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Rural study of Korea

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This paper examines the role of rural regions in the economic transformation of Korea. The analysis at regional level reveals that, while having experiencing continued urbanisation and rapid demographic shift of aging and depopulation, the Korean rural areas performs well in terms of productivity growth thanks to the relatively higher share of tradable sectors in rural economies. It also provides the overview of how the rural policy in Korea, which has evolved in response to the socio-economic changes and growing well-being concerns. With the balanced national development at the centre of the national agenda for decades, regional policy approaches have diversified from state-led large projects to flexible policy packages and functional approaches to enhance rural economies and well-being. Finally, the paper presents a number of international policy approaches that can be useful for Korea, including the case of France, Italy and Sweden.

Key words: Korea, Rural development, Balanced national development, Demographic change, Contract, Rural well-being

JEL codes: H70, O18, R11, R58

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Table of contents

1. Trends, opportunities and challenges in rural Korea	9
1.1. Rural definition	9
1.2. Demographic patterns of rural Korea and land distribution.....	11
1.3. Characteristics of the rural economy	17
1.4. Well-being of rural dwellers	24
1.5. Summary	25
2. Evolution of rural policies in Korea and current policy measures.....	27
2.1. Historical evolution of rural policies in Korea.....	27
2.2. Evolution of rural policies in a country of concentrated development.....	28
2.3. Current rural policy measures	31
2.4. Implementing rural policies across levels of government.....	38
2.5. Summary	40
3. Lessons from international examples.....	42
3.1. Reflections on Korea’s rural policies and options for the future.....	42
3.2. France.....	43
3.3. Italy	48
3.4. Sweden	53
References	61

Tables

Table 1.1. Share of rural population according to different definitions	12
Table 1.2. Distribution of GVA by economic sectors, 2016.....	23
Table 1.3. Distribution of employment by economic sectors, 2016.....	23
Table 2.1. National Ministries related to Rural Development.....	33
Table 2.2. Monitoring implementation of national standards for rural service delivery	37

Figures

Figure 1.1. Distribution of population and area by type of region (TL3), 2017.....	12
Figure 1.2. Share of people living in cities, 2015.....	13
Figure 1.3. Change in the share of population by type of region (TL3) from 2000 to 2017	14
Figure 1.4. Population pyramid by age, sex and place of residency, Korea, 2017.....	15
Figure 1.5. Elderly dependency ratios by type of region, and their evolution from 2000 to 2017.....	16
Figure 1.6. Median travel time to the closest city	17
Figure 1.7. GDP by OECD TL3 region type, Korea	18
Figure 1.8. Performance of TL3 rural regions in Korea and other OECD TL3 rural regions, 2000-14	19
Figure 1.9. GDP per capita levels versus growth rates by OECD TL3 region type, Korea	20
Figure 1.10. GDP per capita gap between predominantly urban and rural regions, 2014.....	21
Figure 1.11. GDP per capita as a share of national average by type of region, Korea, 2000 vs. 2014 .	21
Figure 1.12. Labour productivity gap between predominantly urban and rural regions, selected countries 2014	22
Figure 1.13. The OECD Regional Well-being in selected TL2 regions with a high degree of rurality, 2014	25

Boxes

Box 1.1. The OECD-EU definition of functional urban areas	10
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Executive Summary

The Republic of Korea has achieved remarkable progress in economic development over the last decades. Rural regions play an important role in the country's economy. Rural Korea occupies more than half of the national territory and is home to 17% of its total population (51.2 million inhabitants) according to the OECD typology. The rural economy has experienced a structural change over the past decades. The tradable sector has increased by 22% over 2000-16 against the non-tradable sector, which shrank by 14% in rural regions. In 2016, manufacturing contributed to 41% of the gross value added of rural regions in Korea, which was 10 percentage points higher than in 2000. Simultaneously, the transition to a more industrialised economy has reduced the significance of agriculture in the rural economy measured in terms of its share in GVA and in employment. The evidence shows that in 2008-2016, the share of total employment in agriculture dropped from 27% to 16%.

The current paper reveals the following trends in rural Korea:

- Rural regions are experiencing population decline and ageing. The growth in the elderly dependency ratio in Korean TL3 rural regions is the highest when compared to other OECD rural regions. Over the past decade, the share of population living in rural regions declined from 18.6% to 17.1%. However, the decrease in population has not occurred across all rural regions. In fact two out of five Korean rural regions (Chungcheongnam-do and Jeju-do) experienced positive population growth from 2000-2015.
- In terms of economic performance, rural Korea contribute about one-fifth of the country's GDP. When compared to OECD standards across rural regions, their level of economic development is higher, but they are lagging in labour productivity. Only two out of five rural regions in Korea have lower levels of GDP per capita than the average level of OECD TL3 rural region while all five Korean rural regions have lower levels of labour productivity than the average of OECD TL3 rural region.
- The economy of Korean rural regions is highly concentrated in tradable activities, although their degree of specialisation differ. The share of tradable goods and services explains more than half of the Gross Value Added of three (Chungcheongnam-do, Gyeongsangbuk-do and Jeollanam-do) out of five predominantly rural regions in 2016, in contrast to the remaining two rural regions (Jeju-do and Gangwon-do), which depend more on non-tradable sectors have recorded lower rates of GDP per capita growth over 2000-14,.
- Environmental quality in rural Korea is amongst the lowest performers across the selected TL2 regions. However, challenges related to the quality of environment are not rural specific per se in Korea as it concerns the country as a whole. The level of air pollution is slightly lower in the selected TL2 region than at the national level.

- Despite the current challenges, Rural Korea is doing well when compared to OECD countries. On average, they have a good accessibility to urban centres, with approximately 26 minutes median travel time to the closest city over 50,000 inhabitants, which is the second shortest time amongst OECD countries. Over the period 2000-14, GDP growth rates in Korean rural region surpassed the growth in rates in urban ones on average. The majority of the rural population has access to services through relatively well developed broadband connections. When comparing well-being indicators, where data are only available across large OECD regions (TL2), there is one TL2 region in Korea with a high degree of rurality and this region performs well in several socio-economic indicators such as human capital, labour force participation and life expectancy to OECD TL2 regions. However, when compared to national standards, this TL2 region has lower outcomes in all indicators listed above except in unemployment rates.

Regional and rural development policies in Korea have evolved significantly over the past decades. The focus has diversified from economic and industrial development to considering now dimensions related to quality of life. This was largely driven by the widening gap in regional disparity. In addition, profound demographic changes, mainly a rapid ageing population and continued outmigration of the youth to metropolitan regions, loom large in the Korean rural future.

In order to achieve the balanced development that has been a priority in the Korean policy agenda, rural policy has increasingly adopted functional and network-based approaches to deal with rural issues such as basic service provision, along with traditional large-scale investments to build growth hubs. Key challenges and major developments include:

- Reducing regional disparities and overconcentration of people and economic activities in metropolitan areas. The Korean government has traditionally adopted policy measures to relocate public and private functions to less developed regions. Such large-scale projects since 2000s include building the new administrative capital (Sejong City) and 10 innovation cities, where private actors are also expected to cluster. In recent years, regional development policy aims at promoting bottom-up and collaborative initiatives. For example, the Regulatory Free Zone is a new policy package to foster local strategic industries. Each region develops a local plan to identify region's flagship industries through participatory local consultation, and approved plans are eligible for government supports.
- Improving the agricultural productivity, which remains a key rural industry. This continues to be an important policy area, as well as increasing economic opportunities and jobs in off-farm and non-agricultural sectors. Several policy initiatives include the Smart Agriculture and the 6th industrialisation of agriculture driven by the Ministry for Agriculture and Rural Development (MAFRA). Better alignment with other policy areas such as education and skills policies is essential for rural growth strategies so that the regions can retain the young generation and link their skills with local assets.
- The institutional framework for rural development is still central government-led and line ministry-oriented. Decentralisation of financial resources and authority should be encouraged. Recent developments of the contract system between the central and local governments is noteworthy as it aims to build local capacities as well as break policy silos through providing multi-ministerial and multi-year governmental supports.

- Lower quality of life in rural areas, compared to urban areas is a key rural policy concern. In addition to the commitment to achieving basic national minimum standards of basic service provision in rural villages, the government has adopted new approaches to improve the availability and accessibility to services for rural residents. Focused investment to rural hub towns and networking surrounding smaller villages allow village residents access to broader services. Recently, non-governmental entities such as social enterprises and community-based actors have been active and playing larger roles in the rural development policies.

The OECD has developed the Rural Policy 3.0 Framework for Rural Development across its member countries. This framework takes into account the demographic challenges in OECD rural regions and it envisages rural areas as key engines for national prosperity. Rural Policy 3.0 emphasises the following policy lessons:

1. Delivering *improved well-being for rural dwellers* (across economic, social and environmental dimensions).
2. Understanding the *growth dynamics of low-density economies* (distance to markets, role of the tradable sector, and absolute advantages).
3. Deploying *a range of policy instruments* (investments, addressing market failures, and supporting social innovation).
4. Fostering a *multi-sectoral approach* that engages public agencies, the private sector and non-government organisations, and is inclusive of different population groups and places.
5. Integrating delivery to *enable sectoral policies* that match the needs and circumstances of different rural regions.
6. Understanding that *there is a spectrum of rural regions* ranging from those in an FUA to remote which have different policy opportunities and challenges

The Rural Policy 3.0 framework emphasises the role of multilevel governance and how responsibilities are shared across levels of government. Contracts -- that can be broadly defined as an arrangement that reorganises the rights and duties of governments -- define mutual obligations and agree on authority and enforcement mechanisms (formal or informal), can be innovative policy tools to enable flexible collaboration among levels of governments. In this context, the experiences of France, Italy and Sweden are useful examples for Korea. This paper looks into the experienced of these countries to derive some policy lessons that could be important in the Korea context.

France is a relatively centralised country that began a decentralisation process in the 1980s. One of the main purposes of the decentralisation in France was to reform the system of central planning. Contracts have been developed since 1980s in the French decentralisation efforts aiming at reforming the system of central planning.

The State-Region Planning Contracts or *Contracts de Plan État-Région* (CPER) is the primary type of contracts, and is a negotiation whereby the state and the region undertake multi-year programming and financing of major projects for creating infrastructure or supporting leading-edge industries. As an “empowerment contract”, the CPER is a tool for transferring responsibilities to subnational governments while gradually building capacities for policy implementation.

In 2015, France launched an experimental scheme to promote inter-municipal cooperation, called City-countryside Reciprocity Contracts (*Contract de Réciprocité Ville-Campagne*).

With the explicit goal to reduce the gap between urban and rural territories, these contracts are aimed to promote inter-municipal cooperation and to empower a new subnational entity –the metropolitan areas.

In **Italy**, the Inner Areas are the regions with “inadequate access to essential services”, including education, healthcare and transportation. The Inner Areas National Strategy was launched in 2014 to cope with service delivery and development issues in such areas.

The Strategy is a national intervention to encourage partnerships among different levels of government. The whole process for the local development projects is a bottom up approach that relies heavily on the active participation of local actors, while combining a top-down approach in for example the selection of areas and offering guidance. After a long process of analysis, negotiation and debate among local and national stakeholders, the Programme Framework Agreement (*Accordo di Programma Quadro*) is materialised as a contract among the municipal association, regional and central governments.

While its good performance in equity and inclusive development, **Sweden** faces regional-level challenges that are also common to other OECD countries, such as ageing population, internal migration and an influx of foreign migrants, including refugees. In addition, its rural areas are feeling “left-behind” – not only in their development but also in the government discourse.

Sweden has introduced their National Strategy for Sustainable Regional Growth and Attractiveness 2015-2020 to support broader government priorities and promote a more explicit results-oriented approach to regional development. This strategy is coupled with efforts to build urban-rural linkages that promote greater inter-municipal cooperation in public service delivery, and regional development strategies that prioritise planning based on functional regions.

The strategy provides a policy framework for the development of all regions in Sweden and priorities of the strategy are given to well-being elements and enabling factors for regional competitiveness.

Rural Policy Review: Korea

Korea was home to 51.2 million inhabitants in 2018. The Republic of Korea covers almost half of the Korean Peninsula. Rural regions represent an important share of the total territory of Korea. However, the majority of the population is living in cities and large metropolitan areas. Therefore, the geographical unequal distribution of the population has some implications on the performance of the rural economy.

Korea's transition from an agricultural-based economy to an industrial leader and one of the fastest-growing OECD economies has been impressive over the last decades. Korea is nowadays a dynamic service-based economy, with a highly educated workforce, an advanced and modern infrastructure system, and high living standards.

This paper examines the role of rural regions in the economic transformation of Korea. Section 1.1 provides a summary of the performance of rural regions in Korea, benchmarking their trends across the rest of Korean regions and OECD rural regions. Section 1.2 describes the evolution and the main policy approaches for rural policy in Korea. Finally, Section 1.3 examines a number of international policy approaches that can be useful for Korea, including the case of France, Italy and Sweden.

1. Trends, opportunities and challenges in rural Korea

1.1. Rural definition

Korea's official definition

The definition of what constitutes rural areas in Korea is not unique or straightforward. Different agencies define rural areas differently. According to the Ministry of Land Infrastructure and Transport (MOLIT), there are no rural areas defined as such, but rather emerge as leftovers of urban areas. Urban areas are areas that require systematic development, maintenance, management and conservation of areas where population and industry are or are expected to be dense (Article 6 of the National Land Planning Act). Therefore, the areas that are not systematically developed and dense are non-urban areas, in other words, rural areas.

Rural areas are also defined by policy goals. For instance, the Happy Living Zones policy defines three types of living zones: rural, rural-urban, and metropolitan zones:

- Rural living zone is the smallest one with total population of around 100,000.
- Rural-urban affiliated living zone is centred around small and medium-sized cities with population between 100,000 and 500,000.
- Metropolitan living zone is centred around large cities with population more than 500,000.

As of 2015, according to the Happy Living Zones policy, a total of 63 zones have been established so far: 21 rural zones, 14 rural-urban zones, 20 metropolitan zones, and 8 pilot zones in the capital area. From the agricultural policy perspective, the Framework Act on Agriculture, Rural Community and Food Industry defines "rural community" in line with the act's objectives.

The OECD regional typology

The OECD regional typology simplifies regional data comparability across OECD countries. It classifies two levels of geographic units within each member country: 1) large regions (TL2), which generally represent the first administrative tier of subnational government; and 2) small regions (TL3), which aggregate local administrative units (e.g. *communes* in France or municipalities in Mexico). TL3 regions are divided into predominantly urban (PU), intermediate (IN) and predominantly rural (PR) based on population density and size. Rural areas are further classified into different types according to their proximity to urban centres for the purpose of defining specific challenges and opportunities related to their geographic location.

Using the OECD taxonomy defining three types of TL3 regions (urban, intermediate and rural). In Korea, there are 17 TL3 regions, according to the OECD typology, of which nine are defined as predominantly urban, three as intermediate, and five as predominantly rural. All Korean rural regions fall in the category predominantly rural close to a city (i.e., there are no rural remote regions in Korea).

The OECD uses the concept of Functional Urban Areas (FUA) as a complementary territorial definition (see Box 1.1). FUAs define urban areas encompassing work, leisure and social daily flows as functional socio-economic units, rather relying on official administrative boundary definitions. Korea has 22 functional urban areas covering 26% of the national territory. Out of the 22 FUAs, five are classified as large metropolitan areas (with a population of 1 500 000 or more); and six as metropolitan areas (with a population of 500 000 to 1 500 000); eight as medium-sized urban areas (population between 250 000 to 500 000 people) and three as small urban areas (population between 50 000 and 200 000 people).

Box 1.1. The OECD-EU definition of functional urban areas

The OECD-EU definition of functional urban areas (FUAs) consists of highly densely populated urban cores and adjacent municipalities (“commuting zones”) with high levels of commuting (travel-to-work flows) towards the cores. This definition overcomes previous limitations for international comparability linked to administrative boundaries. This methodology is a clear example of how geographic/morphological information from geographic sources and census data can be used together to get a better understanding of how urbanisation develops.

As the first step, the distribution of the population at a fine level of spatial disaggregation 1 km² is used to identify the urban cores, which are constituted by aggregations of contiguous municipalities that have more than 50% of their population living in high-density clusters. These clusters are made of contiguous 1 km² grid cells with a population density of at least 1 500 inhabitants per km² and a total population of at least 50 000 people.

As the second step, two urban cores are considered part of the same (polycentric) FUA if more than 15% of the population of any of the cores commutes to work to the other core.

The third step defines commuting zones using information on travel-to-work commuting flows from surrounding municipalities to the urban core. Municipalities sending 15% of its resident employed population or more to the urban core are included in the commuting zones, which thus can be defined as the “worker catchment area” of the urban labour market, outside the densely inhabited urban core.

The methodology makes it possible to compare FUAs of similar size across countries, proposing four types of FUAs according to population size:

- Small urban areas, with population between 50 000 and 200 000
- Medium-size urban areas, with population between 200 000 and 500 000
- Metropolitan areas, with population between 500 000 and 1.5 million
- Large metropolitan areas, with a population of 1.5 million or more.

The definition is applied to 30 OECD countries (among 36 OECD countries, it is not available for Iceland, Israel, New Zealand, Latvia and Turkey), and it identifies 1 197 FUAs of different sizes. Among them, 281 metropolitan areas (including 81 large metropolitan areas) have a population higher than 500 000 and are included in the OECD Metropolitan database.

As of 2014, they account for 49% of the OECD overall population, 57% of gross domestic product and 51% of employment. Other FUAs include 411 medium-sized urban areas and 506 small urban areas. Besides, the definition has been applied to Colombia, where 54 FUAs have been identified (Sanchez-Serra, 2016).

OECD (2016a), OECD Regions at a Glance 2016, OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en; Sanchez-Serra, D. (2016), “Functional Urban Areas in Colombia”, OECD Regional Development Working Papers, No. 2016/08, OECD Publishing, Paris, <http://dx.doi.org/10.1787/5jln4pn1zqq5-en>; OECD (2012), Redefining “Urban”: A New Way to Measure Metropolitan Areas, OECD Publishing, <http://dx.doi.org/10.1787/9789264174108-en>; Gridded population data comes from the Landscan project developed by Oak Ridge National Laboratory (United States).

