is 139.856 trillion KRW, of which general account revenue is 113.423 trillion KRW. In 2010, local taxes amounted to 47.879 trillion KRW which accounts for about one-third of the local government’s revenue, followed by non-tax revenue, local shared tax, treasury subsidy and local borrowings.

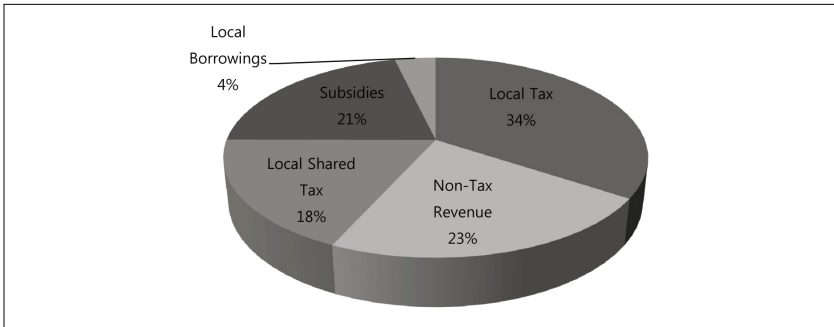
Table 8. Local Revenues by Account

(unit: billion KRW)

	Total	Local Tax	Non-tax Revenue	Local Shared Tax	Subsidies	Local Borrowings
Total Size	139,856	47,879	31,556	25,551	29,701	5,171
General Account	113,423	47,879	13,587	25,548	24,438	1,972
Special Account	26,434	-	17,969	3	5,262	3,200

Source: 2010 Budget Summary of Local Governments (MOPAS)

Figure 5. Local Revenue Breakdown (FY 2010 Budget)



Source: 2010 Budget Summary of Local Governments (MOPAS)



CHAPTER 9

LOCAL EXPENDITURE

LOCAL EXPENDITURES BY FUNCTION

Article 9 of the Local Autonomy Law defines major sectors where local governments have a policy role according to the principle of local autonomy and where their activities are not confined to the implementation of policies decided elsewhere.

Table 9. Structure of Local Expenditures

Chapter	2008		2010	
	Billion KRW	% of Total	Billion KRW	% of Total
General Administration	10,965	8.8%	11,962	11.9%
Public Safety	1,987	1.6%	2,176	1.6%
Education	6,995	5.6%	8,139	4.6%
Culture and Tourism	6,047	4.8%	7,795	5.0%
Environment Protection	13,680	10.9%	14,903	10.5%
Social Welfare	21,666	17.3%	26,534	23.0%
Health	1,895	1.5%	2,225	1.6%
Agriculture, Sea and Fishery	8,058	6.4%	9,724	7.7%
Industry and Small Business	2,580	2.1%	3,017	2.0%
Logistics and Transportation	16,305	13.0%	16,465	11.0%
Land and Local Development	12,905	10.3%	12,844	9.2%
Science Technology	705	0.6%	438	0.2%
Reserves	2,248	1.8%	2,196	1.2%

Chapter	2008		2010	
	Billion KRW	% of Total	Billion KRW	% of Total
Ect.	18,970	15.2%	21,440	10.5%
Total	124,967	100.0%	139,857	100.0%

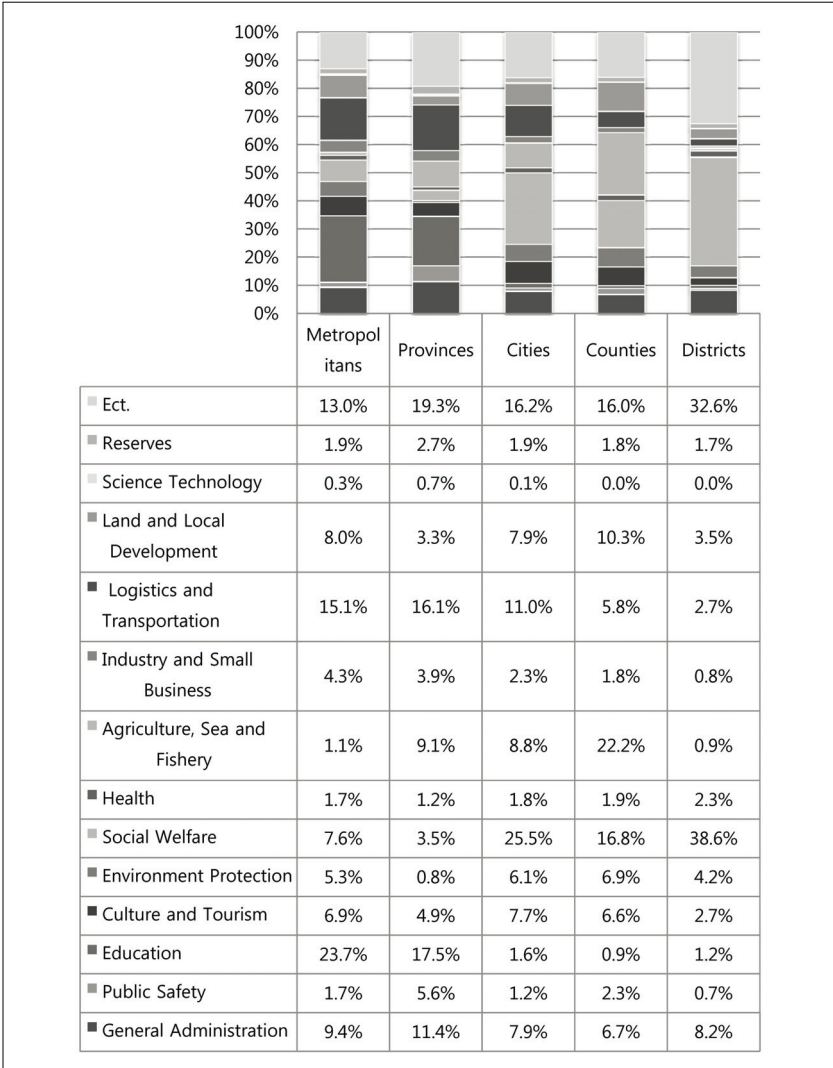
Source: Budget Summary of Local Governments (MOPAS 2008 & 2010)

Functional expenditures of local government have been reclassified from 5 chapters to 13 divisions in 2008, to coincide with the central government expenditures which follow the UN COFOG (Classification of the Functions of Government) classification standards.