The OECD has developed a new TL3 classification based on the presence of FUA within TL3 borders, and the proximity of regions to FUAs of different sizes. The new typology classifies TL3 regions into metropolitan if more than 50% of the regional population live in a FUA of at least 250 thousand inhabitants (and as Large metro TL3 region (MR-L), if more than 50% of its population lives in a FUA of at least 1.5 million inhabitants or Metro TL3 region (MR-M)), and non-metropolitan otherwise. Non-metropolitan TL3 regions (NMR) are further classified according to their level of access to FUAs of different sizes into: With access to a metro TL3 region (NMR-M), With access to a small/medium city TL3 region (NMR-S), and Remote TL3 region (NMR-R).

Throughout this section, the analysis will use the OECD classification on rural regions.

1.2. Demographic patterns of rural Korea and land distribution

Korea’s population and land area distribution

The rural areas of Korea are important with regards to population and area of land. Rural areas account for over half of the national territory and one-fifth of the total population. In fact, in 2017, Korea’s rural areas covered 58% of the national territory, followed by intermediate regions (26.1%) and urban regions (15.5%). Settlement patterns in Korea are more concentrated (calculated at the TL3 level) than on average in OECD countries. In 2016, the GCI was 54.2, 12 points higher than the OECD average. By comparison with equally large countries, whether densely populated or not, such as Spain and Italy, Korea’s concentration of settlement patterns is significantly higher.

Based on the OECD TL3 classification, in 2017, only 16.9% of the total population lived in rural regions. Urban population accounted for 70% of the total population, while 13.1% of the total population lived in intermediate areas (Table 1.1).

Table 1.1. Share of rural population according to different definitions

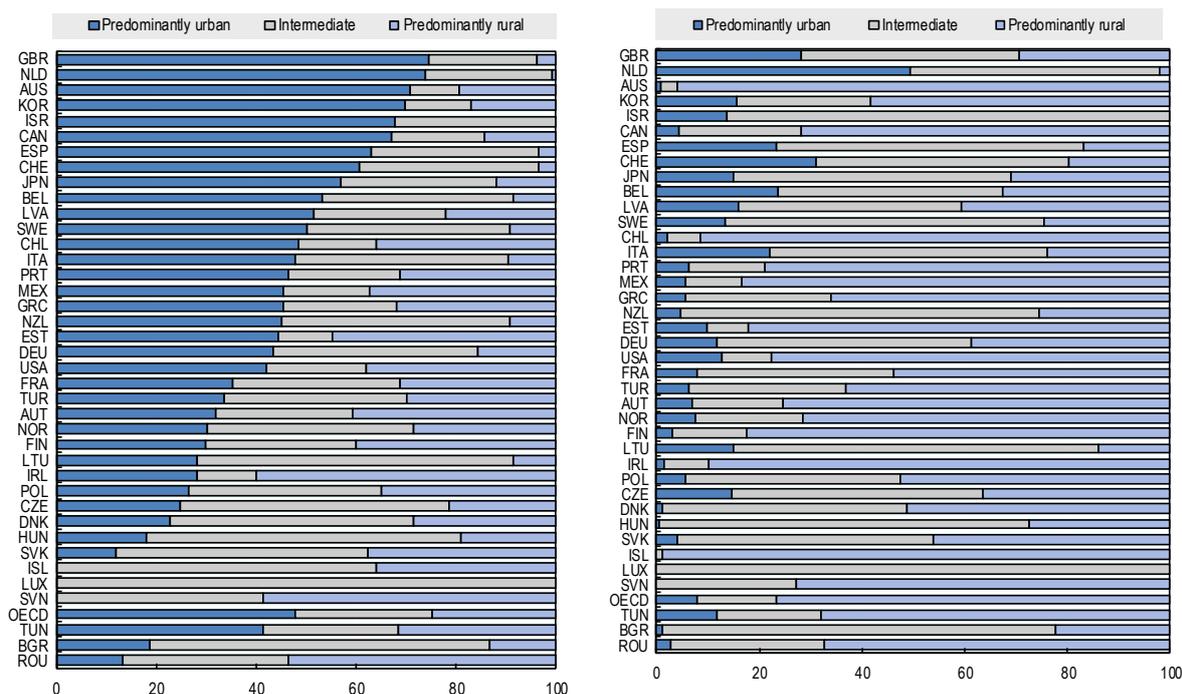
	OECD TL3 typology	FUA	Metro-non-metro	World Bank
Share of rural population	16.9%	18%	17.2%	17.4%

Note: Figure refers to year 2016 for World Bank; 2015 for FUA.

Source: OECD (2018^[1]), OECD Regional Statistics (database), [http:// dx.doi.org/10.1787/region-data-en](http://dx.doi.org/10.1787/region-data-en); World Bank (2018^[2]), <https://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?locations=KP-KR>.

In 2015 the share of people living outside functional urban areas was about 18%, about one-percentage points higher than the percentage of people living in predominantly rural TL3 regions (Figure 1.1). About 80% of the total population lives in functional urban areas – the second largest share across OECD countries (Figure 1.2). A similar figure appears when applying the TL3 Metro-Non-metro definition: approximately 17% of the total population lives in non-metro regions and 83% in metro regions.

Figure 1.1. Distribution of population and area by type of region (TL3), 2017

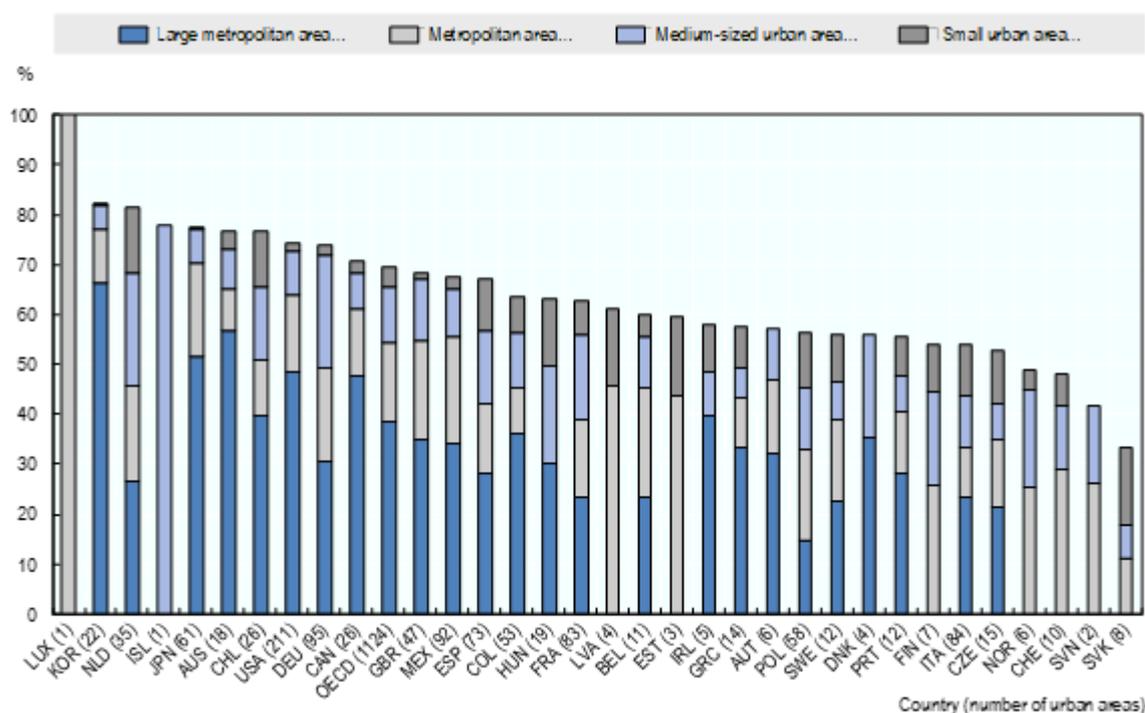


Note: Latest available year 2016 for Australia, Canada, Israel, Japan, New Zealand, United States and Tunisia. Extended typology not defined for Australia, Iceland, Korea, Latvia and Lithuania.

Source: OECD (2018^[3]), *OECD Regions and Cities at a Glance 2018*, https://dx.doi.org/10.1787/reg_cit_glance-2018-en.

Figure 1.2. Share of people living in cities, 2015

Population in functional urban areas over total population.



Note: Methodology available under OECD (2012), Redefining "Urban": A New Way to Measure Metropolitan Areas, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264174108-en>.

Source: OECD (2018^[3]), *OECD Regions and Cities at a Glance 2018*, https://dx.doi.org/10.1787/reg_cit_glance-2018-en.

Rural areas' population is becoming more concentrated in certain regions

Population is becoming more concentrated. In 2000-16, the index of geographic concentration of population increased approximately by 2 points, from 52 to 54.

In the period of 2000 to 2017, Korea's population grew by 8%. The most dynamic regions in terms of population growth over 2000-17 were urban regions, where the average population grew by 2.3 percentage points. In contrast, population declined in a significant number of intermediate and rural regions due to the out-migration of young population.

The greatest decrease was recorded in predominantly rural regions, which showed on average a 1.6-percentage point decrease. In absolute terms, the population decline in predominantly rural regions was 97 669 people in the period of 2000-17. These population dynamics across different types of regions in Korea are in line with OECD trends (Figure 1.3). In almost all OECD countries, regions with predominantly rural population have seen a decrease in population in the aforementioned period (OECD, 2018^[3]). However, Korea's predominantly rural regions are amongst the rural regions that have experienced the most dramatically decreases.

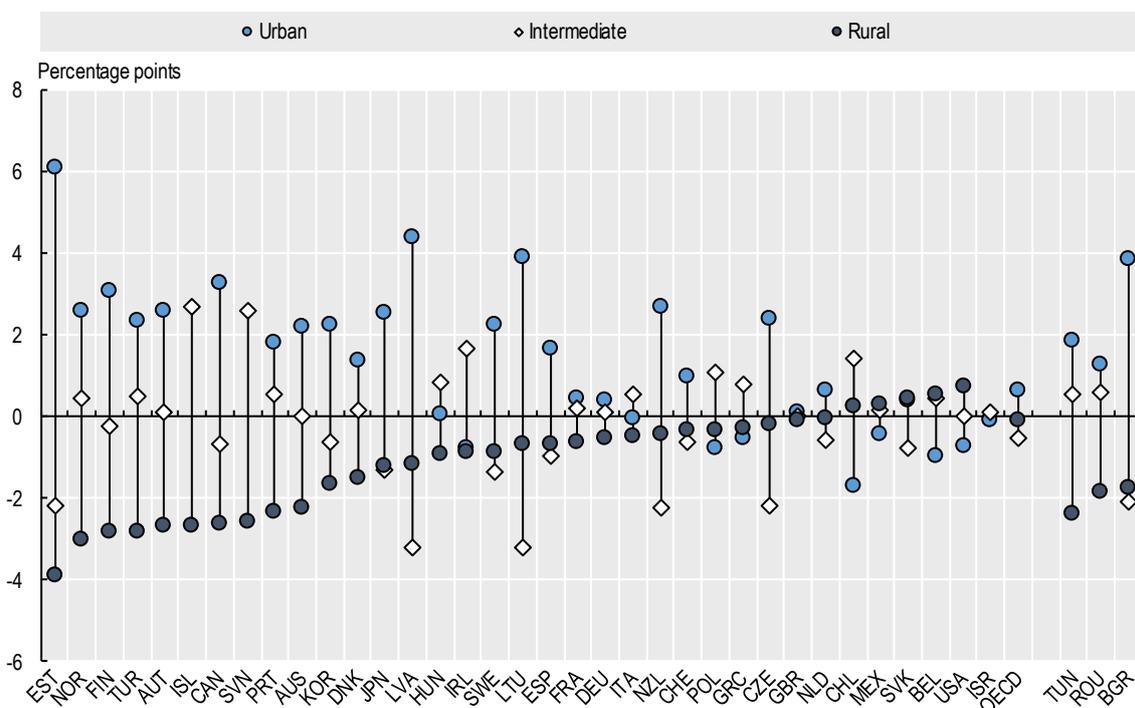
Even though the overall share of population in Korean rural regions has declined over years, the decrease in population is not equally distributed across rural regions. According to the evidence, two out of five regions experienced population growth in the period of 2000-2017. Chungcheongnam-do and Jeju-do have benefitted from overall population growth.

In Chungcheongnam-do, population increased by 239 960 (0.16 percentage points increase in population share).

Population growth trends among functional urban areas provides detailed information about the population growth trends within urban areas. In the 15 years between 2000 and 2015, metropolitan areas, defined as functional urban areas with 500 000 – 1.5 million residents, experienced the fastest population growth with an approximately 18% increase, on average, over the period. Large metropolitan and medium-sized urban areas grew by 9% and 7%. In turn, small urban area population decreased by 11%.

Within functional urban areas, the commuting zones of large metropolitan areas experienced on average a growth rate of 48%, the fastest growth rates over the period of 2000-15. Similarly, the commuting zones of medium-sized urban areas grew by 23%. In contrast, the core of the large metropolitan and medium-sized urban areas did not grow as fast - 8% and 7%, respectively. The growth of core population in metropolitan areas was faster at 17%.

Figure 1.3. Change in the share of population by type of region (TL3) from 2000 to 2017

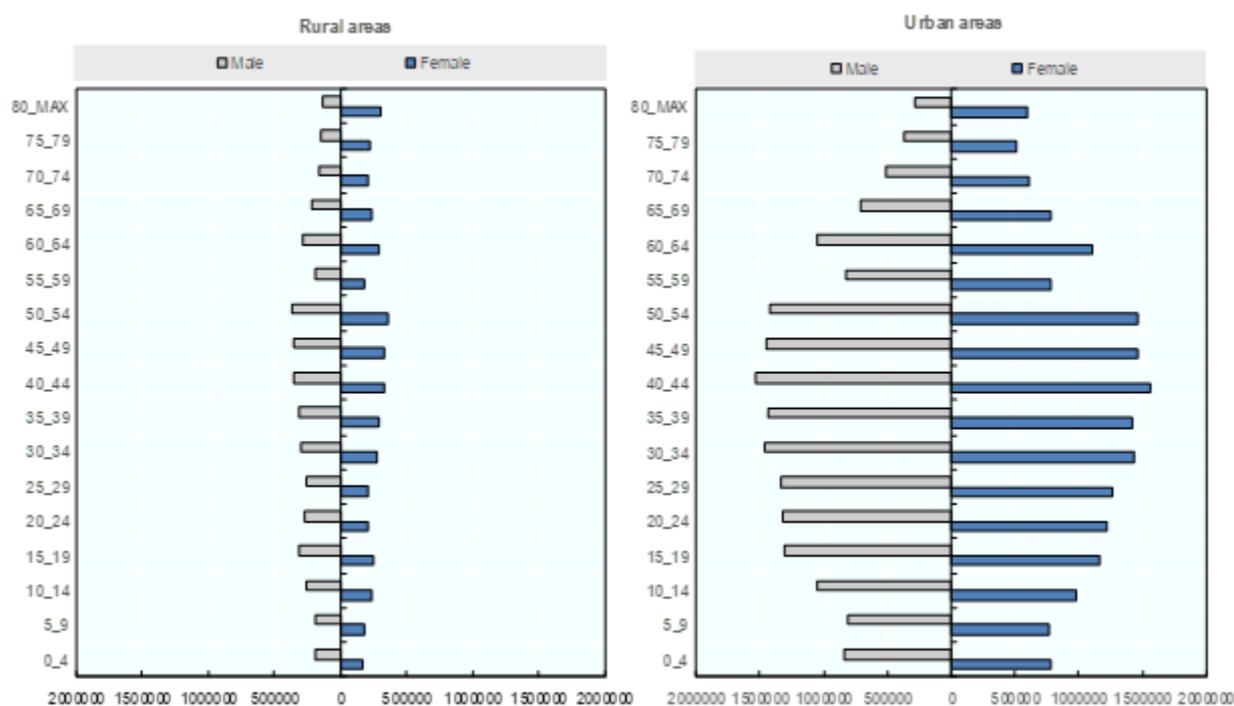


Source: OECD (2018^[31]), *OECD Regions and Cities at a Glance 2018*, https://dx.doi.org/10.1787/reg_cit_glance-2018-en.

Korea's rural population is fast-aging

The composition of the population differs between urban and rural regions. While the share of younger population in urban and rural regions are at the same level, the share of the elderly population is larger in rural regions (on average 19%) (Figure 1.4). On the contrary, the proportion of the working age population in rural regions is 68%, 6 percentage points smaller than the proportion of the working age population of the total population in urban regions.

Figure 1.4. Population pyramid by age, sex and place of residency, Korea, 2017

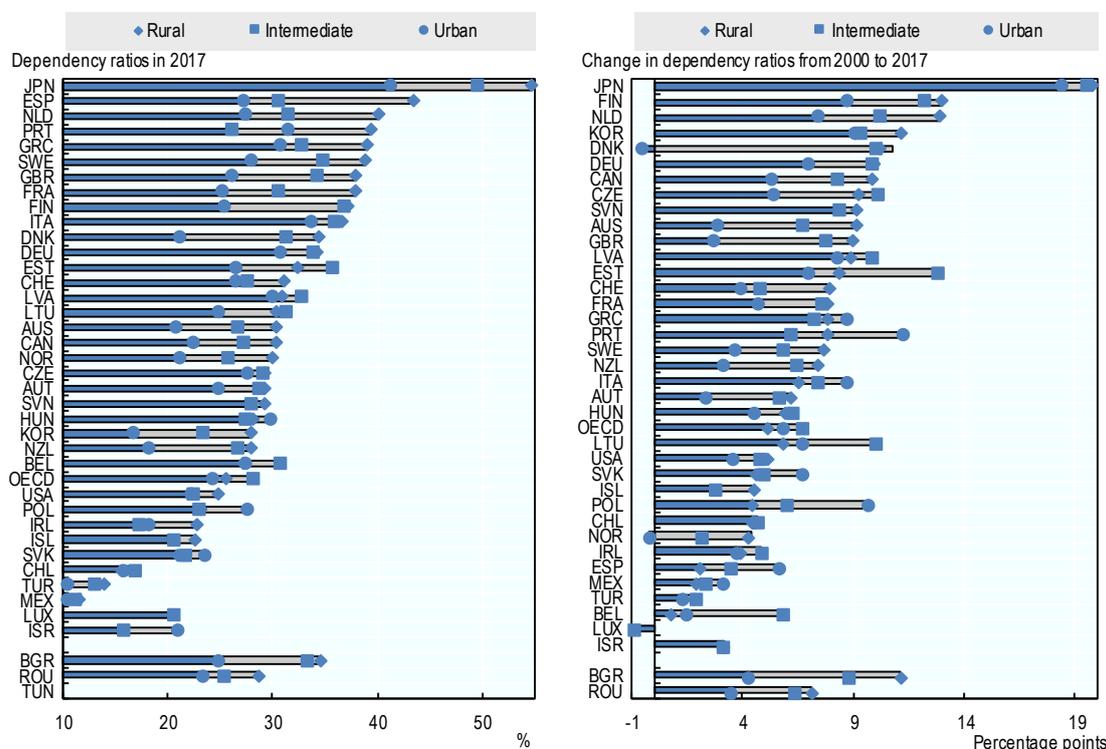


Source: OECD (2018^[1]), OECD Regional Statistics (database), [http:// dx.doi.org/10.1787/region-data-en](http://dx.doi.org/10.1787/region-data-en).