When expenditures are classified by functions, social welfare is the largest expenditure. As indicated in Table 9, local governments in Korea have performed the prime goal of enhancing the welfare of the residents. The share of social welfare expenses has increased from 17.3% to 23.0%, the share of since 2008, which reflects the policy stance of the current administration.

Local expenditures by government type are shown in Figure 6. In Metropolitan and Provinces, education is the largest expenditure, while social welfare is the largest expenditure in Cities.

Figure 6. Local Expenditures by Government Type

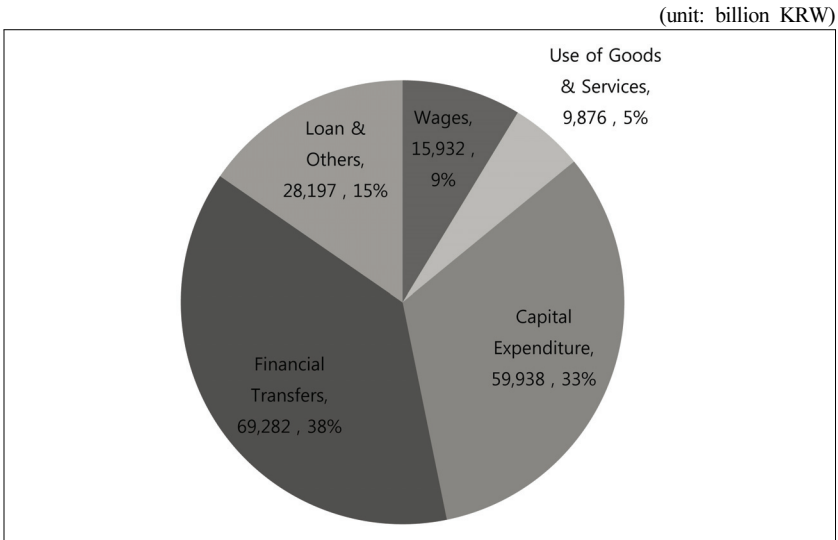


Source: 2010 Budget Summary of Local Governments (MOPAS)

LOCAL EXPENDITURES BY CHARACTERISTICS

Classified by characteristics, expenditures can be divided into current expenditure (personnel expenses and operating expenses), capital expenditure (own-funded investment expenses and subsidized investment expenses), public debt payments, and other expenditure (reserve fund, other expenses). The 2010 budget in Figure 7 shows that the share of capital expenditure accounts for 33% of local expenditure, which is 59.9 trillion KRW.

Figure 7. Local Expenditures by Characteristics (FY2010 Budget)



Source: 2010 Budget Summary of Local Governments (MOPAS, 2010)



CHAPTER 10

LOCAL REVENUE

TRENDS IN LOCAL REVENUES

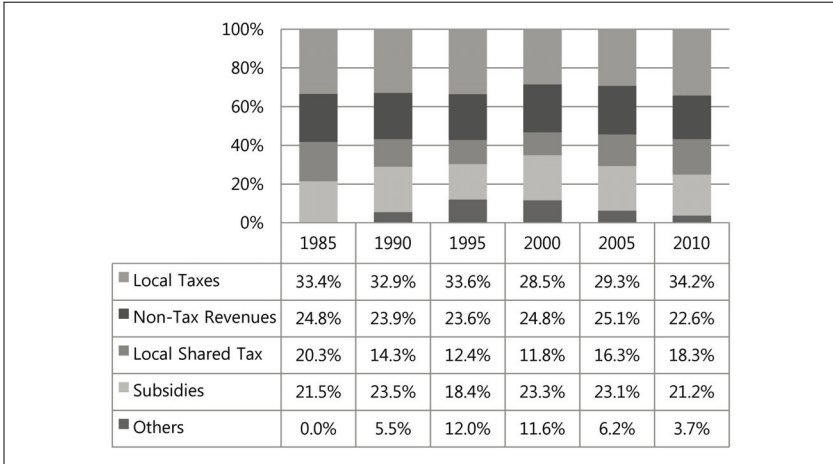
The local revenues are composed of local taxes, non-tax revenues, local shared taxes, subsidies, and borrowings (which include bonds and loans). These revenue items may be classified in various ways according to the government levels.

Korean local revenues are characterized by three most referred features. First, the composition of revenues is complicated and diverse in styles. Second, the central government provides some fiscal assistance in the form of transfers. Significant discrepancies in fiscal capacity among regions require the central government to adjust them through fiscal transfers. Lastly, there are additional non-tax revenues featuring the user charge principle.

As of the 2010 fiscal year, the total size of local revenue (general accounts plus special accounts) amounts to about 139.9 trillion KRW, composed of 34% with local taxes, 23% in non-tax revenues, 18% in local shared tax, 21% in subsidies and 4% in borrowing.

The trend of local revenues on the basis of general account demonstrates that there was a change in local taxes since 2005. The local tax revenue of 2010 has increased 3.9% since 2005. This is due to the introduction of local income tax in 2010. Another characteristic of local revenue trends are that the revenues generated from local borrowing and other sources have since increased from 0% in 1985 with a peak of 12.0% in 1995, and then decreased to 3.7% in 2010.

Figure 8. Trends in Local Revenues



Source: 2010 Budget Summary of Local Governments (MOPAS, 2010)

LOCAL TAXES

Local Tax Breakdown

The local tax, imposed on residents and their properties under a given region of jurisdiction, is the single most important revenue source of local governments. Local taxes are levied and collected by local governments with the principle of the tax law, which is empowered by the constitution. However, there are several exceptions of the tax law, such as allowing local governments to employ elastic tax rates or tax expenditures in their local taxation.

The remarks in the 2010 budget are the introduction of local income tax. There are a total of 16 local taxes, of which 12 are general taxes and the other 4 are levied on an earmarked basis. Metropolitan governments including Seoul Metropolitan City have 14 taxes whereas Districts have only 4, such as license tax, residence tax(property related), property tax and local income tax(employee related). Provincial governments have 8 items while cities and counties are financed with 8

local taxes. Local taxes mostly depend on property related taxes.

The fiscal year 2010 shows that the revenue from local taxes amounts to 48.35 trillion KRW. General taxes occupy 80.3% and earmarked taxes contribute 18.1%. The revenues from the previous year comprised about 1.6%. The composition of revenue categorized according to tax items is as follows: registration tax occupies the most with 17.8%; acquisition tax follows with 17.1%; resident tax and local education tax share 15.1% and 10.5%. Major taxes such as those described four taxes contribute to local finance by about two-thirds.

One notable concern is the regional imbalance of the size of the tax bases, not only between urban and rural areas but also between capital and non-capital regions. In fact, most tax resources are concentrated in urban areas, such as Seoul, metropolitan cities, and cities. Thus, as stated earlier, local governments in rural areas (this usually refers to provinces and counties) tend to depend on transfers from the central government for financial backing.

Table 10. Local Tax Breakdown (FY2010 Budget)

(unit: billion KRW)

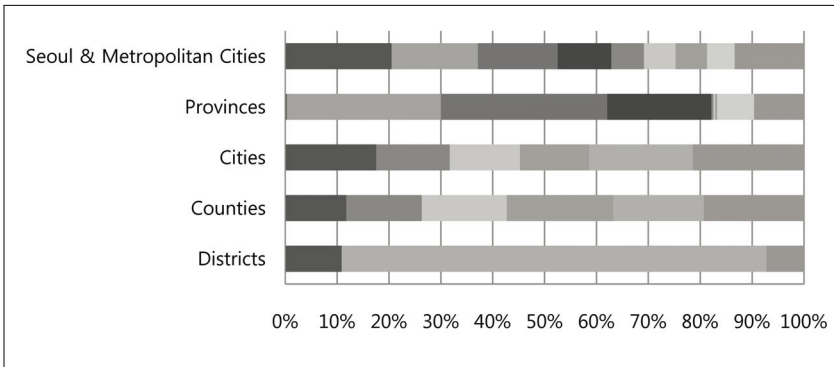
	Total	Upper-Level		Lower-Level			% of total
		Seoul & Metropolitan Cities	Provinces	Cities	Counties	Districts	
Total	48,352	21,317	12,592	9,777	1,831	2,836	100.0%
General Tax	40,072	17,172	9,555	8,811	1,739	2,795	82.9%
Acquisition Tax	7,230	3,239	3,991	-	-	-	15.0%
Registration Tax	7,190	3,497	3,690	-	-	2	14.9%
License Tax	117	1	80	-	-	37	0.2%
Resident Tax	1,680	78	1	1,232	268	101	3.5%
Property Tax	4,527	-	3	1,920	317	2,287	9.4%
Automobile Tax	2,997	1,325	48	1,362	263	-	6.2%
Butchery Tax	76	6	30	28	12	-	0.2%
Leisure Tax	923	263	660	-	-	-	1.9%
Tobacco Consumption Tax	2,923	1,276	49	1,302	297	-	6.0%
Motor Fuel Tax	2,973	1,283	39	1,281	370	-	6.1%
Local Consumption Tax	2,001	1,115	887	-	-	-	4.1%

	Total	Upper-Level		Lower-Level			% of total
		Seoul & Metropolitan Cities	Provinces	Cities	Counties	Districts	
Local Income Tax	6,552	4,312	39	1,685	213	303	13.5%
Seoul Shared Property Tax	883	779	39	-	-	65	1.8%
Earmarked Tax	8,280	4,145	3,036	966	91	41	17.1%
Urban Planning Tax	2,253	1,374	14	797	68	-	4.7%
Common Facility Tax	600	296	304	-	-	-	1.2%
Regional Development Tax	81	16	65	-	-	-	0.2%
Local Education Tax	4,668	2,175	2,493	-	-	-	9.7%
Revenue from Previous Year	678	284	160	170	23	41	1.4%

Source: 2010 Budget Summary of Local Governments (MOPAS, 2010)

Figure 9. shows the structure of local taxes by governmental type. In Seoul and Metropolitan cities, local income tax is the largest source of revenue accounting for 20.5% of the total revenue whereas in Provinces, acquisition tax is the largest revenue source which accounts for 32.1% of the total revenue. Property tax is an important revenue source for Cities (20.0%) and Counties (17.5%). Especially for Districts, property tax is a major source of revenue accounting for 81.8% of the total revenue.

Figure 9. The Structure of Local Taxes by Government Type (FY2010 Budget)



	Districts	Counties	Cities	Provinces	Seoul & Metropolitan Cities
■ Local Income Tax	10.9%	11.8%	17.5%	0.3%	20.5%
■ Registration Tax	0.1%			29.7%	16.6%
■ Acquisition Tax				32.1%	15.4%
■ Local Education Tax				20.1%	10.3%
■ Automobile Tax		14.6%	14.2%	0.4%	6.3%
■ Tobacco Consumption Tax		16.4%	13.6%	0.4%	6.1%
■ Motor Fuel Tax		20.5%	13.3%	0.3%	6.1%
■ Local Consumption Tax				7.1%	5.3%
■ Property Tax	81.8%	17.5%	20.0%		
■ others	7.2%	19.3%	21.4%	9.6%	13.4%

Source: 2010 Budget Summary of Local Governments (MOPAS, 2010)

Table 11. Simplification of Local tax System

	Old (16 taxes)	New (11 taxes)
Consolidation of overlapping taxation	① acquisition tax + ② registration tax(acquisition related)	① acquisition tax
	③ property tax + ④ urban planning tax	② property tax
Merge of similar taxes	② registration tax(acquisition not related) + ⑤ license tax	③ registration & license tax
	⑥ common facility tax + ⑦ regional development tax	④ regional resource & facility tax
	⑧ motor vehicle tax + ⑨ motor fuel tax	⑤ motor vehicle tax
Abolition	⑩ butchery tax	
No change	⑩ resident tax ⑪ local income tax ⑫ local consumption tax ⑬ tobacco consumption tax ⑭ leisure tax ⑮ local education tax	⑥ resident tax ⑦ local income tax ⑧ local consumption tax ⑨ tobacco consumption tax ⑩ leisure tax ⑪ local education tax

The existing uniform Local Tax Law which regulated the framework of the local tax system has been divided into three different tax laws in 2010 which are: the fundamental law of local tax, the local tax law, and the confinement law of local tax special treatment. Under the new local tax system, the numbers of local taxes are reduced from 16 taxes to 11 taxes.

The Rates and Bases of Local Taxes

The Local Tax Law regulates the framework of the local tax system, including taxable items and their rates. In addition, individual tax systems are managed by local governments in consultation with the Local Tax Bureau of the Ministry of Public Administration and Security. There is, therefore, little variety among the individual tax systems of local governments.

① Acquisition Tax

The Acquisition Tax is levied on persons acquiring real estate, motor vehicles, heavy equipment, trees, boats, aircrafts and memberships for golf clubs and condominium health clubs, either through purchase or inheritance. The tax base of the Acquisition Tax is declared at the time of purchase. The tax rate for acquiring real estate is 2% of its standard value.