The elderly dependency ratios in rural Korea were amongst the highest across the OECD TL3 predominantly rural regions in 2017. The ratio was higher than the OECD average in TL3 rural regions, on average the difference was 2.7 percentage points (Figure 1.5). Furthermore, the ratio in rural regions is higher than in other regions, as the gap in elderly dependency ratio between urban and rural regions is around 11 percentage points.

In the last 17 years, the rural population has become increasingly older. The growth rate of the elderly dependency ratio has been the largest in rural regions when compared to other type of regions. However, this pattern varies across rural regions. The elderly dependency ratio ranges from 7 percentage points (Chungcheongnam-do) to 15 percentage points (Jeollanam-do). With 35%, Jeollanam-do had the highest elderly dependency ratio in 2017.

Figure 1.5. Elderly dependency ratios by type of region, and their evolution from 2000 to 2017



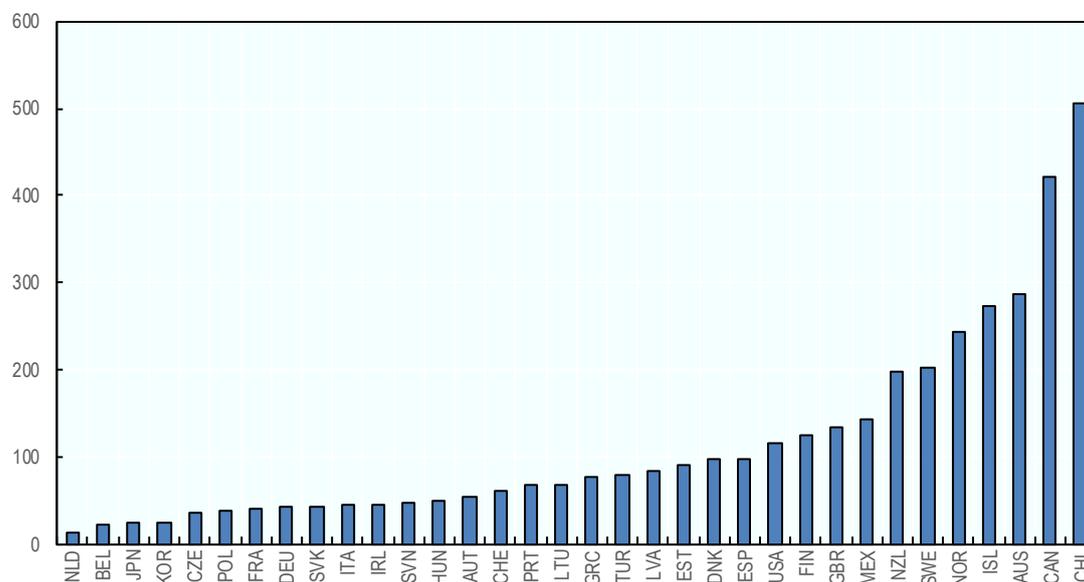
Source: OECD (2018^[3]), *OECD Regions and Cities at a Glance 2018*, https://dx.doi.org/10.1787/reg_cit_glance-2018-en.

Accessibility to services

In terms of access to cities Rural Korea has an advantage compared to other OECD TL3 rural regions. Compared to OECD TL3 rural regions, rural regions in Korea have the fourth shortest travelling time to a closest city. On average, the median travel time to a closest city is about 25 minutes. Within rural regions in Korea, the median travel time varies from 16 (Jeju-do) to 37 minutes (Gangwon-do). Short median travel times are in line with the OECD typology classification since all of the Korea's rural TL3 regions are classified as predominantly rural close to a city.

Figure 1.6. Median travel time to the closest city

A city refer to an urban centre with at least 50 thousand inhabitants.



Note: Travel time to the closest city is calculated for every 1km² grid-cell within TL3 boundaries as the shortest path through an impedance grid (using the Dijkstra algorithm) that takes into account the presence of transport infrastructure and geographical features in every grid cell. Median travel time refers to the median value across 1km² grid cells.

Source: Weiss et al (2018).

Summary

- Korea's population is more concentrated in urban areas. Rural population ranges from 16.9% to 18% depending on the definition.
- On average rural population is aging and decreasing. The fast decrease in Korea's rural population is the result of an important migration flow from rural to urban areas. However, in certain regions (such as Chungcheongnam-do and Jeollanam-do) the development have been opposite. According to the international benchmark, rural Korea is amongst the TL3 regions with the highest level of elderly dependency ratio.

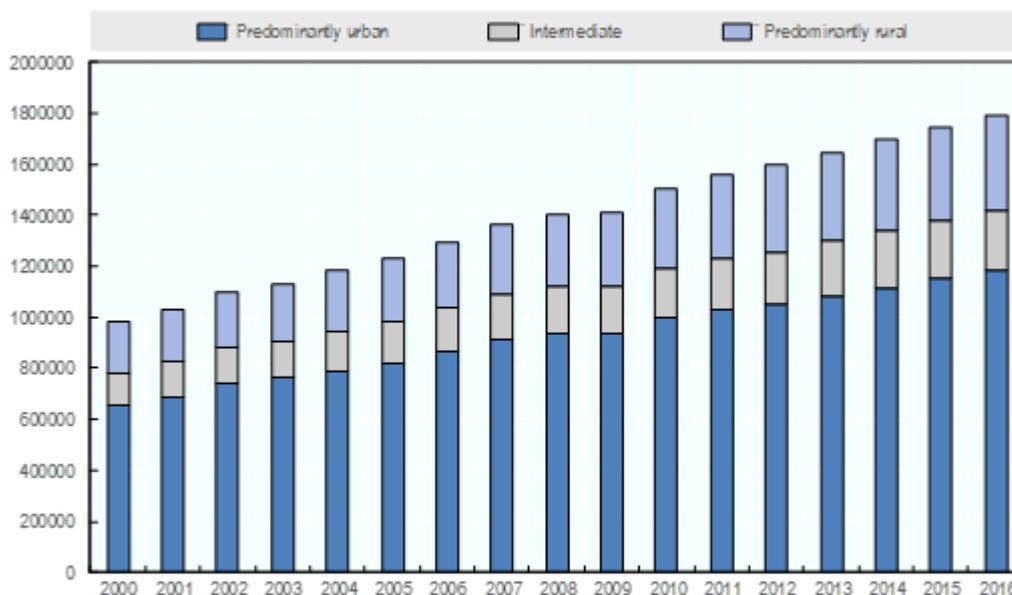
1.3. Characteristics of the rural economy

Despite population losses, predominantly rural regions perform well in economic terms

In 2016, the share of GDP produced in rural economies corresponded about one-fifth of Korea's national GDP. The contribution of the rural economy to the national GDP has been constant during 2000-16. After the global financial crisis and up to 2016, the share was around 21% of the national GDP.

Figure 1.7. GDP by OECD TL3 region type, Korea

Billions USD, constant PPP 2010.

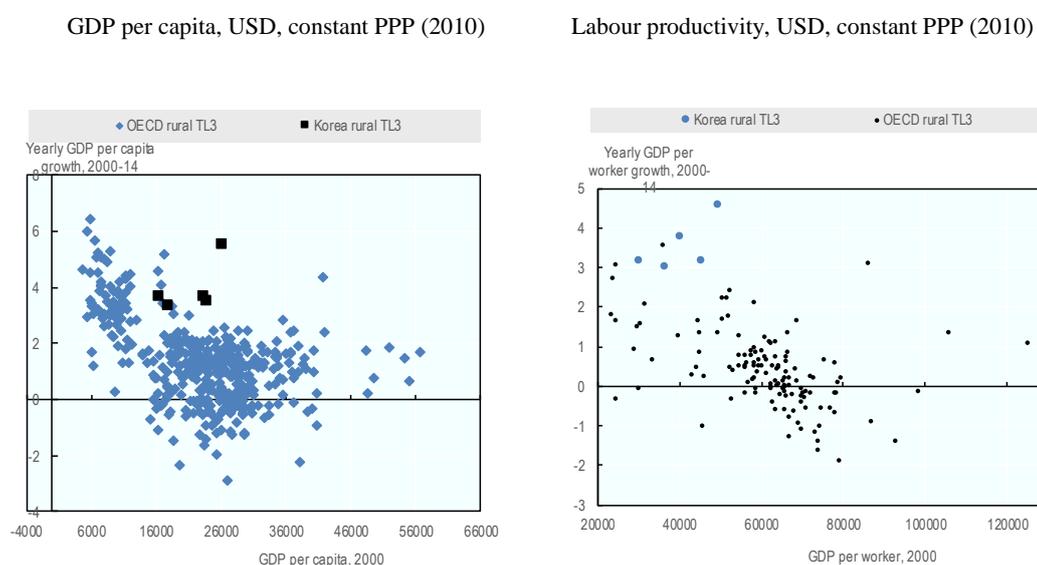


Source: OECD (2018^[1]), OECD Regional Statistics (database), [http:// dx.doi.org/10.1787/region-data-en](http://dx.doi.org/10.1787/region-data-en).

In terms of productivity growth, Korea's rural regions are top performing compared to other OECD TL3 predominantly rural regions. Previous OECD work highlighted the growth potential of rural regions. Relative to other OECD predominantly rural regions, Korea's predominantly rural regions are performing well as the average growth rate of Korea's rural regions was, approximately 4%, in 2000-14 (Figure 1.7). In the national context, Korea's rural regions have on average higher productivity growth rates than predominantly urban and intermediate regions. Across OECD countries, rural regions in Austria, Switzerland, the Netherlands, Germany and Belgium show similar trends. However, in the majority of OECD TL3 regions, predominantly urban are more likely to perform better on average than predominantly rural regions. The strong performance of rural regions in Korea may be linked to their relative proximity to a urban areas. Since, on average, the median travel time to a closest city is about 25 minutes.

High productivity growth rates of Korea's rural regions can be partly explained by low initial levels of productivity. Productivity levels of rural regions of Korea are amongst the lowest across OECD TL3 predominantly rural regions.

Figure 1.8. Performance of TL3 rural regions in Korea and other OECD TL3 rural regions, 2000-14



Note: Labour productivity is measured as GDP per worker (employment at place of work).

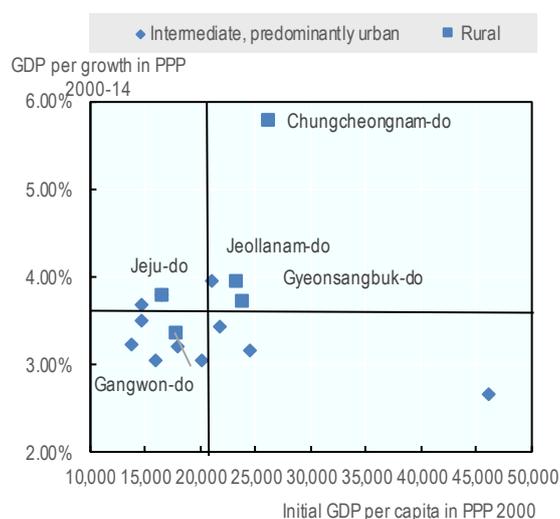
Source: OECD (2018^[11]), OECD Regional Statistics (database), [http:// dx.doi.org/10.1787/region-data-en](http://dx.doi.org/10.1787/region-data-en).

Regional convergence

In the lower population density regions of Korea, the average level of GDP per capita was 38 525 in 2014, which was 5 125 USD higher than the national average of 33 400 USD and 7 897 USD higher than the OECD predominantly rural region average of 30 628 USD. However, inequalities in terms of GDP per capita occur within rural regions. In 2014, Gangwon-do and Jeju-do's GDP per capita were lower than the national average as well as the average OECD rural region.

The average level of GDP per capita of rural Korea has increased by 80% from 2000 (21 410 USD in 2000). Four out of five predominantly rural regions had faster GDP per capita growth than the national average in 2000-2014 (Figure 1.9). The highest growth rate occurred in Chungcheongnam-do, where the GDP per capita grew by 6.2%. In addition to this, three rural regions out of five had higher initial level of GDP per capita in 2000 than the national average.

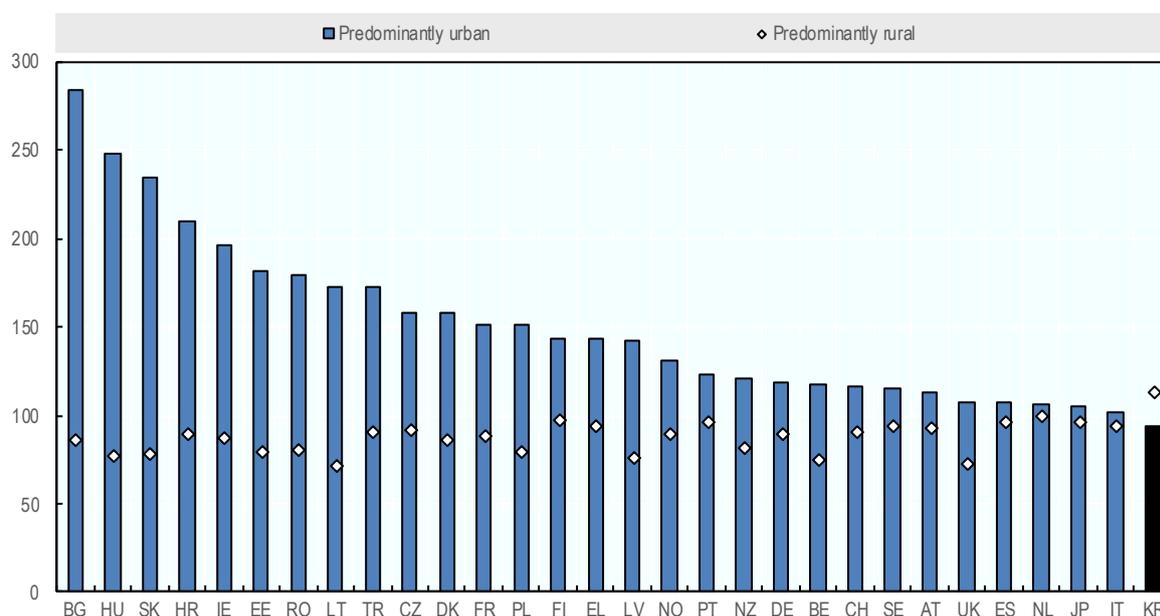
Figure 1.9. GDP per capita levels versus growth rates by OECD TL3 region type, Korea



Source: OECD (2018^[1]), OECD Regional Statistics (database), [http:// dx.doi.org/10.1787/region-data-en](http://dx.doi.org/10.1787/region-data-en).

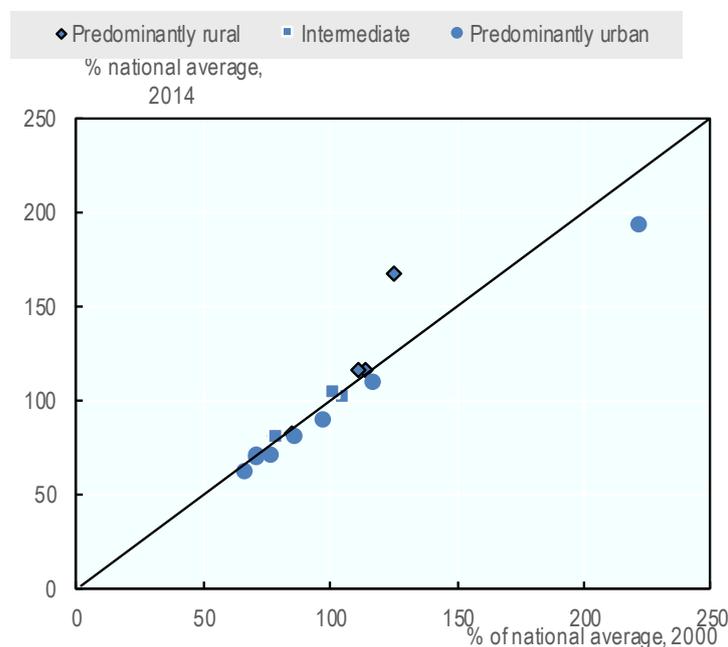
Korea is the only OECD country where GDP per capita in rural regions is higher than the GDP per capita in urban regions. The rural gap in GDP per capita (112%) was the largest across OECD TL3 rural regions in 2014 (Figure 1.10) and approximately 19 percentage points larger than the urban gap. The rural gap in GDP per capita is calculated as the sum of GDP over the sum of population in predominantly rural regions relative to national GDP over national population. Similarly, the rural gap in productivity is larger in Korea than in other OECD TL3 rural regions.

Figure 1.10. GDP per capita gap between predominantly urban and rural regions, 2014



Source: OECD (2018^[11]), OECD Regional Statistics (database), [http:// dx.doi.org/10.1787/region-data-en](http://dx.doi.org/10.1787/region-data-en).