② Property Tax

The Property Tax base is the current standard value for buildings, ships and aircrafts. Different tax rates are applied to various properties; for example, tax rates for houses are 0.1%~0.4%. In addition, a person who owns land or house with its values exceeding 900 million KRW is also required to pay General Real Estate Tax that was introduced in 2005 as a national tax to stabilize the prices of real estates. The rates of the General Real Estate Tax for houses are between 0.5% and 2%.

③ Registration & License Tax

The taxpayer of the Registration Tax is one who registers particular items concerning acquisition, creation, transfer, alteration or lapse of property rights or other titles in the official book. Like the acquisition

tax, the registration tax base on real estate, ships, aircrafts or motor vehicles is based on the declaration of the person who registers or records in accordance with the pertinent regulations. However, in the case where the tax base is not reported, or the value at the time of acquisition is less than the standard value which is determined annually by the local government, the standard value is deemed to be the tax base.

Two types of tax rates are applied at registration: fixed tax rates and fixed tax payments. The fixed tax payment rules are applied to the intangible right and registration of those properties.

The License Tax is applied to those who have obtained licenses from the administrative authorities. Depending on the region, the taxable standard value and tax rate are applied as the fixed payment base for five types of licenses as determined by the Local Tax Law.

④ Regional Resource & Facility Tax

The taxpayer of Regional Resource & Facility Tax is either one who benefits from public services such as fire-service facilities, garbage disposal systems and sewage maintenance or other similar facilities, or one who capitalizes on the use of natural resources and one who loads or unloads crates and containers at harbours. In most cases, the tax base for fire-service facilities is the value of the house or respective homestead, while in other instance it may be the value of the land or house. The tax base related to regional resources use is calculated according to the water for generating electricity, subterranean water, underground resources and containers.

⑤ Motor Vehicle Tax

The Motor Vehicle Property Tax is levied on a person who owns at least one motor vehicle that is either a vehicle registered under the automobile law, or a dump truck/concrete mixer truck registered under the construction and machinery management law.

The taxable base and the tax rate vary according to the classification of the vehicle, size of the unit and type of utilization.

The Motor Vehicle Usage Tax is a surcharged oil consumption tax on

the national traffic tax. Although those who are involved in the gasoline refinery industry and crude oil imports are levied this tax, the actual tax burden is carried by the consumer of gasoline products.

⑥ Resident Tax

The Resident Tax is divided per capita and pro rata workshop area. The taxpayer of per capita is one whose domiciles and corporation with his/her offices are in a city or county, while the taxpayer of pro rata workshop area is an employer who owns a business body. Thus, the tax base is according either to the number of inhabitants (per capita), or to the workshop area.

The varying fixed tax payments for per capita are applied to individuals, corporations and different regions, whereas the property base rate is 250 KRW per square meter.

⑦ Local Income Tax

The local income tax on income is levied on a person who pays either income tax or corporation income tax. The tax is 10% of income tax or corporation income tax. The local income tax on employees is levied on an employer who pays wages. The tax rate is 0.5% of total wage paid on employees.

⑧ Local Consumption Tax

The local consumption tax introduced in 2010 is a sharing tax with value added tax characteristics. The tax base is the amount of value added tax and the tax rate is currently 5% of the base. The local consumption tax is allocated to 16 metropolitans and provinces according to the regional consumption expenditures with regional weights based on the fiscal capacity index.

⑨ Tobacco Consumption Tax

The taxpayer of Tobacco Consumption Tax, established in 1989 as a local tax (city and county tax) is one who imports and sells manufactured tobacco within a city or county.

As the fixed tax payment rule is applied, the taxable standard value

depends on the weight and number of units, and is also different according to the type of tobacco.

⑩ Leisure Tax (similar to Entertainment Tax or Gambling Tax)

While it may seem to be an earning tax levied on the winner and the winning ticket, the Leisure Tax can be classified as a consumption tax since the tax revenue is generated by consumers who enjoy risking on high stakes.

The Korean Racing Association is a major taxpayer as well as dealers of the wagering tickets. However, the actual tax burden is carried by the ticket buyers. The tax rate are 10% of the total sales of tickets.

⑪ Local Education Tax

The Local Education Tax was introduced to enhance the quality of local education in 2001. The education tax is levied on six other taxes including Registration Tax, Property Tax, Tobacco Consumption Tax, per capita Resident Tax, Automobile Tax, and General Real Estate Tax. The taxable standard value and the tax rate are applied in the fixed rate base.

NON-TAX REVENUES

The non-tax revenue plays an important role in financing local governments because it is self-financed revenue like local taxes. When we look at the trend of non-tax revenue in Figure 8, the share of non-tax revenue has remained between 23.9% and 25.1% in last two decades. There are variety of non-tax revenue sources including user charges, fees, rents, etc.

Table 12. Non-Tax Revenue Breakdown

General Account						Special Account	
Current Non-Tax Revenue		Temporary Non-Tax Revenue				Current Non-Tax Revenue	Temporary Non-Tax Revenue
User Charge	Other Current Revenue	Property Disposal Revenue	Net Annual Surplus	Miscellaneous	Other Temporary Revenue		
1985.3	2521.1	1178.5	4829.8	1055.8	2752.5	9332.4	15738.3
5.0%	6.4%	3.0%	12.3%	2.7%	7.0%	23.7%	40.0%

Source: 2010 Budget Summary of Local Governments (MOPAS, 2010)

Local governments can increase or decrease non-tax revenues with their will as long as they abide by the related regulations. Non-tax revenues are easily collected as they are generated by providing public services unlike ordinary tax collection. However, it is difficult to forecast the size of non-tax revenues since there are various types of non-tax revenues.

LOCAL BORROWINGS

According to Article 11 of the Local Finance Act, the heads of Local governments may issue bonds when their issuance becomes a long-standing benefit to their local governments and there is a need for urgent accident restoration, etc. Where the heads of Local governments intend to issue the local government bond, they shall issue them within the amount limit for local governments bonds, set by the Presidential Decree, taking into account of the financial situation, the amount of liabilities, etc.

Outstanding local government borrowing, the debts of local governments, amounted approximately 25.6 trillion KRW at the end of 2009. The size of local debts has not been changed until 2006 due to the strong financial dependence of local governments to central government financial transfer. Since then, the outstanding local borrowings have been increasing rapidly due to the sharp decrease of local tax revenues and the demand for stimulating regional economies.

Table 13. Trend in Local Borrowings

	(unit: billion KRW)				
	2000	2004	2006	2008	2009
Outstanding Borrowing	18,995	16,947	17,435	19,049	25,553

Source: 2010 Budget Summary of Local Governments (MOPAS, 2010)



CHAPTER 11

INTERGOVERNMENTAL FISCAL TRANSFERS

The central government in Korea provides various types of grant-in-aids for local governments, such as Local Shared Tax and Provincial & Metropolitan Revenue Sharing to achieve horizontal equity and national minimum for public services. The central government provides local governments with funds from the Local Shared Tax, except for those autonomous districts under the jurisdiction of metropolitan cities which receive Metropolitan revenue sharing.

In addition to the Local Shared Tax, the Korean government administers the National Treasury Subsidy for the efficient allocation of resources and the integration of national policies. These categorical grants are provided for specified projects such as construction, sewage disposal facilities, and social welfare programs, etc.

Under the current Lee Administration, there occurred a major change in the area of intergovernmental fiscal transfers, in particular, between the central and local governments. Specifically, three new fiscal transfer systems were introduced after 2005: they are the Special Account for the Balanced National Development (specific grant), the Shared Tax for Decentralization (specific grant), and the Real Estate Related Shared Tax (general grant).

As indicated in Table 14, there are also intergovernmental grants between local governments, which are called Provincial revenue sharing and Metropolitan revenue sharing.

Korean intergovernmental fiscal relations depend financially on the

central government, which comprises about 67% of the total government budget. In addition, the share of intergovernmental transfers is 35% of local revenues on average. These results demonstrate that the Korean tax system leans heavily on national taxes. In Korea, the central government regulates the types and rates of local taxes and, simultaneously provides grants-in-aid to compensate for fiscal deficiencies of local governments.

Table 14. Intergovernmental Fiscal Relations

	Inter-governmental Relations	Financial Sources	Type of Funds	Amount (billion KRW)
Local Shared Tax		- 19.24% of domestic tax revenue		
- Ordinary Shared Tax	- central → local	- 96% of local shared tax	- general grants	24,090
- Special Shared Tax	- central → local	- 4% of Local Shared Tax	- earmarked grants	968
- Shared Tax for Decentralization	- central → local	- 0.94% of domestic tax revenue	- earmarked grants	1,287
- Real Estate Related Shared Tax	- central → local	- general real estate tax	- general grants	651
Subsidies				
- Treasury Subsidy	- central → local	- general account of central government - liquor tax, user charges, general & special accounts	- earmarked grants	18,332
- Special Account for the Balanced National Development	- central → local		- earmarked grants	5,474
Local grants				
- Provincial Revenue Sharing	- province → cities & counties	- 27%~47% of province tax - 50%~70% of acquisition tax and registration tax	- general grants	2,534
- Metropolitan Revenue Sharing	- metropolitan city → autonomous districts		- general grants	3,537

LOCAL SHARED TAX

The Local Shared Tax is a general grant whose size and allocation formula are defined by law and plays a primary role in intergovernmental fiscal relations. The Local Shared Tax Law states that it is used to reduce fiscal disparities among local governments and is considered fundamentally as a local tax. The source of Local Shared Tax is from the 19.24% of the domestic tax revenue which was increased from 15% in 2000.

The Local Shared Tax supplements the distribution of tax bases between the central and local governments. Local Shared Tax is classified as general revenue, allowing local governments to spend it without the central government's restrictions.

The Local Shared Taxes are divided into Ordinary Local Shared Tax, Special Local Shared Tax, Shared Tax for Decentralization, and Real Estate Related Shared Tax. The Ordinary Local Shared Tax, which comprises 96% of the total Local Shared Tax, is allocated on the base of a comprehensive formula. The Special Local Shared Tax, which comprises 4% of the total, is allocated on the basis of the special needs of local governments. On the other hand, the source of Shared Tax for Decentralization introduced in 2005 is 0.94% of domestic tax revenue. In addition, the Real Estate Related Shared Tax was introduced to supplement the decrease of tax revenue due to the property-related tax reform, which includes the introduction of General Real Estate Tax as a national tax, in order to stabilize national prices of real estates.

The Special Account for Balanced National Development was established in 2005 to consolidate various fund sources related to balanced regional development, which are managed by the different departments in the central government and to execute them in an efficient manner.

The Ordinary Local Shared Tax is distributed based on the difference between the Standard Fiscal Need and the Standard Fiscal Revenue. Various socioeconomic indicators are used to measure the Standard Fiscal Need and the Standard Fiscal Revenue. The central government allocates local share funds to fiscally deficient local governments based on the difference between the Standard Fiscal Need and the Standard Fiscal

Revenue. The difference is not subsidized entirely, but pro-rated within the range of the total Local Shared Tax. The allocation formula of Local Shared Tax is as follows:

$$\text{Ordinary Local Shared Tax} = \text{Fiscal Deficiency} \times \text{Adjustment Rate}$$

$$\text{where Fiscal Deficiency} = \text{Standard Fiscal Need} - \text{Standard Fiscal Revenue} \text{ and } \text{Adjustment Rate} = \frac{\text{Total Ordinary Local Shared Tax}}{\text{Total Deficit}}$$

Standard Fiscal Need refers to financial needs that comply with the standards in terms of the administrative conditions of a local government.

The Standard Fiscal Revenue includes common and general revenues of local governments and excludes temporary and special purpose revenues. For instance, revenues from selling buildings, land and equipment are neither common nor general revenues of a local government. Rather, these revenues are omitted or partially reflected in the Standard Fiscal Revenue, which consists of basic revenues, supplement revenues and revenue incentives.

$$\text{Standard Fiscal Revenue} = \text{Basic Revenue} + \text{Supplement Revenue} + \text{Revenue Incentive}$$

Basic revenue is the 80% application of standard tax rates specified in the Local Tax Law. The reason for the 80% limit of tax rates is to guarantee its own revenue and to enhance tax efforts of local governments. If the total amount of expected revenues is reflected in the Standard Fiscal Revenue, it may cause an adverse effect on the local governments' tax efforts.

Basic revenues are broken down into two distinct categories: local taxes, including both general & earmarked taxes, and non-tax revenues. By definition, earmarked taxes are revenues from specific sources and thus are not included in basic fiscal needs.

$$\text{Basic Revenue} = \text{General Tax Revenue} \times 80\%$$

The basic revenue is calculated by estimating standard general tax revenues for each local government.