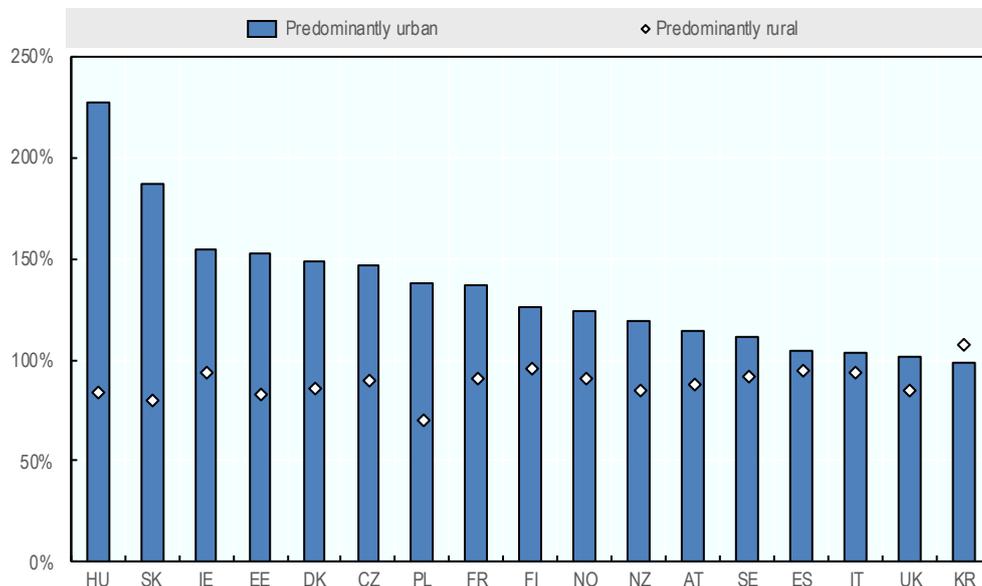
Figure 1.11. GDP per capita as a share of national average by type of region, Korea, 2000 vs. 2014



Note: Regions above (below) the 45 line registered growth rates higher (lower) than the national average between 2000 and 2014.

Source: OECD (2018^[11]), OECD Regional Statistics (database), <http:// dx.doi.org/10.1787/region-data-en>.

Figure 1.12. Labour productivity gap between predominantly urban and rural regions, selected countries 2014



Source: OECD (2018⁽¹⁾), OECD Regional Statistics (database), [http:// dx.doi.org/10.1787/region-data-en](http://dx.doi.org/10.1787/region-data-en).

The geographic concentration index sheds a light on the spatial distribution of GDP among regions within country. The index is calculated by comparing the share of GDP and land area share over all the regions by country. Economic activity in Korea are more concentrated than on average in OECD countries. In 2016, the geographic concentration index in Korea was 50.6, which was higher than the OECD average of 44.3. Compared to geographic concentration index of population, GDP is more geographically dispersed in Korea than the population. Korea is the only country where this type of development occurs across OECD countries where GDP data is available.

Rural regions specialised in tradable sectors

Economic structure of Korea's rural regions are less diversified as the economy of urban Korea on average. Korea's rural regions are highly specialised in tradable sectors. The share of tradable goods and services represented 58% of the region's Gross Value Added in 2016, 9% higher than the national average of 49%. By 2016, manufacturing alone explained over two-fifth of the rural regions' GVA and therefore it was higher than the national average (41% compared to 31%).

There are differences in the economic structure of rural regions in Korea. These can be divided into two categories: rural regions specialised in tradable sectors and rural regions more specialised in non-tradable sectors. The economy of three (Chungcheongnam-do, Gyeongsangbuk-do and Jeollanam-do) out of five rural regions is specialised in tradable goods and services sectors, since these sectors explains more than half of the GVA of the regions. On the other side, the rest two rural regions (Gangwon-do and Jeju-do), are specialised in non-tradable activities. The share of GVA of non-tradable sectors was about 65% in 2016 (Table 1.2). At the national level, the tradable sector has increased its significance in shaping the economy. A similar development emerges in rural and other types of regions. The tradable sector grew by 22% in 2000-16 in rural regions and non-

tradable sector shrank by 14%. Tradable sector grew the fastest in Chungcheongnam-do. Jeju-do was the only region in Korea where the tradable sector decreased (by 3%).

Table 1.2. Distribution of GVA by economic sectors, 2016

Sector	Rural regions	Urban regions	Korea
Manufacturing (T)	41%	26%	31%
Public admin., compulsory s.s., education, human health (NT)	18%	15%	16%
Distributive trade, repairs, transport, accommod., food serv. activities (NT)	10%	18%	15%
Construction (NT)	7%	4%	5%
Agriculture, forestry and fishing (T)	6%	1%	2%
Real estate activities (NT)	4%	9%	7%
Non-manufacturing industry, including energy (T)	4%	1%	2%
Financial and insurance activities (T)	3%	8%	7%
GVA in other services (T)	3%	3%	3%
Prof., scientific, techn. activities, admin., support service activities (NT)	3%	9%	7%
Information and communication (T)	1%	6%	4%

Note: NT=Non-tradable sector; T=Tradable sector.

Source: OECD (2018^[11]), OECD Regional Statistics (database), [http:// dx.doi.org/10.1787/region-data-en](http://dx.doi.org/10.1787/region-data-en).

Despite the significance of the tradable sector for rural Korea, non-tradable sectors is much more labour-intensive than tradable sectors. In 2016, the non-tradable sectors accounted more than 50% (on average) of all jobs in these regions. About one-fourth of the total employment was in the distribution, trade, repairs, transport, accommodation and food service activities sector in predominantly rural regions in the same year. These activities have an important role in urban Korea as, in 2016, it accounted one-third of the total employment in urban regions. Since the crisis period (2007-2009), the agriculture, forestry and fishing sectors has lost its importance in rural Korea. The share of total employment in agriculture, forestry and fishing sectors fell from 27% to 16% in 2008-2016. In contrast the public administration sectors grew from 14% to 19% in 2008-2016. Other sectors have not gone through as dramatically changes as the agriculture and public administration sectors in terms of employment.

Table 1.3. Distribution of employment by economic sectors, 2016

Sector	Rural regions	Urban regions	Korea
Distributive trade, repairs, transport, accommod., food serv. activities (NT)	24%	30%	28%
Public admin., compulsory s.s., education, human health (NT)	19%	18%	18%
Agriculture, forestry and fishing (T)	16%	1%	5%
Manufacturing (T)	15%	16%	17%
GVA in other services (T)	7%	7%	7%
Construction (NT)	7%	7%	7%
Prof., scientific, techn. activities, admin., support service activities (NT)	5%	11%	9%
Financial and insurance activities (T)	2%	3%	3%
Real estate activities (NT)	2%	2%	2%
Non-manufacturing industry, including energy (T)	1%	1%	1%
Information and communication (T)	1%	4%	3%

Note: NT=Non-tradable sector; T=Tradable sector.

Source: OECD (2018^[11]), OECD Regional Statistics (database), [http:// dx.doi.org/10.1787/region-data-en](http://dx.doi.org/10.1787/region-data-en).

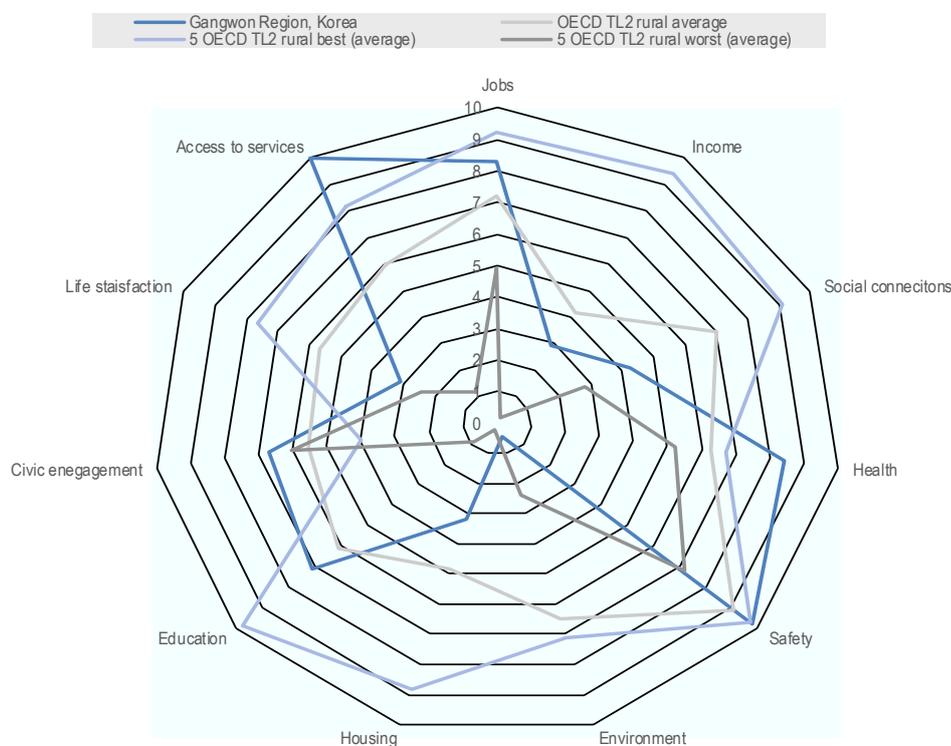
1.4. Well-being of rural dwellers

Regions are places where well-being levels are manifest. The regional well-being framework captures a number of factors that are important to the competitiveness of places, and helps to reinforce the importance of complementarities between different sectoral policies.

Given data limitations for adopting the OECD regional well-being framework at the smallest territorial level, the analysis considers the regional well-being of TL2 regions with high degree of rurality. The degree of rurality captures the percentage of the population living in rural communities. Rural communities are defined as municipalities with less than 150 inhabitants per km². The rural TL2 regions sample consists of 64 TL2 regions. The degree of rurality ranges from 67.9% to 100%. Korea has one TL2 region (Gangwon region) with relatively high degree of rurality (87.5%).

Relative to other TL2 with high degree of rurality, Gangwon region's performance across the different regional well-being dimensions is mixed. The region's comparative advantages are in the jobs, health, education, civic engagement, safety and access to services dimensions. Gangwon is a top performer in safety and access to services compared to other selected OECD TL2 regions (Figure 1.13). Approximately 97.2% of the region's households had a broadband connection. Moreover, the region had about 4.5 percentage points lower unemployment rate than the average of selected OECD TL2 regions.

Figure 1.13. The OECD Regional Well-being in selected TL2 regions with a high degree of rurality, 2014



Note: Each well-being dimension is measured using one to two indicators from the OECD Regional Well-being database. Normalised indicators are averaged with equal weights. Indicators are normalised by re-scaling (linearly) to be from 0 (worst) to 10 (best).

Source: OECD (2018^[11]), OECD Regional Statistics (database), [http:// dx.doi.org/10.1787/region-data-en](http://dx.doi.org/10.1787/region-data-en).

The good performance in the jobs dimension can be linked to higher rates of education. The importance of human capital and skills as drivers of regional growth is challenged by the increasing outmigration of the young skilled population to urban areas. In 2014, the educational attainment rate of the region was 73%, approximately 10 percentage points smaller than the national average. However, the educational attainment rate of the region is about 7 percentage points higher than the average rural TL2 region's rate.

Income was one of the dimensions where the region had lower levels than the average of the selected TL2 regions with a high degree of rurality (around 14 150 USD compared to an average of 19 300 USD). Another area of comparative weakness is environmental quality: The level of air pollution was in 2014 about 21.7 in $\mu\text{g}/\text{m}^3$, positioning Gangwon in the bottom in terms of environmental quality performance across OECD TL2 regions.

1.5. Summary

- Rural region's occupy more than half of the national territory but has relatively small part of the total population. Agriculture has reduced its significance as a key player in rural economy in the past decade. Manufacturing and service sector contribute the largest part to the regional generated value added as well as employs the largest share of employers.

- The diagnosis of the present situation and the main trends occurring in rural areas demonstrates the diversity that is currently present in rural Korea. The demographic and economic challenges vary from rural region to another. Rural regions are experiencing population loss, rural regions have a large concentration of elderly people and the regions are amongst the OECD TL3 regions that has the fastest growth rate of aging population. In terms of economic performance, two out of five rural regions in Korea has lower levels of GDP per capita than the average OECD rural region. Similarly, in terms of economic performance, all five rural regions have lower levels of labour productivity than the average OECD rural region. In addition, environmental quality in rural Korea is amongst the lowest performers across the selected TL2 regions. However, challenges related to the quality of environment are not rural specific per se in Korea as it concerns the country as a whole. The level of air pollution, measure used to describe the environment situation, is slightly lower in the selected TL2 region than at the national level.
- Rural Korea is heterogeneous. The evidence highlights that one predominantly rural region, Chungcheongnam-do, performance differs from other rural regions' performance. For instance, the demographic development differs from the general development trends occurred in Rural Korea as in 2000-17 the population of Chungcheongnam-do has increased and the population aging rate are the slowest across the rural Korea regions. Moreover, region reported the highest GDP per capita and labour productivity growth rates in 2000-14. As the average rural economy in Korea, Chungcheongnam-do's economic structure is tradable sector-based since larger proportion of the annual GVA comes from tradable activities. The two out of five rural regions, that experienced lower rates of GDP per capita growth, economic structures differ from the average one. Jeju-do's and Gangwon-do's economy is based on non-tradable sector.
- Despite the current challenges, Rural Korea is unique among the OECD countries in terms of the close proximity to a city. The median travel time to closest city is approximately 26 minutes. This is the second smallest median distance in the OECD countries. Majority of the rural population has access to services through broadband connection.
- Furthermore, rural regions are doing well in terms of socio-economic measures compared to other rural TL2 regions. Based on the evidence, the selected TL2 region with high degree of rurality performed above the average of selected TL2 regions with high degree of rurality in terms of human capital, labour force participation and life expectancy. However, according to the national benchmark, the selected TL2 region had lower performance in all the measures listed above expected in unemployment rate. The largest difference was reported in educational attainment rate, and smallest difference in unemployment.
- Solving the challenges stemming from depopulation and population aging and further improving the advantages and performance of rural regions of Korea would benefit not only the national agenda but also peoples in rural regions.

2. Evolution of rural policies in Korea and current policy measures

2.1. Historical evolution of rural policies in Korea

Korea is one of the countries which have achieved the fastest growth in the latter half of the last century. The export-driven industrialisation had led to the drastic increase in the income per capita and overall levels of living conditions across the territory. However, this period had also witnessed the significant expansion of the imbalances between regions and growing socio-economic concerns, which then urged policy responses. Thus the Korean post-war regional policy is highlighted by the “development era” that began in the 1960s and later growing focus on the balanced development since 1980s.

Even though in the early stages of the development era the national policy had been much devoted to the industrialisation agenda, the policies for rural regions had been also implemented as in the form of modernisation movement. In Korea, as in many other countries, agricultural policy had been regarded as rural development policy, although “agricultural area” is not synonymous with “rural area”. Thus, early stages of rural development policies had been carried out for agricultural villages aiming at raising the agricultural productivity and farm household income as well as improving living standards in rural areas.

The following two policies, the land reform undertaken in the 1950s and the Saemaul Undong in the 1970s have shaped Korea’s rural areas. (OECD, 2001^[4]; OECD, 2010^[5])

- **Land reform** in the 1950s. In 1950s, following the Korean War, a radical land-to-the-tiller agrarian reform took place. With populations dislocated by the war, landlords were without local, personal or political clout to counter the reform; and with rampant inflation, the government was eventually required to pay only a fraction of the land compensation awarded at the time of confiscation. The impact of the reform, which is one of the few peaceful agrarian reforms of its type to have been accomplished in the post-colonial world, was twofold. First, it gave at least subsistence incomes to the vast majority of the Korean population. Income inequalities were instantly levelled, and what would later become Korea’s heralded process of industrialisation with equity gained an important rural foundation. Second, in the context of low levels of urbanisation and the “as yet” small urban working and middle classes, the elimination of a landed rural elite gave enormous autonomy to the Korean government to construct what has come to be known as the “developmental state”, namely, a strong-arm government capable of heavily intervening in economy and society.
- **Saemaul Undong.** In the 1970s, the government launched a massive green revolution programme and a village modernisation programme: Saemaul Undong. The intention of the green revolution was for the country to achieve self-sufficiency in grain production, which was a response to three issues: national food security, providing cheap food for rapidly increasing urban populations, and limiting foreign exchange losses. Substantial increases in land productivity were achieved through strict enforcement of the adoption of high-yield crop varieties, subsidised fertiliser and pesticide programmes, and collection and distribution systems run by the government. In order to rebuild agriculture, the Saemaul Undong was first initiated from 1971 to 1973, under the strong leadership of the central government. At the beginning, 6 000 rural villages participated, increasing to 34 665 villages in 1973. During the second stage, from 1974 to 1976, the activity was extended considerably across the nation, with participation from schools and social organisations. In 1975,

a NGO, the Saemaul Undong Council, was set up to carry out campaigns aimed at achieving a wider participation. The council also placed emphasis on four measures, including projects to generate income, public work projects, education, and Saemaul Undong in urban areas. Since 1977, as the third stage, projects to improve the living standards and the income structure were carried out to complete the activity of Saemaul Undong. (OECD, 2001^[4])

2.2. Evolution of rural policies in a country of concentrated development

Throughout the development era in the last century, these agricultural policies had contributed to the development of rural areas and to the remarkable increase in the agricultural production and income in absolute terms. However, at the same time, this period had witnessed the growing disparity between the urban and rural areas. Rural areas in Korea were marginalised. The government prioritised industrialisation, which came with rapid urbanisation.

The changes in national goals and policies in the Comprehensive National Territorial Plans (CNTP) illustrate the history of Korean socioeconomic development and how the territorial development policies have evolved. The CNTP, which formerly formulated every 10 years before the extension to 20-year term since the fourth CNTP in 2000, presents the long-term vision and orientation of the government on territorial development.

The goals of the **first CNTP (1972-1981)** were the development of large-scale industrial bases, the intensification of transportation, and the provision of water resources and energy in order to facilitate economic growth. The key strategy at this time was to foster the “growth pole”, which geographically corresponded to the so-called Gyungbu corridor linking Seoul to Busan and Ulsan. The government used public resources and external borrowing to finance the work, focusing first on manufacturing and services in Seoul. It then went on to create the heavy industry base along the southeast coast by building such industrial cities as Ulsan, the construction of which began in 1969, and a number of other industrial estates in that region. During the 1960s and 1970s, to improve efficiency, the government’s investment was concentrated on the high priority areas of Seoul, Incheon and Ulsan, so as to facilitate accessibility to human resources, subsidiary material, product sales and infrastructure. (Lee, 2015^[6])

The first CNTP placed little emphasis on regional balance or living conditions. During this period, population concentration in the Capital Region had already brought about acute problems in Seoul, leading to urban policies such as the designation of a greenbelt and the construction of a subway.