Supplement revenues are used when there are inaccuracies in the estimated basic revenues. Predictions of tax revenues are susceptible to changes in the economy and forecasting errors are likely to exist. Such discrepancies are adjusted by supplement revenues in computing Standard Fiscal Revenues for the following fiscal year.

Special Local Shared Tax is an instrument used to supplement general Local Shared Tax, on which it comprises a portion of one eleventh. Special Local Shared Tax places restrictions on the use of funds and may be given to local governments without fiscal deficits. Uses of the special Local Shared Tax are categorized into five areas: national projects, financial preservation, disaster prevention, regional development and special urgent projects.

NATIONAL TREASURY SUBSIDY

National Treasury Subsidies are categorical grants provided to local governments for specific projects. The size and number of projects are determined annually by the Ministry of Planning and Budget, while Local Shared Taxes are allocated based on formulas. The characteristics of national treasury subsidies are specified in the Local Finance Act, which states that the central government is either fully or partially responsible in the case that there is conflict between the central and the local governments. With a purpose to correct inefficient resource allocations arising from inter-jurisdictional externalities, national treasury subsidy is used to maintain proper quality levels of public services, implementing nationally integrated projects, providing new projects and responding to special fiscal needs. In other words, national treasury subsidy is a typical grant that the central government provides to foster specific projects of local governments. Funds of national treasury subsidy are provided by central agencies related to certain projects. In addition, it is a conditional

grant that requires local governments to provide a matching fund in contribution to the overall funds.

There are two types of national treasury subsidy rates: basic and differential subsidy rates. The basic subsidy rate is applied based on relevant projects, types of expenses and subsidy rates, specified in the Administrative Code of the National Treasury Subsidy.

Differential subsidy rates are applied to encourage balanced regional development by increasing or decreasing the basic rates to appropriate levels. While increased differential rates are not applied to metropolitan cities, decreased differential rates are applied to local governments that do not receive the Local Shared Tax. The projects to which the differential rates are applied include those with a basic rate of 100% and those selected by the central government annually. The financial condition of a local government is considered in determining the differential rates.

The size of National Treasury Subsidy fluctuates over time and among localities. Therefore, it is difficult for local governments to operate major fiscal planning. National Treasury Subsidy is still a major source of revenue for local governments, although its significance has decreased since 1991 when the Local Transfer Fund was introduced. The source of Local Transfer Fund was a national tax whose revenue was shared by the central and local governments as specified in the law and the fund was also regarded as specific grants in the sense that local governments should use for specific purposes. However it was abolished in 2005 because it had an ambiguous quality in that it shared the characteristics of Local Shared Tax and treasury subsidy.



CHAPTER 12

REGIONAL DEVELOPMENT POLICIES

THE HISTORY

Despite of the massive destruction during the Korean War, the Korean economy has achieved an exceptional growth in the past 30 years – the GDP per capita increased from 120 dollars in the 1960s to more than 17,175 dollars in 2009 –, now becoming one of the OECD member countries. Such success was enabled by a dense network of centralized, top-down plans for economic development and territorial policies. For the territorial policies, the Korean government has formulated the Comprehensive National Development Plan (hereafter, CNDP) every 10 years since 1972, which is designed to serve economic plans and respond to local problems.

The strategy undertaken in the early stage of the Korean development can be characterized by growth pole strategies: key industries and selected areas. In an industrial policy sense, it was import-substituting manufacturing industries and heavy industries. In a regional policy sense, it was the Capital Region –Seoul, Incheon, Gyeonggi Province– and southeastern costal regions –Pusan, Ulsan, etc.–. In the first CNDP (1972-1981), main instruments were massive infrastructure provisions and tax incentives in free export zone with regionally concentrated investment strategies. However, this concentration of investment in selected areas caused and deepened regional disparity.

Since the second CNDP (1982-1991), Korean government has presented

explicit emphasis on balanced regional development, in recognition of regional disparity. In 1982, Capital Region Readjustment Act was legislated to restrain the construction of new factories, universities, and other large-scale projects in the Capital Region. Accordingly, the third CNDP (1992-2001) continued to focus the development of lagging regions by strengthening industrial centers along the west coast and the regional and provincial cities. As a result, Korean government during this period introduced the Development Promotion Districts (DPD).

In order to progressively deal with the continued regional problems, Korean government newly launched the “National Plan for Balanced Development (hereafter NPBD) in 2004 and accordingly revised the 4th CNDP. The time framework of the first NPBD is between 2004 and 2008. The main goal of the first NPBD is building an innovative base for regional endogenous growth. The first NPBD states the national goal to be “Re-take-off of the national economy through balanced development,” to be achieved through independent localization and through regional innovation. Four strategies are presented:

- Innovation-led regional development;
- Development of rural communities in harmony with the development of urban communities;
- Redirection of the developmental trajectory of the Capital Region; and
- Construction of network-structured territory in terms of functions and physical infrastructures.

The first BDNP is characterized by four distinctive differences from the CNDPs. First, the NPBD explicitly adopts a framework of regional innovation as a development strategy. Unlike the previous CNDPs, the NPBD overcomes the typical “center versus periphery” dichotomy, seeking for efficiency and equity simultaneously. The second strategy addresses proactive regional policy: that is, capturing differentiated regional competitiveness for development of lagging regions and not ignoring crucial roles of the Capital Region as a global city – strategic hub in Northeast Asia. Third, due to the adoption of the regional innovation system and cluster theories, main assistance is provided in the form of soft infrastructure, such as promotion of collaboration,

networking among firms, governments, public (or private) R&D facilities, instead of hard infrastructure such as physical infrastructure or financial aid. Forth, large-scale relocation of the public sector is suggested to distribute major functions across the country for network-structured territory.

Due to the introduction of the NPBD and the change in administrative power, the 4th CNDP has been revised two times. As a result, the 4th CNDP has planning time frame between 2011 and 2020.