In contrast to the first CNTP, which focused exclusively on industrial development, the national goal for the period of the **second CNTP (1982-1991)** placed explicit emphasis on balanced regional development, population decentralisation, and the improvement of living standards. (OECD, 2001^[4])

In the 1980s, various measures were adopted in line with the two policy directions: restraining the concentration in the capital region and expanding growth to regions nationwide. For the former, the Capital Region Readjustment Planning Act was enacted in 1982 to control the influx of people and industry into the Seoul metropolitan area by limiting the construction of new factories, universities, and other large-scale projects, and by relocating public offices to other regions. In order to promote economic development in regions outside the capital region, the government designated regional economic blocks and developed Industrial complexes in medium and small cities and rural areas. In the

1980s and 1990s increased government budgets were invested to the rural regions across the nation to develop basic infrastructures such as roads, communication facilities and water sources, and to improve educational, medical and welfare systems. (OECD, 2001^[4]; Lee, 2015^[6]; OECD, 2018^[7])

Despite the spatial development policy of the 1980s trying to balance regional development, concentration in the Capital Region continued in the 1990s. Therefore, the **third CNTP (1992-2001)** set four targets: regionally decentralised development; efficient land use; improvement of the quality of life, and enhancing amenity and unification of South and North Korea. The intention was to balance regional development by strengthening industrial centres along the west coast and the regional and provincial cities. In order to ensure support for less industrialised areas, the Law on Regional Balanced Development and Promotion of Local Small and Medium-sized Firms was enacted, establishing eight area-wide development plans. The third CNTP was particularly concerned with the development of lagging regions and with the quality of life within them. The same law also introduced the Development Promotion Districts (DPD). (Kim and Lim, 2016^[8])

In the last decade of the 20th century, Korea had experienced the drastic changes of global economy and internal socioeconomic shift. The Asian financial crisis in the late 1990s brought a devastating impact on the national economy, and while the country recovered quickly, the economy had entered into moderate growth era. Being historically export-oriented economy dependent on medium-technology manufacturing including the electronics, shipping, automobile, petroleum and chemical sectors, Korea has been pursued to shift its growth model to be more innovative and high value added in response to the acceleration of globalisation after the Asian financial crisis. (OECD, 2014^[9]) This required territorial development policies to support regions to be open and competitive.

At the same time, the changes of socio-economic conditions of Korean had emerged and been widely recognised. (Ministry of Land, Infrastructure and Transport, 2012^[10]) The national population growth has slowed down for decades and is expected to start to decrease in 2030, while the population ageing progresses at much faster than any other OECD countries. Continued economic concentration in Seoul-Busan corridor and persistent regional disparity between metropolitan regions and non-metropolitan areas has emphasised the need for regional policy. The consolidation of the democratic system and decentralisation have increased demand for well-being in lagging areas. (OECD, 2012^[11])

In response to the dynamic shift in the socio-economic environment, the fourth CNTP formulated in January 2000, is characterised by three distinctive differences from the former three CNTPs:

- Preservation of the territorial environment is given top priority; the plan calls for development in harmony with the environment leading to sustainable development.
- The plan was formulated through co-operation with the local governments and the civil society from the initial stage. The Research Commission for the CNTP was formed in 1998 and developed the plan. “Territorial Forum for the 21st Century” organised by a private sector initiative made recommendations and comments throughout the preparatory stage.
- The term of the plan is set for 20 years instead of the 10 years of each of the former three plans.

The fourth plan states the national goal to be “Realisation of Integrated Territory in the 21st Century”, to be achieved through integration of the regions, integration of development with protection of the environment, integration of the two Koreas, and integration with Northeast Asia. (Ministry of Land, Infrastructure and Transport, 2012_[10]) These four targets are given succinctly as “a balanced territory, green territory, open territory, and unified territory”. Balanced territory stresses regional integration and balanced development through the efforts of each region to enhance its own, local identity. Green territory clearly places emphasis on an integration of territorial development and environmental preservation, aiming at a sustainable national development with an improved quality of life. Open territory means being open to the global community in order to facilitate integration with the rest of Northeast Asia and in order for Korea to take the role as a centre of Northeast Asia and as a leading country in the world economy. Unified territory implies promotion of a peaceful unification and the establishment of a co-operative relationship between the South and the North.

Following the same direction as the fourth CNTP, Roh Administration (2003-08) intensified efforts to address regional development by introducing balanced development as a national priority, establishing the legal foundations for the national policy on regional development and making the first governance improvements towards more decentralised policy approaches. The balanced growth approach aimed at reducing disparities between regions and at favouring decentralisation from the Capital Region. (OECD, 2012_[11])

The Roh Administration sought to decentralise government functions which had highly concentrated in the Capital regions and geographically relocate them to underdeveloped areas across the territory, by carrying out massive national projects to build new cities. First, the Multi-functional Administrative City, otherwise known as **Sejong City**, is constructed to form a self-supporting city of 500 thousands inhabitants by 2030 and a home to many of newly migrated central government ministries and institutions. This administrative capital is also expected to attract private business and diverse industries such as health care, welfare, culture and international cooperation and advanced technology. In order to promote balanced location of administrative functions. Ten **innovation cities** are being developed nationwide, relocating 154 public agencies from the Capital region to the provinces. Innovation cities are constructed to accommodate not only government organisations but also private actors including enterprises and universities, pursuing to create innovative clusters. Pilot projects for **Enterprise Cities** were designated in August 2005 and 6 projects have been under implementation as of now. Despite the projects had slowed down and decreased in size due to the global financial crises and real estate market recession, the policy aims to boost regional economies through promoting private investment to underdeveloped areas. Although the goals of the Roh Administration were to narrow the gap between regions by relocating public organisations from the Capital region and developing growth centres in less developed areas, there have been criticisms that its mathematical allocation of functions increased the tension between regions. (Kim and Lim, 2016_[8])

Along with the above flagship projects, the Roh administration had established the legal foundation for regional policy to drive the balanced national development. Special Act on Balanced National Development in 2003 sets the legal framework for regional development. The act introduced three major improvements: first, it established a Presidential Committee on Balanced National Development, providing policy advice and horizontal and vertical coordination; Second, it aims to strengthen the roles of regional actors in regional development policy; Third, it promoted fiscal decentralisation through

the increase in the amount of transfers from the Special Account to local governments. (OECD, 2012^[11])

Under Lee administration (2008-2012), regional development had continued to be promoted but shifted its focus on from ‘balance’ to ‘development’, emphasising the competitiveness of regions rather than the equality among them. Renamed five-year Regional Development Plan, formerly five-year Balanced National Development Plan aimed at securing global competitiveness and improving the living standards of regional economies. The plan is comprised of sectoral plans which are developed on the basis of the four major ministerial development strategies (increasing growth potential, creating a pleasant living environment, promoting openness and co-operation, and achieving regionally driven mutual development) and economic regional plans developed by the Economic Region Development Committee. Under the plan 5+2 supra economic regions had been designated to enhance regional competitiveness through promoting regional strategic industries and to encourage horizontal cooperation beyond administrative borders. Despite some fruitful results, some scholars have argued that its regional policy focused too much on industries and lacked the immediate creation of local jobs and public participation.

Park administration (2013-2017) had put much emphasis on enhancing quality of life, with the vision of “Happiness to the People, Hope for the Regions”, while the policies under the previous administration had been largely maintained. The shift in policy goals reflected the changing policy environment such as citizens’ demand for regional policy, empowerment of local governments and fierce global competition. At the same time, the existing territorial restructuring strategies had limitations on development cost, social consensus, central government-led approach and policy effects, and called for new strategies which foster the collaboration of various regional and local governments beyond jurisdiction and encourage local community participation. The central government assistance to regions had become better coordinated with "policy packages" directed at the target region. (Kim and Lim, 2016^[8])

2.3. Current rural policy measures

Key institutional actors

In a broader sense, many Korean ministries are involved in regional development policies. In terms of balanced development agenda, the **Presidential Committee on Regional Development** (the **Presidential Committee on Balanced National Development** until 2009), launched in 2003, provides direction and oversight regarding key policies to implement balanced national development. The committee is composed of government (12 ministries) and civilian members and other special committees report to it, such as those for metropolitan area management, regional innovation and transferring public institutions to local areas, among others. The Committee is responsible for Five-year Regional Development Plans and the Special Account for Regional Development, as well as project management and evaluation. It also plays a key role in coordinating sectoral policies by different ministries.

Ministry of Land, Infrastructure and Transport (MOLIT) is the leading ministry to draft the Comprehensive National Territorial Plan (CNTP). As a long-term overarching regional development plan, the CNTP is a vehicle to encourage inter-ministerial coordination and to align subordinate regional plans. Since the enactment of the National Land Planning and Utilisation Act in 2003, replacing the Urban Planning Act and the

National Land Use Management Act, the Korean spatial policy has expanded its scope to include non-urban areas along with urban areas, thus allowing rural policies to have a territorial perspective.

The current CNTP (targeting 2000-20, formulated in 2000 and revised in 2009) proposes a three-layer structure for stimulating regional development: 7 (5+2) mega-regional economic zones with priority industrial specialisations, complemented by supra-economic regions (belts), and 161 basic residential zones. Many of the instruments to implement the plan are therefore industry-related (e.g., free economic zones, technoparks, R&D Innovation City).

Ministry of Agriculture, Food and Rural Affairs (MAFRA) is also a key ministry in rural development in Korea. The Framework Act on Agriculture, Rural Community and Food Industry mandates MAFRA to formulate the Agriculture and Rural Community and Food Industry Development Plan every five years. The Plan provides the policy directions which covers not only agricultural sector but also the broad policy measures on rural development.

The most recent policy plan for 2018-22 set four main policy targets: strengthening the income safety net; innovation for sustainable agriculture; enhancing food safety in the supply chain; and improving rural welfare. Strengthening competitiveness and growth of agriculture by enhancing agricultural productivity has been a core goal of agricultural policies in Korea. The most recent five year policy plans diversifies the objective of agricultural policies to address more varieties of societal demands towards agriculture and rural areas. The new policy plan shifted the orientation of agricultural policies further to ensure income stability and quality of life of farmers as well as the balanced development between agricultural production and environmental conservation. It also foresees a strengthening of bottom-up participation in policy. (OECD, 2018^[7])

In addition to MOLIT and MAFRA, various ministries relate to and implement rural development policies as shown in the Table 2..

Table 2.1. National Ministries related to Rural Development

Ministries	Related Departments	Policies / Activities	
Presidential Committee on National Balanced Development	Main Committee	– Establish regional development policy	
	Expert Committee	– Coordinate regional policies	
	Special Committee	– Five-Year Plan for Regional Development	
	Regional Development Planning Team	– Operation of special account for regional development	
		– Evaluation and consulting on regional development projects	
Ministry of Strategy and Finance	Policy Coordination Bureau	– Knowledge-based economy and new growth engine development	
		– Regulatory free zones, industrial policies, improvement of corporate regulations, etc.	
Ministry of Government Administration and Home Affairs	Local administrative office (Regional Development Policy)	– Regional development plan	
		– Local roads, border area, Special area	
Ministry of Land, Infrastructure and Transport	Land and Urban Office	– Study on the Development of the Population Reduction Area, Comprehensive Book Development Plan, etc.	
			– Support for Regional Economic Policy
			– Revitalize traditional markets and alley businesses
Ministry of Trade, Industry and Energy	Industrial Policy Office (Regional Economic Policy)	– Support for local economic events	
		– Regional development plan, growth promotion area, border area, comprehensive island development plan, etc.	
Ministry of Agriculture, Food and Rural Affairs	Rural Policy Bureau	– Industrial estate	
		– Planned contract system, etc.	
Ministry of Culture, Sports and Tourism	Tourism Policy Office (Tourism Policy Officer)	– Innovation Cities	
			– Regional economic stimulus plan, Five-Year Plan for Regional Development
Ministry of Trade, Industry and Energy	Free Economic Zone Planning Board	– Corporate Local Investment Fund Management	
		– Support for local hubs and promote local industries (local specialization industry; traditional industry; regional insurance industry, etc.)	
Ministry of Agriculture, Food and Rural Affairs	Rural Policy Bureau	– Industrial complex management; structural refinement, etc.	
			– Development and Activation of the Landscape Area
Ministry of Agriculture, Food and Rural Affairs	Rural Policy Bureau	– Improving the conditions of foreigners in Gyeongja-gu	
			– Activation of free trade zone, etc.
Ministry of Agriculture, Food and Rural Affairs	Rural Policy Bureau	– Development of Rural Area and Improvement of Living Conditions	
			– Development of General Agricultural Fishing Village
Ministry of Agriculture, Food and Rural Affairs	Rural Policy Bureau	– Local Happy Living Zones cooperation programmes, etc.	
			– Basic tourism development plan and regional planning
Ministry of Culture, Sports and Tourism	Tourism Policy Office (Tourism Policy Officer)	– Tourist destination Development	
			– Development of tourism and leisure type Enterprise Cities

Source: Korea Institute of Industrial Technology (2016)

Main rural policies for economic development

Balanced regional development has been a major policy issue in Korea, whose economic growth has concentrated on urban areas and the manufacturing sector, increasing the income gap between rural and urban households. In order to reduce the disparity, rural development policy focuses on two dimensions: economic development of rural regions

and well-being of rural communities. This section introduces main policy instruments to support local growth opportunities and boost competitiveness in rural regions.

In order to curb excess concentration of people in the Capital region, the policy measures to relocate public and private functions to less developed regions to build growth hubs have been traditionally adopted. First built in Ulsan in 1960s, industrial complexes, totalling 1,074 across the country has significantly contributed to the Korea's industrialisation and economic growth to date. The investment in building industrial complexes was followed by heavy investment in infrastructure, particularly in transport such as expressway networks and rapid-transit railway (KTX). While the central government support had been focused on large scale complexes usually located in cities, since the 1980s agricultural and industrial complexes have also received the government support as ways of revitalising small and medium-sized cities and regions. Target industries have shifted as well over time, from export-oriented industries in 1960-70s to R&D and innovation activities and investments were made to transform industrial complexes into knowledge-based centres. (OECD, 2012_[11])

Along with the policies to expand industrial growth engines to less developed regions, the 4th CNTP seeks to construct three types of new cities across the country to relocate administrative functions and economic activities from Seoul to Provinces. Many of government ministries and public organisations have been collectively relocated to the Multi-functional Administrative City Sejong, and other public organisations including research institutions have transferred to 10 newly constructed Innovation Cities to play leading roles in forming regional innovation systems. Enterprise cities aim to revitalise regional economies through encouraging private investment, providing incentives on land use and tax. (Lee, 2015_[6])

During the same time in 2000s, regional innovation had increasingly called for attention and policies to foster innovation and competitiveness in regions. Techno parks, Technology Innovation Centres (TIC) and Regional Research Centres (RRC) were the major policy tools for strengthening regional innovation systems in Korea. In addition to supporting strategic industries, a specific programme for lagging areas was implemented. The Revitalisation Business programme targeted agriculture-dependent areas and supported processing and distribution linkages to support development of areas specialised in agricultural activities. The programme offered entrepreneurship training, support for collaboration between agents of the innovation system and rural-urban interaction to mitigate rural-urban migration. (OECD, 2012_[11])

In recent years, a couple of policies are in progress, which aim to foster regional innovation systems. (Kim and Lim, 2016_[8]) Since 2015, the government has developed the new policy package of **Regulation Free Zones** to foster local strategic industries by concentrating the resources and capacity of each region. Each region develops a Local Economic Development Plan to promote 2 flagship industries of the region, such as IoT and 3D printing, and submit the plan to the government. Once approved as the regulation free zones, special exemption from the national regulations, which may hinder the strategic industries, would be given to the region, along with financial supports. The policy is intended to be bottom-up and the development process of the regional plan is also inclusive and collaborative, where local governments work together with local industries and other stakeholders.

Another example of bottom-up approach in regional development policy can be found in **Demand-Driven, Customised Assistance**, introduced in 2015. In contrast to its predecessor subsidy-based policy for underdeveloped areas, which had focused on large

scale infrastructure investment, the DDCA integrates hardware such as infrastructure and software such as cultural content, aiming at both enhancing quality of life and promoting economic growth. Each regional government formulates project proposals, based on the consultation with the local people, experts and interest groups so that the plan is tailored to satisfy the local demands, and MOLIT is in charge of selecting plans eligible for government supports.

The widening income gap between urban and rural area in the process of rapid industrialisation is a major policy concern for sustainable development in rural areas, where agriculture remains an important economic base. Structural change in the agricultural sector and diversification of income sources to off-farm employment have been the main pathways to addressing low income issues in rural areas. Despite government efforts to develop rural infrastructure and provide incentives to attract non-farm business activity to rural areas, young and skilled workers tend to leave such areas.

Future demographic change and slowdown of economic growth will have a significant influence on Korean agriculture from both supply and demand sides. Currently, 59% of farmers are over 65 years old, but the average age of farmers is expected to increase further. The domestic food market is unlikely to expand due to the declining and ageing population. Per capita consumption of rice nearly halved in just 25 years, and is likely to decline even further.

Given the challenges that the Korean rural areas face, agricultural policy requires focus on two directions: i) raising the productivity and competitiveness of agriculture, and ii) promoting off-farm economic opportunities. (OECD, 2018^[7])

MAFRA is promoting the **Smart Agriculture Project** to integrate ICT with agriculture and rural areas. This project established more than 45 cases of model development and field demonstration. The area of greenhouse vegetable production using ICT expanded from 40 077 to 52 526 ha between 1995 and 2015. The project also introduced an automatic feeding system for pig farms. To promote effective integration of ICT with the agri-food industry, the Korean government is developing farming systems where artificial intelligence (AI)-based systems automatically control farm operation; it is also enhancing the use of drone technology and geographic information systems (GIS).

Despite declining domestic demand, Korea's relatively small food manufacturing industry is growing rapidly. Its share in the overall manufacturing sector is much smaller than in other OECD countries and, dominated by small-scale firms, its labour productivity lags that of its competitors. Promoting the industry will be a particularly important policy area if the opportunities to produce value-added food products are to be exploited. The industry also has the potential to create employment in rural areas.

As a part of income diversification strategy, the so-called "6th industrialisation policy" has been implemented to promote the production of high-value-added agricultural products through expansion of farm operations to processing, marketing and tourism. Since 2014, the government has installed 6th industrialisation support centres in 10 regions to investigate the development of 6th industrialisation activities and undertake business support projects. The government also established the 1st Basic Plan for the Development of the 6th industrialisation (2016-20) and introduced the certification system of 6th for business operators with a potential to lead the process and to foster outstanding enterprises. In 2016, 1 130 business operators receive the certificate.¹⁶ The Basic Plan has a target to maintain the sales growth rate of certified business operators at 5% by 2020, to increase the number of 6th industrialisation start-ups from 1 600 in 2016 to 3 000 in 2020, and to increase the number of rural tourism visitors from 6 to 8 million during the same period.

Diversification of rural economic opportunities may further extend to the industries that do not directly relate to agriculture. The Act on Promoting the Development of Income Sources for Agricultural and Fishing Villages in 1983 has promoted the construction of industrial complexes, which provide jobs in both manufacturing industries and agricultural product processing.

In order to allow the policies aiming at raising agricultural productivity and diversifying rural industries to achieve the rural sustainable development, better alignment with a broader policy areas including education/skills policy is essential. The development of the educational environment is an important element to enhance the quality of life in rural areas. However, if they fail to provide decent job opportunities, rural regions would not be able to attract and retain the young generation and skilled workers, who would then leave for urban areas.

In response the educational environment gap between rural and urban areas, the Ministry of Education is implementing two major projects to improve the quality of life for farmers and fishers. The project supports selected middle schools in rural areas to form education hubs and attracts students from urban areas. The financial support allowed the selected middle schools to improve educational facilities and deliver various educational programmes (such as the School Creative Career Education Program, sports clubs, orchestra, foreign language programmes). The second project involves ICT facility construction and the distribution of educational content at primary, middle and high schools. Agricultural high schools and the Korea National College of Agriculture and Fisheries have been playing key roles in providing vocational education in the sector. The government has increased fiscal supports to these education organisations to allow them to deliver practical competency-oriented curriculum. (OECD, 2018^[7])

Main rural policies for enhancing well-being

According to a survey conducted by the Korea Center for Disease Control and Prevention in 2010, the prevalence of the 10 diseases in urban areas was 65%, while the prevalence rate of residents in the non-urban areas was 74% of the total population. As this notable disparity in well-being of the residents between urban and rural areas would be derived from the lack of good access to medical services, securing access to basic public services across the territory should be the priority in enhancing the quality of life in rural regions.

Korean rural policy has increasingly extended its focus from development to well-being of the rural communities. In 2010, the Special Act on Improving the Quality of Life in Rural Areas and Rural Development Promotion was amended to establish **the National Standards for Rural Area Services** to guarantee a high quality of life for rural residents and narrow the gap between cities and rural areas. The Standards cover a wide range of basic public services and set the targets to be achieved by 2019, selected by the central government while local government may add items according to the local conditions and needs.

While being guidelines rather than legal requirements, the Standards has been doing well in engaging local communities with the service provision agenda, through the monitoring and incentive mechanism. The Korea Rural Economic Research Institute is in charge of inspection and evaluation of the implementation, in cooperation with local governments and provincial research institutes which review regional selected indicators. The 2016 assessment of policy achievement shows overall improvement from the previous year but most areas still fell short of the standards, except for emergency services and the broadband convergence network (Table 2.). Financial incentives would be given to the regions doing well and policy supports to the regions that are struggling to achieve the goals.

Table 2.2. Monitoring implementation of national standards for rural service delivery

Sector	Policy Target by 2019	Target (2019)	2015 (%)	2016 (%)	Changes ('15→'16)
Health and welfare					
Medical service	City and county ratio to receive medical care for important subjects (such as internal medicine, oriental medicine, orthopaedics, obstetrics and gynaecology) should be 80% or more.	80	76.8	73.9	↘
Emergency service	In case of an emergency, the rate that the ambulance will arrive within 30 minutes and receive first aid service should be 97% or more. In the case of the island area, a system of patient transport using helicopters and ships should be established.	97	98.4	98.6	↗
Elderly service	The rate that elderly people can receive welfare services at home more than once a week should be 80% or more.	80	71.8	70.1	↘
Young children	The rate to use day care facilities for infants and toddlers within <i>eup</i> and <i>myeon</i> districts should be 80% or more.	80	69.7	69.2	↘
Education					
Elementary/middle school	Foster rural schools for local conditions and provide appropriate transportation to students who need transportation assistance.	100	71.1	71.8	↗
Lifelong education	The rate to receive lifelong education programmes at the service centre facilities within <i>eup</i> and <i>myeon</i> districts should be 40% or more.	40	21.8	19.7	↘
Settlement conditions					
Housing	The percentage of households living in homes that meet minimum housing standards should be 95% or more.	95	88.3	88.3	-
Water supply	Water supply ratio in <i>myeon</i> districts should be 82% or more.	82	67.8	69.3	↗
Heating system	City gas supply rate in <i>eup</i> districts should be 65% or more. The government should promote a reduction in heating costs in regions where it is difficult to supply city gas.	70	53.1	57.0	↗
Public transport	Use transport more than 3 times a day within the village. Quasi-transportation programmes should be introduced to regions where it is difficult to operate transportation system. In case of island areas, more than one round-trip passenger ship should be operated per day.	100	90.4	90.4	-
Broadband	Broadband convergence network construction rate should be 90% or more.	90	85.8	92.8	↗
Economic activity/job					
Start-up and employment consulting/education	Professional consulting and education service about start-ups and employment should be available within cities and counties.	100	67.3	67.4	↗
Culture/leisure					
Cultural facilities and programmes	It is possible to see a culture programme more than once a month and professional performance programme more than once a quarter in cultural facilities such as Culture and Arts Centre within cities and counties.	100	91.3	92.0	↗
Environment/landscape					
Sewerage	The diffusion rate of sewerage should be 85% or more.	85	80.8	81.0	↗
Safety					
Crime prevention equipment	CCTV installation rate should be 85% or more to prevent prevention of crime.	60	35.8	43.2	↗
Police patrol	Patrols in villages vulnerable to crime should be conducted more than once a day for each village.	100	-	-	-
Fire call	The rate that a fire truck arrives at the scene within 5 minutes after receiving a report should be at least 55%.	55	41.1	41.1	-

Note: 1. In Korea, *dong* districts are termed urban areas while *eup* and *myeon* districts are classified as rural areas.

2. 2016 indicates the year of publication using most recent data available.

Source: MAFRA (2017) Inspection and evaluation result of quality of life implementation plan for farmers and fishermen in 2016 and announcement of implementation plan for 2017, press release, 27 April.

In addition to securing basic services to be provided in each locality through the service standards, the use of networks among rural villages is emerging as an effective and efficient policy to build sustainable living environment in rural communities. **Rural hubs revitalisation project** has been promoted since 2015 by MAFRA, reorganising predecessor project focusing on infrastructure and property development. In response to the increase in depopulated villages, the new project aims to improve the residents' livelihoods by linking with towns which can function as rural hub and provide neighbouring villages with various services including education, medical, cultural, welfare and business. Public supports are focused on improving basic living infrastructure in general village districts and in contrast larger investment is made in leading districts so that they can function as the business and service hub in the region. Until 2016, 33 leading districts have completed basic planning and they are in the implementation stage.

Regional cooperative approach to enhance the quality of life has been increasingly mainstreamed in the Korean regional policy and adopted at larger spatial scale. Under the former Park administration, a new spatial concept, **Happy Living Zones**, was introduced in 2013 as a basis for regional development policy. It aims to enhance peoples' happiness and quality of life by encouraging cooperation among local governments beyond jurisdiction.

Three types of the zones were formed according to the shared characteristics and conditions of local municipalities, such as geography, local industries and historical background. These include:

- rural zones -- containing approximately 100,000 population,
- rural-urban zones -- containing small and medium-sized cities with around 100,000-500,000 population, and
- metropolitan zones hosting more than 500,000) population.

The zonal development plan is designed and implemented by the association of local governments in the zone. It covers various inter-local cooperation projects such as economic revitalisation, education, culture, welfare and basic infrastructure, which then are fed into the provincial and national five year regional development plans. To support the formation of the zones and implementation, central government had provided a broad range of supports schemes such as coordinating local governments with funding through the special account for regional development, consulting and technical assistance, and deregulation. Despite its success, the Happy Living Zones policy, has been criticised for its excessive focus on local welfare and service provision and absence of regional growth strategies.

2.4. Implementing rural policies across levels of government

Role of regions and fiscal frameworks

Korea is a unitary country with a legacy of a highly centralised policy approach and a brief experience of decentralisation. The legacy of centralised policy management is embedded in the institutional memory of public institutions in Korea. Institutional changes do not happen overnight and cumulative learning processes explain the path dependency in policy making and the persistence of central government control in spite of reforms towards decentralisation. **Local governments**, which have been elected since 1994, **have little autonomy and space for strategic planning**, and national priorities still play a key role over the demands of local constituencies.

The central government is attempting to transfer more responsibilities and resources to local governments. However, local governments have little financial autonomy and are still largely dependent on central government transfers for the implementation of policies and delivery of services. With the national policy goal of balanced national development, the Korean government has been fully committed to actual decentralisation and continued its efforts to realise it.

Korean subnational governments tend to much rely on grants and subsidies from the central government (58.0%) and have smaller own financial source of tax (33.0%) in 2016, compared to the OECD average, 37.2% and 44.6% respectively. Some value-added taxes are collected under the name of local consumption taxes to increase the tax revenue base of local municipalities. Fiscal imbalance has been covered by tax-sharing agreements (local shared tax) and inter-governmental transfers from central government (a block grant to promote capital investment called national earmarked categorical grants). In 2005, fiscal reform was enacted establishing the “Special Account for National Balanced Development” which transformed many specific-purpose grants into integrated national grants for regional development that were otherwise scattered in the central government’s accounts. The Special Account for National Balanced Development was then reorganised and the **Regional Development Special Account** was established in 2009 to expand fiscal spending for local municipalities. Two hundred projects were integrated into 24 comprehensive projects and a **block grant** was adopted to give local municipalities the authority to autonomously design the projects. (OECD, 2010_[5])

As for policy planning and implementation, both the central and local governments have responsibilities and roles. The central government establishes top-level sectoral plans, such as the Comprehensive National Territorial Plan, the Development Plan for Agriculture, Rural Areas and Food Industries, and local governments elaborate regional sectoral plans that reflect the conditions of each region, along with considering the direction of the national plan.

Rural development projects are designed and implemented by municipalities while the line ministries have the authority to evaluate the submitted programmes and to coordinate. The Presidential Committee for Balanced National Development reviews non-urban policy projects and conducting an annual survey on excellent cases to improve the policy outcomes. This policy evaluation system leads to the budget reduction for ineffective projects or financial incentives for outstanding projects.

In terms of multilevel governance, the Korean government has been keen on the central-regional contract system, where local governments can establish a comprehensive multi-year regional development plans and obtain multi-year financial support from the central government based on the central-regional agreement. The rationales behind the **Regional Development Investment Agreement** are to enhance the local governments’ autonomy and capacity on their own regional development agenda and to break the policy silos among central ministries which dominate regional policies through sectoral approaches.

Following the amendment of Special Act on Balanced National Development in 2017 to allow preferential fiscal supports to the contract-based local projects from the Special Account, around 10 local governments will be selected as pilots and initiate the contract process with the central government in 2019. In order to meet the goal of improving the efficiency of policies and the regional autonomy, the new agreement system is equipped with powerful tools. Financially, large amounts (approximately 15 billion KRW for each pilot region) of government support will cover 30-80% of the costs of projects in the agreements over up to 3 years. Consulting support by regional policy experts will be also

available to complement the lack of planning ability in local governments. To monitor the progress, the MOLIT will provide quarterly reviews on the performance indicators set by each regions, and then the results will be reflected in the next year's implementation plan.

Emergence of a functional approach

As mentioned earlier, functional approach beyond administrative boundaries to regional development has been increasingly highlighted in Korean policies across the scales of regions. For example, the concept of Happy Living Zones has been derived from the need for regional perspectives to support self-sustaining development of rural areas.

Given the long-term demographic trend of population aging and outmigration in rural Korea, it is neither efficient nor sustainable to provide public services in every small village across the country. Although Korea's public finances are fiscally sound, it is a priority to pursue fiscal efficiency to prepare projected long-term fiscal challenges (OECD, 2018_[12]). In this regard, policy initiatives that mobilise regional linkages to enhance the quality of residents' life should be an effective approach to provide public services in less populated regions, avoiding overlap of public investment.

Partnership with private actors

Traditionally Korea's non-urban development policy has been top-down approach led by the central government, however for recent years, social and economic organizations such as village enterprises, cooperatives, self-help companies, and rural community companies have actively been playing larger roles in policy making and implementation. Public-private cooperation (private assistance) is expanding so that the flexibility and innovation of these intermediate support organizations can be utilized in non-urban policies.

A good example of the partnership between public and private actors would be the social enterprises in Chungnam Province. Social enterprises operate in various social welfare areas such as health care for the elderly in remote communities and mental health care for children and the youth. The activities of these social enterprises cover a wide range of services, for example, a social enterprise for the elderly's health care offers medical services through medical cooperatives in areas of higher proportion of the elder residents. Not only providing medical services for the elderly, the enterprise functions as a vehicle for collaboration between various local actors including local government, volunteer organisation and private companies. Partly funded by the Provincial support fund and subsidies from municipalities, the social enterprises are operating with their own incomes from membership fees and medical service provision.

2.5. Summary

- The regional and rural development policy in Korea has significantly evolved over the past 60 years. Though the balanced development is not new in the Korean policy agenda, the focus has diversified from solely economic and industrial development, which in fact enhanced the national income and living conditions across the country while widened the regional disparity, to include securing quality of life nationwide. Correspondingly, rural policy has increasingly adopted functional and network-based approaches to deal with rural issues such as basic service provision, along with traditional large-scale investments to build growth hubs.
- Profound demographic changes, namely a rapid ageing population and continued outmigration of the young generation to metropolitan regions, loom large in the

Korean rural future. Rural economies require to improve the agricultural productivity, that remains a key rural industry, and increase the economic opportunities and jobs in off-farm and non-agri sectors. To this end, several policy initiatives such as the Smart Agriculture and the 6th industrialisation of agriculture have been in progress by the Agriculture Ministry. Growth strategies should be well aligned with education and skills policies so that the regions can retain the young generation and link their skills with local assets.

- The institutional framework for the rural development is still central government-led and line ministry-oriented. Decentralisation of financial resources and authority should be encouraged. Recent development of the contract system between the central and local governments is noteworthy as it aims to build local capacities as well as break policy silos through providing multi-ministerial and multi-year governmental supports. At the same time, as the recent policy trend which emphasises the functional networks of villages and cities would suggest, there is the need for broader perspective to better design and implement rural development policies. In fact, the national spatial planning system has incorporated non-urban areas into its scope since 2003 and the Presidential Committee on National Balanced Development has a wide range of mandates in the regional development policy. However, in terms of government supports, policy programmes are usually designed and implemented by sectoral ministries. Inter-ministerial cooperation mechanism needs to be developed.
- Lower quality of life in rural areas, compared to urban areas is the key rural policy concern. In addition to the commitment to the national minimum for the basic service provision in rural villages, the government has adopted new approaches to improve the availability and accessibility to the services for rural residents. Focused investment to rural hub towns and networking surrounding smaller villages allow village residents to access to broader services. Recently, non-governmental entities such as social enterprises and community-based actors have been active and playing larger roles in the rural development policies.

3. Lessons from international examples

3.1. Reflections on Korea's rural policies and options for the future

Lessons from rural policy 3.0 and from a selected number of OECD countries

Rural regions will play a central role in meeting the major global opportunities and challenges of the 21st century. The OECD's Rural 3.0: Framework for Rural Development (2018_[13]) outlines the case for focusing on rural areas as engines of national prosperity and how policies should leverage this opportunity. However, rural regions across the OECD face structural challenges, notably a combination of population loss and population ageing, making it more difficult to maintain public services and quality of life.

Traditional policy solutions based on the assumption that people will move, or that regional policies are a deadweight that redistributes wealth do not provide sustainable solutions. Place-based rural development will be critical for delivering wellbeing for rural dwellers.

Rural Policy 3.0 is a policy framework to help national governments support rural economic development. The New Rural Paradigm, endorsed in 2006 by OECD member countries, proposed a conceptual framework that positioned rural policy as an investment strategy to foster competitiveness in rural territories. This approach represented a radical departure from the typical subsidy programmes of the past, aimed at specific sectors. Rural Policy 3.0 is an extension and a refinement of this Paradigm. Where the New Rural Paradigm provided a conceptual framework, the Rural Policy 3.0 focuses on mechanisms for the implementation of effective rural policies and practices.

Rural Policy 3.0 reflects several important changes in rural development. First and foremost, rural regions have evolved into far more diverse and complex socio-economic systems. Second, in general, government policies are now less isolated and are held to more rigorous accountability standards. Third, with better data and analysis, it is possible to have a greater understanding of rural regions and move away from the presumption that all rural places are alike. Fourth, the Rural Policy 3.0 agenda recognises the strong interdependencies between rural and urban regions and proposes to better integrate rural and urban policies at various government levels.

Objectives for rural policy have become multidimensional, with a broad definition of well-being. Rural Policy 3.0 focuses on delivering a level of well-being to rural dwellers that is comparable to what is attainable in urban areas, even though different aspects may be emphasised. In general, quality of life has: i) economic dimensions, where household income hinges on employment in firms that are productive and competitive; ii) social dimensions whereby households have access to a broad set of services and local society is cohesive and supportive; and iii) a local environment that provides a pleasant place to live. The balance among these elements may vary considerably across rural regions. This broader well-being agenda does not abandon the objective to improve rural competitiveness; rather it recognises that competitiveness is a necessary, but not a sufficient, condition for well-being.

Effective rural policies involve the engagement of a broad array of actors and multi-level governance mechanisms. A pooling of resources and capabilities across entities creates the ability to collectively accomplish what no individual actor can achieve independently. This demands the collaboration and engagement of government at multiple levels, and involvement of the private sector and third sector. Building capacity underpins the

implementation of rural policy. Long term capacity building makes rural communities more engaged in processes of development and more resilient to shocks.

Rural policies should focus on integrated investments and delivering services that are adapted to, and meet the needs of, rural areas. There is strong pressure to make better use of investments and more efficiently deliver services in rural areas. Integrated investments have the potential to reap the benefits of complementarities when they are adapted to the needs of different types of rural areas. Different sectoral policies should be co-ordinated and mutually reinforcing, and the mix between them should be rebalanced to meet differing local needs. Moreover, policy interventions that target administrative boundaries in silos can miss the strong synergies that are present between rural and urban areas. Functional definitions that recognise areas with strong rural and urban linkages can help integrate policies and efforts.