Table 15. Changes in Regional Development Policies in the CNDPs

	Principle	Policy Goals	Development Strategies	Characteristics
1970s 1st CNDP (1972-1981)	Economic efficiency	Maximize economic growth	- Growth pole strategy - Expansion of economic base (free export zone, infra provisions) - Target: Capital Region, Industrial belt in Southeastern coastal region	Imbalanced regional development strategy
1980s 2nd CNDP (1982-1991)	Social equity	Regionally balanced economic growth	- Distributed growth pole development strategy (Restrain Capital Region) - Distribution of industrial belts (e.g. in west coastal region)	Imbalanced (partly balanced) development strategy
1990s 3rd CNDP (1992-2001)	Quality of life	Globalization Regional specialization	- Regionally decentralized development - Enhancement of amenity	Balanced development strategy
1stNPBD (2004-2008) 2000s 4thCNDP (2001-revised in2011)	Efficiency and equity	Re-takeoff of the national economy through balanced development	- Regional innovation system - Development of rural communities	Balanced development strategy

CURRENT STATES AND PROBLEMS OF KOREA'S REGIONAL DEVELOPMENT

Currently, Korea is facing several problems: stagnated national economy, regional disparity, and weak competitiveness of metropolitan region.

Stagnated national economy

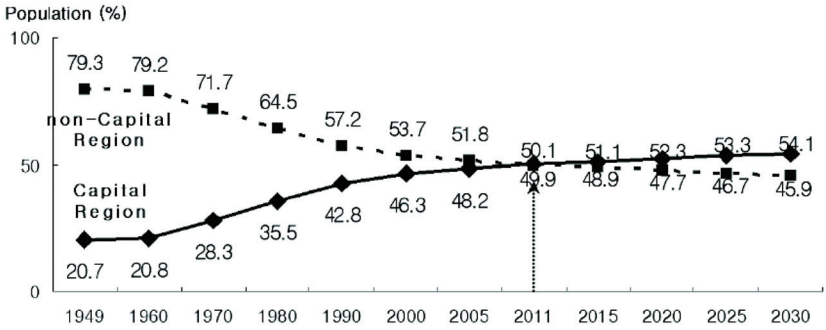
Korea experienced an unprecedented economic crisis in 1997. Although Korea recovered rapidly from the crisis within 2 years, the economic growth was at a moderate rate. In addition, since the crisis, unemployment rate, particularly youth unemployment, has increased. Due to the downside of economic globalization, national governments are losing their power to protect their regions and firms, while national economies are increasingly open to international competitions and threats. Therefore, Korea needs to nurture new growth engines and powerful cities and regions.

Regional Disparity

Although the massive efforts since the 1980s have been made to improve economic and living conditions throughout the national territory, overconcentration in the Capital Region continued. Among imbalanced regional developments in many levels, the one between the Capital Region and non-capital regions is most problematic. Most of Korea's economic activity is concentrated in this Capital Region, which produces 47% of Korea's gross domestic product (GDP, in 2001). Furthermore, the Capital Region hosts almost all of the headquarter functions of both private and public sectors: 91 % of the Korea's 100 largest corporations (in 2000) and 85% of public institutions (in 2001).

In addition, the population ratio of the Capital Region was 20.7% in 1949 and it keeps increased up to 48.2% in 2005. Finally the population of the Capital Region is expected to be more than half of the total national population in 2015. (See Figure 10. in details).

Figure 10. Estimated Population Distribution of the Capital Region and non-capital regions



Source: Presidential Committee on Regional Development(PCRD), 2009, "Korea's Regional Development Policy and Emerging Policy Issues at Glance", International conference on Reshaping Regional Policy, Presidential Committee on Regional Development, Seoul

Weak Global Competitiveness of the Metropolitan Regions

Ironically, the metropolitan regions of Korea are evaluated less competitive compare to other international regions although all activities and economic functions of Korea are heavily distributed to the metropolitan regions. That is, it means Korea's metropolitan regions including the top number 1 metropolitan region, the Capital Region, are overcrowded and with less efficient environments for firms and citizens.

Table 16. shows where Korea's 7 regions stand among the OECD's 324 regions. The Capital Region is the third largest region in terms of population but ranks ninth in terms of GRDP among the 324 regions. Moreover, per capita GRDP of the Capital Region is very low, ranking 213th. In terms of GRDP per capita, Dongnam region is ranked 81th, which is higher than the Capital Region. Overall, Korea's regions are ranked higher in terms of population and ranked lower in GRDP per capita. In short, the regions are less competitive and less productive. Therefore, Korean government needs to move to the competitiveness enhancement policy.

Table 16. Global Competitiveness of the Regions among the 324 OECD regions

Region	Area(km ²)	Pop('04)	GRDP ('04)	Unit: rank
				GRDP per capita('04)
Capital Region	247	3	9	213
Dongnam region	241	29	49	81
Daegyeong region	186	60	79	216
Honam region	180	61	81	221
Chungcheong region	212	70	74	194
Gangwon region	211	208	195	224
Jeju region	311	294	290	232

Source: Presidential Committee on Regional Development(PCRD), 2009, "Korea's Regional Development Policy and Emerging Policy Issues at Glance", International conference on Reshaping Regional Policy, Presidential Committee on Regional Development, Seoul

CURRENT POLICY FRAMEWORKS

Policy Goals and Strategies

The Primary goal of the current government is "enhancing global competitiveness of each economic region" and thus the nature of the Korea's regional policy moves from "balance" to "competitiveness".

The government identified four key strategies of the new regional policy: development of economic regions; regional development based on specialization; decentralization & enhancement of local autonomy; and inter-regional cooperation & collaborative development.

Figure 11. Strategies of Korean Regional Development



Source: extracted from the PCRD homepage (<http://www.region.go.kr>)

First, the new policy framework is centred around a three-tiered approach according to different geographical scales: Supra-economic Region Strategy (hereafter SRR), Economic Region Strategy (hereafter, ERS), and Daily Living Sphere Strategy (hereafter DLSS).

Second, the new regional policy emphasizes the importance of regional specialization. Therefore, strategic industries were selected and the selected industries for each economic region will be supported to improve global competitiveness.

Third, the decentralization of the regional policy framework will be further progressed. The delegation of related power and financing system from the central government to local governments has been carried out such as the redistribution of taxes between the central and local governments, the integration of national subsidies into block grants for regional development.