Rural Policy 3.0 emphasises the following policy lessons:

1. Delivering *improved well-being for rural dwellers* (across economic, social and environmental dimensions).
2. Understanding the *growth dynamics of low-density economies* (distance to markets, role of the tradable sector, and absolute advantages).
3. Deploying *a range of policy instruments* (investments, addressing market failures, and supporting social innovation).
4. Fostering a *multi-sectoral approach* that engages public agencies, the private sector and non-government organisations, and is inclusive of different population groups and places.
5. Integrating delivery to *enable sectoral policies* that match the needs and circumstances of different rural regions.
6. Understanding that *there is a spectrum of rural regions* ranging from those in an FUA to remote which have different policy opportunities and challenges

The rural policy 3.0 places a high focus on multilevel governance and how responsibilities are shared across levels of government. Contracts are a tool often used by government to set a framework for long-term projects. They can be broadly defined as an arrangement that reorganises the rights and duties of governments; define mutual obligations; and agree on authority and enforcement mechanisms (formal or informal). There is indeed a trade-off between long-term programmes for economic development which provide certainty for the public and private sector, and the need to adapt to new priorities. However, contracts can be innovative policy tools that can provide flexibility among levels of government to respond to challenges without compromising stability (OECD, 2018^[14]).

This section provides examples from the experience of France, Italy and Sweden. Both France and Italy make use of contracts and the case of Sweden places a bigger emphasis on the promotion of wellbeing in rural areas.

3.2. France

France: managing contracts across levels of government and the contracts of reciprocity

France is a relatively centralised country that began a decentralisation process in the 1980s. During this process, the central government has devolved tasks to regions, departments

and, to a far lesser extent, to municipalities. In addition, it has been accompanied by a corresponding increase in the competences of the representative of the central government at the subnational level –namely the prefect. In other words, the process of decentralisation (assigning competences to sub-national actors) has been reinforced by the deconcentration (increasing responsibilities of these actors and the agents of the central government in regions).

One of the main purposes of the decentralisation in France was to reform the system of central planning. For this reason, a system of regional planning was created in the 1980s. The primary mechanism for regional planning thus became the State-Region Planning Contracts or *Contracts de Plan État-Région* (CPER) (OECD, 2007^[15]) The CPERs remain the main type of contracts among levels of government in France for regional development. In addition, France has recently created a new framework for subnational government co-operation. In 2015, France launched an experimental scheme to promote inter-municipal cooperation, called City-countryside Reciprocity Contracts (*Contract de Réciprocité Ville-Campagne*) (European Network For Rural Development^[16]).

Decentralisation in France

The process of decentralisation in France consisted of the re-assignment of responsibilities across the different institutional levels using two approaches. First, competences were assigned globally, meaning that “blocks” of competencies were granted to each level. This approach was taken to avoid the duplication of competencies among the different levels of government. However, overlapping competences do, in fact, remain (e.g. in education). Secondly, no hierarchy was established among sub-national authorities (*non tutelle d’une collectivité locale sur l’autre*). Only the State has the right to arbitrate the possible conflicts or overlaps that may arise between the different sub-national authorities (OECD, 2007^[15]).

The central government retains the power to grant competencies to the sub-national jurisdictions and also to remove the competences. The central governments retains competencies in three major sets of activities:

- Defence, security and diplomacy: It is the only level of government with the right to represent France. The sub-national jurisdictions have no international power. However, through decentralised co-operation they can have agreements with jurisdictions from other nations.
- Control and arbitration activities: the central government retains sovereign powers; therefore it has the right to control the actions of the sub-national jurisdictions (a posteriori financial control through the *Chambres Régionales des Comptes* – regional audit courts).
- Social and solidarity actions: the central government is in charge of all the activities related to social justice, inter-territorial justice and equity. The criteria for determining how national resources are redistributed among citizens are decided in Paris. The criterion focuses upon national cohesion and equity among citizens of different regions.

In France, there are three types of sub-national authorities (*collectivités territoriales*) (OECD, 2007^[15]):

- Regions (*régions*): They have an average population of 2.5 million inhabitants. However, there is great diversity among them, ranging from 10 952 000 in Ile-de-France to 710 000 in Limousin. Each region is governed by an elected regional

council (*conseil régional*). The central government is represented by a regional prefect in parallel to the elected regional council. Following changes from the Law NOTRe in 2015 which involved new competences for regions, there was a merger from 22 regions to 13 in 2016 (Charbit and Romano, 2017_[17]).

- Both regions and departments have responsibilities regarding economic development; roads and large-scale infrastructure; social services, solidary and housing; and education and culture. More specifically, the region's responsibilities can be described as follows: regional planning, co-ordinating economic development, vocational training, high schools (OECD, 2007, p. 75_[15]).
- Departments (*départements*): They are the mid-sized sub-national authorities. The average population of a department is approximately 300 000 inhabitants, ranging from 2.1 million (Paris) to 73 500 (Lozère). The department is run by a council (*conseil général*) consisting of elected officials. In similar fashion to the regions, the central government is represented by the prefect and also by deconcentrated ministerial services. There are 100 French departments (4 are on overseas islands). Departments are responsible for roads, social services, school transportation, middle schools, and rural planning.
- Municipalities (*communes*): These are a lowest level of sub-national authorities. There are 36 500 municipalities in France, of which 89% have less than 2 000 inhabitants. Each municipality is governed by an elected municipal council (*conseil municipal*).

Municipalities are responsible for urban planning, land-use controls and security (municipal police).

While responsibilities for each level of government appear to be clearly defined, in fact, most are shared (except for vocational training which is only a regional competence). Because no hierarchy was established among sub-national authorities, the allocation of competences is not always clear. Therefore, conflicts regarding freedom of action at each level of government can occur even if there is an assigned co-ordination role (e.g. regions co-ordinate economic development).

In that sense, there are two mechanisms to control and monitor the behaviour of the sub-national authorities. First, controlling the actions of sub-national authorities is “legal”. The prefect ensures that any act contrary to the law or in abuse of regulations will be reported to a supervisory judge. The second mechanism is a regional audit office, which keeps control sub-national authorities' expenditures and financial records (OECD, 2007_[15]).

Regional policy and the use of contracts: the state-region project contracts (CPER)

The decentralisation process in France aimed at delegating certain responsibilities to sub-national authorities. Another purpose was to reform the system of central planning and introduce a system of regional planning, thus introducing the State-Regions Contracts or CPERs. According to Charbit and Romano (2017_[17]), the CPERs fall under the category of “empowerment contracts”. Empowerment contracts are tools for transferring responsibilities to subnational governments while gradually building capacities for policy implementation. It is also the intention of these types of contracts that sub-national authorities acquire in the middle-long run the necessary capacities to develop their own strategies and co-ordinate with lower levels of government (e.g. municipalities) or private actors. In order to build local capacity, it is important to valorise the role of local decision

makers. Central governments can include incentives as conditions for signing the contracts, such as partnering with private actors, involving neighbour local governments or adopting specific regulations, among others.

A state-region project contract (CPER) is a negotiation whereby the state and the region undertake multi-year programming and financing of major projects for creating infrastructure or supporting leading-edge industries. The central government clearly envisages CPERs as a tool for developing a coherent regional policy at the national level.

The State-Region Planning Contracts were originally launched in 1984. Later, in 2007 they changed their name to State-Region Project Contracts in order to reflect the evolution the Contracts had undergone, especially in terms of embracing a more bottom-up approach rather than a top-down planning procedure (OECD, 2007_[15]). After five generations of CPERs, regions have gradually replaced the central government in local development planning and regional decision-making has progressively included new fields, larger budgets and new actors (Charbit and Romano, 2017_[17]).

Since the beginning of the decentralisation process in the 1980's, the co-ordination context has evolved and strengthened. A first element to take into account is the relative degree of knowledge between the central and the regional governments. Considering that decentralisation represented a dramatic change in an institutional framework in which all policy choices were historically made by the central government, both the regions and the central government needed to acquire information about the regional competencies associated to the first-time responsibility to plan for their own development. Nowadays, the central government and the regions have accumulated experience and are better informed about their skills, policy objectives and the best ways to translate the competences into means to reach their goals.

Regions and the central government co-ordinate their behaviours in terms of strong vertical inter-dependencies. Indeed, the process of decentralisation has resulted in assigning to the regions tasks that cannot be reached independently from what is done by the central level and in other regions. Thus, the tasks delegated and the objectives assigned to the regions have to be compatible with the policies designed at the central level.

CPERs have four general features (OECD, 2007_[15]):

1. CPERs are signed between the central government (represented by the regional prefect) and the head of the regional council (an elected official). Other regional actors, such as associations and firms, also play a notable role in the process of preparing the regional strategic plan.
2. CPERs include a territorial component that consists of specific sub-contracts within the same framework: *contrats de pays*, *contrats d'agglomération* (agglomeration contracts) and *contrats de parcs naturels régionaux* (regional natural park contracts). These contracts were created to acquire information and to define the projects that local partners will develop in order to receive funding from the central government.
3. CPERs are not strictly speaking delegation contracts, they are co-funding. Parties agree upon the realisation of a certain number of tasks and the way they will be funded. They do not assign the realisation of tasks to the regions, departments or any other sub-national authority.

4. The duration of the CPERs has ranged from five to seven years. The first generations of CPERs lasted five years, it was then extended in later generations to 7 years. The current generation of contracts will last six years (2015-2020).

In the early generations of the CPERs, the projects mostly related to investment in infrastructure and the modernisation of the industrial areas. Although these type of projects have not disappeared, they have significantly decreased. Instead, the projects are progressively devoted to general and qualitative goals, such as the welfare of citizens, the quality of employment, efficiency of firms and sustainable development (OECD 2007). For instance, the State-Region Contracts 2015-2020 have five priorities for which 30 billion EUR will be made available: transport, higher education, digitalisation, innovation and ecological and energy transition (Charbit and Romano, 2017^[17]).

Co-operation among subnational actors: reciprocity contracts

In 2016, the French government launched new contracts called “city-countryside reciprocity contracts”. These contracts stem from the acknowledgement of the complementarity potential of its different urban and rural territories and the explicit goal to reduce the gap between urban and rural territories. This is an experimental tool to promote inter-municipal cooperation and to empower a new subnational entity –the metropolitan areas. The agreements are adaptable to different territorial realities. Since their jurisdictions are not pre-defined, that allows them to cover different areas depending on the local priorities and contexts (European Network For Rural Development^[16]) (OECD, 2016, p. p.210^[18]).

This policy initiative stemmed from a national consultation process on rural challenges that lasted two years. The diversity of rural areas was acknowledged and strived to foster urban-rural linkages. Such a spatial planning approach requires a macro regional strategy that recognises the importance of a polycentric urban network to the development of areas linked to these metropolises, including small and medium-sized towns located nearby (European Network). This is driven by an understanding that urban-rural interactions should address not just proximity issues (e.g. commuting patterns), but also consider reciprocal exchanges in order to build meaningful partnerships.

Potential areas for co-operation include:

- Environmental and energy transition (e.g. food security, waste management, preservation of agricultural land, and bio energy development)
- Economic development (joint promotion of the territory and the development of joint territorial strategies, land use policies, support for business, and the development of teleworking to help maintain remote town centres)
- Quality of services (promoting touristic sites, access to sport facilities, leisure, heritage, and access to health services)
- Administrative organisation (mobilisation of staff with specific skills to support key projects)

Four territorial partnerships were selected on a voluntary basis: the metropolis of Lyon and Pays d’Aurillac, the metropolis of Brest and Pays Centre Ouest Bretagne, the metropolitan territory of Toulouse and Massif des Pyrénées, and the urban community of Le Creusot-Montceau-les-Mines and Natural Regional Park of Morvan (European Network For Rural Development^[16]).

The Brest-Pays Centre-Ouest Bretagne reciprocity contract

Brest Métropole Océane is a harbour city of 207 000 inhabitants. It is renowned for its research and development activities and its robust service sector. Its rationale for pursuing the reciprocity contract was linked to the medium-long term risk of losing competitiveness and attractiveness in comparison to the regional hub of Rennes. The Pays Centre-Ouest Bretagne has a population of 97 000 inhabitants and has experienced a significant decline in productive employment since 2009, mainly due to an agro-food crisis that impacted the milk sector. Its motivation for joining the reciprocity contracts stemmed from the risk of the area becoming a medical desert and the presence of a fast growing wood sector that looks for new markets.

In that sense, the city of Brest and the rural area of Centre-Ouest Bretagne worked together to define their priorities and agreed to support innovative projects around four main strands: i) economic development; ii) social inclusion; iii) health, culture and services; iv) environment and energy transition. In order to determine each of these strands, local government officials and residents from both areas met 3-4 times in 2015 to negotiate win-win partnerships and joint activities to address areas of common concern. This bottom-up process was facilitated by the Brest-Bretagne urban agency planning. It led to the development of a joint roadmap, which was formally adopted by the local assemblies before being signed with the French government representatives in November 2016.

The initial reciprocity contract did not include any financial commitment from either part. However, there was a provision for the addition of a new budget line in the multiannual framework contract (CPER) agreed by the central government and the regional authority of Brittany that led to a public grant of EUR 2 million for the 2015-2020 period (with potential for seeking European Structural and Investment Funds as well).

A year after the signature of the reciprocity contract, there are already incipient results in terms of supporting an audiovisual cluster (regional hub for documentary film); healthcare (services provided by the Brest hospital are also made available to the rural areas of Pays Centre-Ouest Bretagne); and bioenergy (wood energy cluster that brings together all the local timber industry businesses).

3.3. Italy

Italy: the Inner Area National Strategy and contracts between levels of government.

The Inner Areas National Strategy was launched in 2014 to cope with service delivery and development issues in rural areas of Italy. Inner Areas are groups of municipalities characterised by their “inadequate access to essential services”. The classification is measured by the Inner Areas access to education, healthcare and transportation. This national policy requires a multi-governance framework for cooperation among central, regional and municipal governments to ensure joint work towards a common national agenda and efficient investment distribution.

In that sense, contracts between levels of government –materialised in the Programme Framework Agreement– represent a long process of collaboration and joint work between local stakeholders, municipal associations, regional and central governments to design a local development plan.

Methodology for the identification of “Inner Areas”

In order to identify the Inner Areas no demographic criteria has been applied. Instead, they have been identified in relation to their proximity to “service centres”. These have been defined as those municipalities that offer: an exhaustive range of secondary schools; at least one highly specialized hospital; and one railway station. All Italian municipalities have been classified according to the distance (travel time) from these service centres:

- Belt areas (up to 20 min from service centres)
- Intermediate areas (from 20 to 40 min)
- Remote areas (from 40 to 75 min)
- Ultra-remote areas (over 75 min away)

Inner Areas comprise intermediate, remote and ultra-remote areas. According to this classification inner areas cover almost 60% of the whole national territory, host about 23% of the total population and more than 4000 municipalities which represent around 53% of Italian municipalities. In addition to the accessibility component of the inner areas its natural assets, cultural resources and demographic decline also characterise them. Selected areas for the strategy constitute on average 15 municipalities and close to 30 000 residents (Barca, 2016_[19]; Dipartimento per le Politiche di Cohesione_[20]). The relevance of working together with groups of municipalities instead of single administrative units relies on the creation of networks, critical mass and capacity building (Faggian, 2017_[21]).

As of September 2016, 66 areas that cover 16% of the national territory had been selected as part of the Strategy. These areas represent 3% of the total national population, of which 55% live in remote and very remote areas. Population in these areas had been decreasing by 4.6% between 2001 and 2011.

The Inner Areas National Strategy: a place-based approach for the revitalisation of rural areas

The Inner Areas National Strategy aims to contribute to Italy’s sustainable development by recovering its marginalised territories and improving its inhabitants’ well-being and quality of life. The strategy seeks to foster territorial cohesion by turning differences into competitive strengths and working to overcome the urban-rural divide. In the longer term, the Strategy seeks to reinforce the Inner Areas demographic structure, which is usually characterized by depopulation and ageing (Lucatelli, 2016_[22]).

The National Strategy was designed and is implemented in a way to foster participation through an integrated approach to improve access to basic services, and business and employment opportunities. The key features of the approach are the following:

- Operationalised through two interrelated types of actions 1) improve access to basic services and 2) local development projects.
- Step-by-step process (one prototype per region is first selected to evaluate the potential success of the strategy and trigger feedback and learning among participants).
- Collaboration and multi-level governance (state, regions, municipalities and inter-municipal partnerships) to foster a participatory approach to local development.

- Multiple funding sources (EAFRD, ERDF and national funds) to support integrated actions (Galeota, 2015[23]).

Access to services and local development

The first aim the Strategy pursues is adjusting the selected Inner Areas inhabitants' access to essential services. Education, health and transport play a fundamental role as a precondition for development, thus the provision of these services will restore the right of citizenship of marginalised populations. It implies a formal commitment from relevant central and local administrations through their respective ordinary policies and resources together with additional interventions.

The second aim of the Strategy is to design and implement local development projects. These projects should increase local job creation that profits from local capital. The area-based projects will concentrate on a number of selected fields or development factors that have been established in the National Strategy such as valorisation of natural and cultural assets, agricultural business and production; renewable energy supply chains and energy saving; handicraft and local knowledge (Dipartimento per le Politiche di Coesione_[20]).

Multi-level governance

The Inner Areas Strategy is a national intervention where partnerships among different levels of government –central, regional and municipal associations– is essential. It encourages the coordination of national and local actions by jointly working together towards a common national agenda. The whole process from the selection of the local development projects to their implementation is meant to be based on a participatory approach that builds on heated, open and informed debate between different levels of government.

The Central Government's participation in the strategy is organised through the Inner Areas Technical Committee. Their function is to support municipalities in their association process, thus providing essential services at lower management costs. This national level team tends to be a pro-active force that takes part in all the stages of the strategy building on the field. It provides ground information, promotes work methods and often acts as a “destabilising force” vis-à-vis the local elite (Barca, 2016_[19]).

Regional government efforts are in charge, together with the central government, of identifying and pre-selecting Inner Areas able to take part in the Strategy through a standardised method based on a qualitative and quantitative analysis. They also provide support for the creation of a partnership between central and local institutional bodies; as well as foster understanding of local contexts. In addition, they provide the needed information and draw funding from several axes for the Inner Areas National Strategy.

Responsibility over the implementation of the development project is entrusted to the Municipal Associations which select a leader among themselves.

The process for the design of projects within the National Strategy Inner Areas is a bottom up approach that relies heavily on the active participation of local actors. However, it also combines elements from a top-down approach like the selection of areas, organisation of coordination meetings, developing strategies and offering guidance (Faggian, 2017_[21]). The results from this tops-down-bottom-up approach are materialised in the form of a Programme Framework Agreement (*Accordo di Programma Quadro*), which is a contract among the municipal association, regional and central governments.