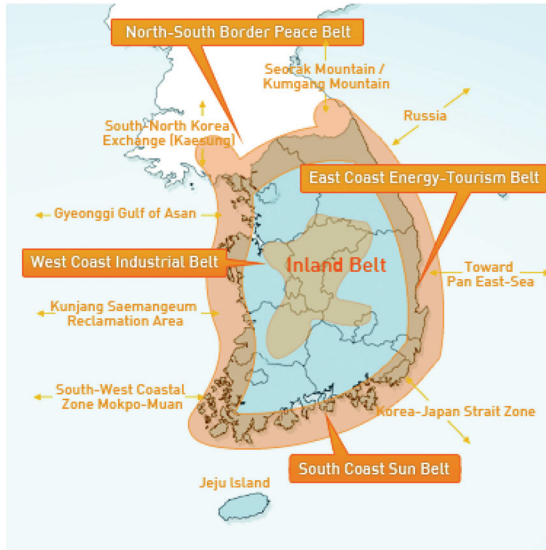
Fourth, the symbiotic development of the Capital Region and non-capital regions is pursued although the interests of the two different regions are not easy to be compromised. For that, a step-wise deregulation of the Capital Region has been considered along with the investments on non-capital regions.

Three-tiered Approach

As mentioned above, the new regional policy adopts regional demarcation according to geographical scales. Each scale has different policy orientations.

The Supra-economic Region is designated along the coastlines or national borders in order to achieve global connection such as Northeast Asian Region. It is composed the four belts ([East Coast Energy-Tourism Belt, West Coast Industrial Belt, South Coast Sun Belt, North-South Border Peace Belt] and an additional Inland Specialized Belt.

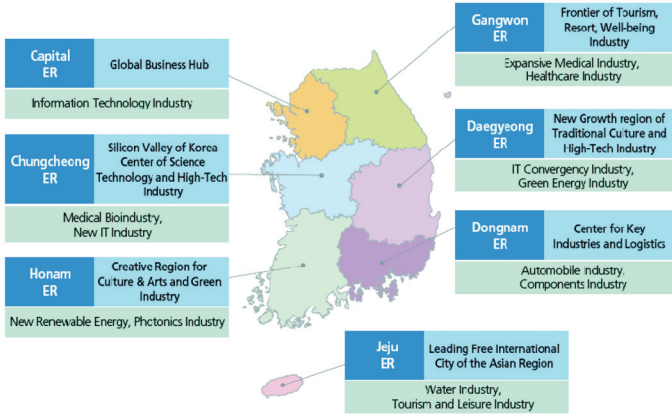
Figure 12. Supra-economic Regions



Source: extracted from the PCRD homepage (<http://www.region.go.kr>)

The Economic Region (ER) is to combine local governments of provincial level (seven metropolises and nine provinces) into seven ERs in order to secure critical mass to maximize growth potential in context of global economic systems. In short, the ERS pursue scale economies. The three main projects are conducted: the priority provision of 30 infrastructure projects; the selective investment of two leading industries for each ER, and the designation of hub universities to match up with the demands of the leading industries. In addition, there are seven “Regional Development Committees” which were established in 2009 to play roles as a bridge organization between central and local governments, between local and local governments, and between private and public organizations.

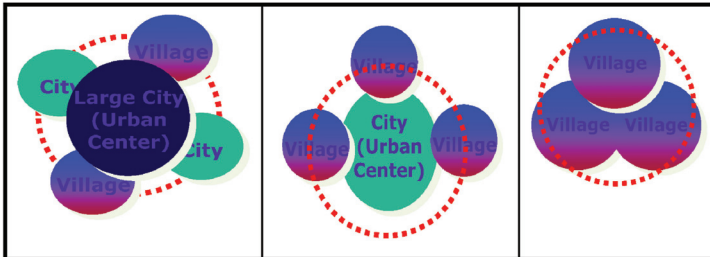
Figure 13. 5+2 Economic Regions and their Leading Industries



Source: extracted from the PCRD homepage (<http://www.region.go.kr>)

The Daily Living Sphere is 163 cities and counties to enhance basic quality of life through comprehensive development for cities and rural area. The DLS strategy secures both scale economies and scope economies by promoting diverse kind of cooperation between large cities and neighbouring regions, small and medium-sized cities and neighbouring rural areas, and between rural and rural areas.

Figure 14. Recommend Cooperation in the Daily Living Sphere Strategy

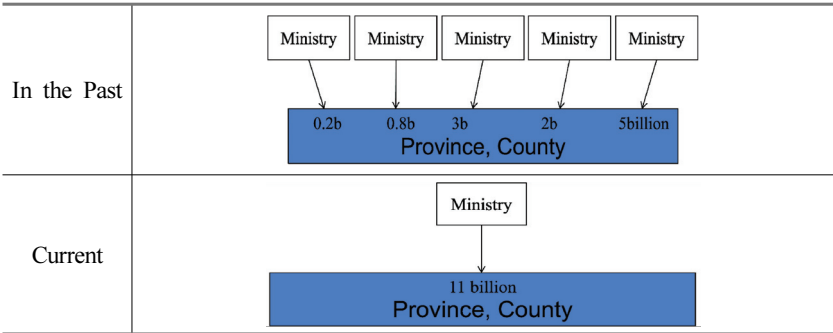


Institutional Foundations

The new regional policy is led by the Presidential Committee on Regional Development (hereafter PCRD), which was established under the name of the Presidential Committee on Balanced National Development in 2003. The committee is organized under the direct authority of the President, involving prominent experts from the private sector and academics and the nine related ministries such as the Ministry of Public Administration and Security, the Ministry of Knowledge Economy, the Ministry of Strategy and Finance, the Ministry of Land, Transport and Maritime Affairs, and the Ministry of Food, Agriculture, Forestry and Fisheries. The role of the committee is to coordinate different policies and programs came from different government levels and ministries.

The Korean regional policy framework has strong and sound institutional settings. Korea's regional development programs are conducted according to the National Plan for Regional Development (former National Plan for Balanced Development). The Korean government expanded funding sources in Special Accounting for Regional Development that will be used for the programs in the Regional Development Plan. One big reform in the Special Accounting System was made in 2010: the introduction of block grants system for regional development. The block grant system in Korea is to regroup more than 200 programs into several policy categories. Prior to the block grant system, local governments respectively apply for funding supports from different ministries to conduct each program and each one of ministries decide whether to support or not. After the introduction of the block grant system, local governments have their allotments and have autonomy in decisions to usage of the allotted development funds. Most funds from the Special Accounting are given to the province governments except few funds to county governments. Such planning and financing system are legally bound in the Special Act for Balanced National Development, enacted in January, 2004 and revised later.

Figure 15. Changes in Financing System: Introduction of Block Grant Systems.



Source: J-H Jang, 2009, "Regional Development Policy in Korea: Past, Present, and Future", International conference on Reshaping Regional Policy, Presidential Committee on Regional Development, Seoul