Step-by-step process towards the Programme Framework Agreement

The signature of the Programme Framework Agreement is only the result of a long process of analysis, negotiation and debate among local and national stakeholders. Project areas are selected through a standardised public proceeding that involves a desk and field analyses of pre-selected areas.

Regional governments together with the Inner Areas Technical Committee conduct the desk analysis. Pre-selected areas are analysed with respect to a series of demographic and socio-economic parameters (utilised agricultural area, deforestation, hydrological risk, population losses, entrepreneurship, tourism and cultural heritage, quality of education and health services among others). Remote and ultra-remote areas are prioritised for pre-selection. Similarly, those areas that show critical values in the demographic, economic, social and environmental indicators. The desk analysis identifies a maximum of 5 pre-selected areas per region to take part in the Strategy.

Then, the selection process is completed with a field visit of the Technical Committee to pre-selected areas where they meet with local authorities and relevant stakeholders (mayors, expert, school managers, consumer associations, etc.) (Dipartimento per le Politiche di Coesione^[20]). During the field visit, the Technical Committee, in collaboration with the regional and municipal authorities, organises focus groups on local development subjects. The sessions are organised in line with the stated objectives of the Strategy (local development, healthcare, education and transport services) and 16 speakers are invited (3 local speakers and one expert from the relevant Ministry for each session). National authorities share indicators with local communities. Generally speaking, local stakeholders are not used to discussing daily problems through data or indicators and its analysis considering local specificities can become a topic for debate. Debate at this stage fosters a common understanding of long-term development objectives between local and central actors (Barca, 2016^[19]).

Each area has to produce three documents (initial draft of the local development strategy, preliminary strategy i.e. extended draft and final local strategy) before the complete package of interventions is formally sanctioned through a Programme Framework Agreement (*Accordo di Programma Quadro*) (Faggian, 2017^[21]). The drafting process also involves local communities and encourages local ownership of the development strategy and strengthens the place-based approach. Each draft produced by the local authorities benefits from the comments and feedback from national authorities, thus becoming a collaborative process and represents the joint work among levels of government.

In terms of the improvement of the provision of services in the Inner Areas, the local strategies usually consider the following:

- Education: reorganising educational facilities by replacing the ancient and inefficient structures in individual municipalities with new higher quality facilities in barycentric areas; rethinking the high school system towards the strengthening of technical and vocational education related to local potential; reducing teacher's turnover rates in the areas; reorganise school transport system; and ensure schools networking.
- Healthcare: reorganise healthcare services to ensure rapid emergency response and accessible diagnostic facilities for patients; centralise care services in larger hospitals and ensure higher quality assistance; improve territorial care networks; promote doctor's associations; and innovate provision of services through "tele-health" services.

- **Mobility:** reorganise public transport services avoiding bus/train routes overlap; redesign transport route options by considering mobility needs of different users (commuters, students, tourists); encourage negotiation between specific consumers of mobility (school and hospital managers) for better routing decisions; promote flexible solutions for off-peak hours and weak mobility consumers (eg. on demand mini bus service); and support on-road cycling planning new bike lanes and reducing administrative burdens.

The local development part of the strategies tend to focus on three themes common to many rural areas in Italy: tourism, cultural goods/heritage and agriculture and food industry- which in many instances are interrelated. In order to increase tourism productivity in the Italian Inner Areas two strategies have been identified: 1) investment in tangible assets such as roads, hotels and other tourism facilities and 2) investment in intangible assets such as education, local skills and network coordination (Faggian, 2017^[21]).

The intangible assets are particularly important for the Inner Areas as the creativity poured into “new forms of tourism” will be crucial to differentiate themselves and successfully compete. These new forms of tourism usually refer to “experiential” or “immersive” tourism that is linked to cultural traditions or local industries, e.g. learning manual activities from local craftsmen, nature, food and drink and cultural-heritage related tourism. Differentiation is paramount for both mature (e.g. Alta Vatelina) and new (e.g. Basso Sangro-Trigno) tourist destinations. Some Inner Areas strategies’ explicitly state that they want to create a network (critical mass) among tourism operators (e.g. Alta Irpinia) to promote destinations with a common theme, for example the same food product in several municipalities. These kind of strategies rely on the interconnection of tourism and food production/agriculture (Faggian, 2017^[21]).

Multiple funding sources

Financial contributions to fund the Inner Areas National Strategy come from the national budget and Regional EU structural funds. The resources allocated to enhancing the Inner Areas access to services or resources for “rights” (education, healthcare and mobility) come from the national budget, more specifically they come from the Stability Law¹. Each one of these areas is allocated approximately EUR 4 million, they are targeted to experimental actions which will be made permanent if proved successful. The financial resources for “growth” or for the local development projects come from Regional EU structural funds for 2014–2020² and on average are three times as much in comparison to the national funds (Barca, 2016^[19]) (Dipartimento per le Politiche di Coesione^[20]).

Challenges to the Inner Areas National Strategy

It is to be acknowledged that the Inner Areas National Strategy is an innovative place-based approach. However, some challenges should be taken into account for its successful implementation and future selection of projects. Weakness of local institutions is a challenge; and certainly the quality of local institutions is an important element for the

¹ Stability Law 2014 (Art. 1(13)-(17)); Stability Law 2015 (Art.1 (674)-(675); and Stability Law 2016 (Art 1 (811)).

² European Regional Development Fund (ERDF); European Social Fund (ESF); and the European Agricultural Fund for Rural Development (EAFRD); and the European Maritime and Fisheries Fund (EMFF).

success of a project. That is why a purely bottom-up approach is often unsatisfactory and a more balanced top-down/bottom-up approach is needed.

Although the implementation of the Strategy has just started in a few areas, evaluation of the progress and results will be essential to understand its strengths and weaknesses. Evaluation should not be overlooked or underfunded. Instead, joint work between academics and policymakers should be encouraged to produce an insightful evaluation of the strategy.

Another challenge the Inner Areas National Strategy will be the integration of migrants. At the moment, 8.3% of the total population of Italy are immigrants and most of them are relatively young (40% under 29). Between 2011-2015 the average yearly increase in the inflow of migrants was 4.9% (OECD, 2018^[24]). This population should be considered in the development strategies of Inner Areas in order to harness their potential contribution to the local economy.

3.4. Sweden

Sweden: a new vision for rural development focusing on improving well-being for rural dwellers.

Sweden's commitment to equity and inclusive development is well recognised. Among OECD members, Sweden consistently ranks in the top in terms of gross domestic product (GDP) per capita, and it maintains one of the lowest GINI indices of regional disparity in GDP per capita.

Sweden has introduced their National Strategy for Sustainable Regional Growth and Attractiveness 2015-2020 to support broader government priorities and promote a more explicit results-oriented approach to regional development. This strategy is coupled with efforts to build urban-rural linkages that promote greater inter-municipal cooperation in public service delivery, and regional development strategies that prioritise planning based on functional regions.

This National Strategy is meant to face regional-level challenges that are also common to other OECD countries, such as ageing population, internal migration and an influx of foreign migrants, including refugees. In addition, its rural areas are feeling "left-behind" – not only in their development but also in the government discourse.

Demographic pressure in Sweden is manifesting in at least three ways. First, is the aging population that puts pressure on service delivery needs and capacity on the social welfare system (including healthcare and pensions). The second one is internal migration, with people moving from one region to another for diverse, but often persistent reasons (e.g. opportunities, quality of life, etc.). Finally, the increasing level of external migration since 2012, particularly among refugees and asylum seekers affects national and subnational capacity to provide services and ensure sufficient infrastructure (e.g. housing, schools, health clinics, etc.) A whole-of government approach is needed, integrating the specificities of different territories, especially rural communities that are experiencing faster rates of depopulation and ageing. Institutional coordination is especially needed with respect to migrants, including greater vertical cooperation between central-level agencies and municipalities; as well as horizontal coordination at the municipal level to avoid overlap (OECD, 2017^[25]).

Classification of rural areas

Within the OECD, rural Sweden is relatively unique because of the diversity of its rural landscape. Sweden has all types of rural areas within its national territory: from those with proximity to functional urban areas, to remote rural areas. The southern part of the country is more densely populated than the north, while the north is characterised by different areas such as a sparsely populated interior with population concentrated in cities along the coast. In remote rural areas, there are places which have very concentrated populations in few centres (such as Norrbotten), and other where the population is more evenly distributed (such as Jamtland-Härjedalen).

The National Rural Development Agency, which is incorporated to the Swedish Agency for Growth Policy Analysis, has developed its own territorial classification, largely adapted from the OECD taxonomy. The Agency's classification better reflects the diversity of Sweden's rural landscape because it captures better the reality of the large size and internal differences within administrative regions and the fact the rural Sweden is characterised by a dispersed population with settlements of various sizes. Functional economic areas measured by labour market interactions provide a better way to capture this reality.

The classification is based on population in grid cells of 1 square kilometre to calculate the rural and non-rural population in a municipality and different threshold values in order to determine a municipality's classification. The basic classification contains three types of municipalities, which are determined by identifying:

- Municipalities with less than 20% of their population in rural areas and a total population of at least 500 000 in adjacent municipalities (predominantly urban)
- Municipalities with less than 50% of their population in rural areas (intermediate)
- Municipalities with at least 50% of their population in rural areas (predominantly rural)

This definition is then used as the basis to determine different shades or degrees of rurality (See more on the extended typology in OECD (2017_[25])). According to their typology, the share of population living in rural municipalities is 17% (OECD, 2017_[25]).

This methodology has also been applied to the analysis of functional labour markets (FLMs). These functional geographies are identified through the analysis of journey-to-work data. FLMs with a population density lower than 300 people per square kilometre are identified as rural. According to this definition, 70% of the Swedish population live in urban areas and 30% in rural areas.

The shift in Sweden's "hour-glass" multi-level governance system

Sweden ranks among the most decentralised countries in the world, especially in terms of public service delivery and from an expenditure point of view. Sweden's multi-level governance system is often described as an "hour-glass", where there are strong upper (central) and lower (municipal) tiers, and a slimmer (county) tier. The "hourglass" system means that the middle tier of government i.e. the regional/county level is less influential and of less importance than the central government and the municipalities.

The Swedish system used to combine a highly decentralised system for the provision of welfare services with a relatively centralised system for strategic planning and infrastructure investment. Indeed, 46% of public investment is conducted at the subnational level in Sweden- compared to 59% on average for OECD countries. However, this is

evolving slightly, as the share of subnational investment has been constantly rising over the past 15 years -11 percentage points since 2000.

There are two levels of subnational government: county and local municipal. There is a heavy reliance on delivering public investment and services at the subnational level. Municipalities have the responsibility for areas such as basic and secondary education, kindergarten, elderly care, water and sewerage, and physical infrastructure. The political level at the county (regional) level is (with some exceptions) responsible mainly for healthcare (about 80% of their budgets), planning of transportation infrastructure, public transport, culture, and may engage in other areas such as tourism and culture. In terms of responsibility for regional development policy, there are three different types of arrangements:

- County Administrative Board taking the lead in regional development (this is the traditional model and now exists in 4 out of 21 regions –from January 2017 it will only be 1).
- County Councils taking the lead in regional development (this is becoming the more prevalent model with 10 out of 21 counties now adopting it –from January 2017 it will be 14).
- Regional Co-ordination Bodies taking the lead in regional development (which are indirectly elected and made up of municipalities and County Council members -7 of the 21 counties have adopted this model- from January 2017 it will be 6).

The Swedish system is characterised by heterogeneity in the attribution of regional development competencies. The government is currently investigating a major regional reform that will reduce the number of counties from the present 21 to 6 regions. In essence, this initiative formalises and expands upon a past decades trend to reinforce the role of regions, notably by transferring more decision-making power to them from the centre, especially in regional development issues. If the planned reform succeeds, the Swedish “hourglass” will change, particularly at the subnational level, as a stronger county level could be a better partner for municipalities in regional development issues.

Up until 2010, out of 21 counties, there were 2 “pilot regions” (Skåne and Västra Götaland) in which County Councils held regional development competencies (in addition to health). The County Council’s responsibility for regional development became permanent in 2010 and at that time two additional regions received development competences. Six years later, ten more County Councils have the responsibility for regional development (including public transport and culture), on top of public healthcare. The result has been a strongly context-dependent approach to regional governance rather than a “one-size-fits-all” approach.

According to the OECD Territorial Review Sweden: Monitoring Progress in Multi-level Governance and Rural Policy (2017_[25]) care should be taken that adjustments to the list of county competences does not jeopardise Sweden’s asymmetrical and innovative approach to decentralisation, which has thus far successfully permitted it to adjust governance structures and competences according to territorial capacity.

Strengthening multi-level governance

Sweden has strengthened coordination among levels of government for regional development policy. This has occurred mainly through two main instruments: 1) the National Strategy for Sustainable Regional Growth and Attractiveness 2015-2020 and

Regional Development Strategies (RUS), which are supposed to align with it, and 2) a stronger role for the government's forum for regional growth.

Sweden's national rural policy

The national strategy is the key instrument to foster multi-level governance and alignment of strategic priorities across levels of government. It puts a strong emphasis on greater dialogue among stakeholders at the regional scale. At the regional level, the Regional Development Strategies at the county level are produced with the participation of all relevant actors in the region, including civil society organisations, municipalities and private sector. Through these strategies, the counties establish their goals and priorities for regional initiatives. Guiding these regional development strategies is the National Strategy 2015-2020, which serves as an anchor document for regional growth initiatives originating at the regional and national levels.

Sweden's National Strategy for Sustainable Regional Growth and Attractiveness was launched in 2015. It provides a framework for investing in regions and rural areas. The national policy goal for regional development is to develop the potential in all parts of the country with stronger local and regional competitiveness. The strategy provides a policy framework for the development of all regions in Sweden and focuses on investing in enabling factors utilising a place-based approach.

The strategy identifies four areas of challenges and opportunities related to demographic trends; globalisation; climate change; environment and energy; and social cohesion. Population ageing and its impact on rural areas are identified as a key risk and opportunity for regions in Sweden. This includes the need to maximise the potential workforce. Increasing globalisation and climate change will also be major drivers of change. A significant proportion of Sweden's exports come from rural areas (forestry, mining and related processing) and these industries are impacted by increasing competition and the need for firms to reposition to mitigate the impacts of climate change.

Priorities of the strategy are based on a well-being framework and focus efforts on key enabling factors for regional competitiveness. The four priority areas are the following:

- Innovation and entrepreneurship (including R&D, environmentally driven business development in all sectors and energy industry, access to capital, and internationalisation).
- Attractive environments and accessibility (including improving accessibility, access to services, spatial planning and housing, cultural assets, and tourism)
- Provision of skills (including labour market matching. Skills and lifelong learning, integration and diversity, and reducing barriers to labour force participation).
- International co-operation (regional co-operation within the European Union and globally, and export and trade promotion).

The policy is based on more clearly setting out policy priorities, roles and responsibilities. The national strategy specifies the areas that counties should focus on within each priority theme. Regions are responsible for preparing regional development strategies, which set out the vision, goals and priorities for sustainable development growth. Funding is provided for projects and activities that align with these regional plans. The government appropriates SEK 1.5 billion annually to support regional growth measures, and is mostly used alongside other funding sources from the region, municipalities, and the European Union.

A more effective approach to rural development policy in Sweden depends on improving co-ordination with regional and sectorial policies. Rural policy in Sweden is defined in a narrow sense at the moment, to a large extent around the parameters of CAP Pillar 2 funding.

The Monitoring Progress Review of Sweden (2017^[25]) identifies two specific examples of policy complementarities that are important to the future development of rural Sweden: spatial planning and service delivery innovation. In turn, these depend upon improving the co-ordination of rural development policies.

In regard to the first, the specificities of place are a critical consideration within such an approach. For rural areas close to cities, a critical goal is to limit sprawl while increasing connectivity. This requires a delicate balance. On the one hand, it is beneficial to increase the connections between rural and urban areas so that urban dwellers can have access to natural and cultural amenities in rural areas, and so that rural dwellers are able to engage in urban labour markets. On the other hand, if the population of rural areas in proximity to cities increase without investment in appropriate infrastructure and effective land-use planning, it can impose costs in terms of traffic congestion and sprawl. Key policies in this regard are transportation, land-use and resource use. Considerations for remote regions are different, since much depends on local conditions. For example, while remoteness may be a problem for many rural industries, it can be a competitive advantage in tourism.

Sectoral policies and services tend to be designed in a top-down way for the whole national territory. The Swedish national government determines the level of services and funds them, while the actual delivery is done mainly by municipalities, but increasingly by regional governments. The public sector also takes a lead role in the provision of services, with a limited role for the private and not-for-profit sector in the delivery of public infrastructure and services. There are benefits to this model, particularly in terms of equity of service provision, and local accountability for the quality and efficiency of service delivery. However, this model also has disadvantages, particularly nationally designed rules that may not be suited to sparsely populated areas, and a lack of incentives for co-operation between municipalities at a functional scale.

Forum on Regional Competitiveness

The Forum on Regional Competitiveness, created in 2007, has since been strengthened and plays an active role in fostering dialogue across levels of government. Formerly used as a coordination mechanism, it has been replaced with the Forum for Sustainable Regional Growth and Attractiveness. This forum is used to promote coordination between levels of government and type of government actor (political and civil service), bringing together representatives from ministries and regional bodies. State agencies also participate depending on the topic for discussion at each meeting. Associated with the forum are networks and working groups that bring together 16 state agencies. The forum meets in plenary sessions four times per year. It is part of the implementation of the National Strategy 2015-2020.

The forum has gained in authority and legitimacy, and is now considered as an important tool for multi-level governance in Sweden. Although the forum cannot take binding or formal decisions, it is seen as a credible institution to support national and regional level policy development through dialogue and cooperation. The forum focuses on themes related to the National Strategy 2015-2020's priorities, for example regional innovation systems; supporting skills and labour market integration; public services; infrastructure; and transport.

Subnational co-operation

Voluntary inter-municipal co-operation provides a flexible alternative to municipal mergers, which in most cases is a permanent solution. The Swedish municipal federations are legal entities, whose tasks and obligations are formally agreed upon by their members. These inter-municipal co-operative organisations are usually run by boards, whose members are not directly elected but instead nominated by the member municipalities. Over the years, inter-municipal collaboration among Swedish municipalities has increased steadily: in 2005 there were 80 municipal federations and by 2011 the number of federations increased to 110 (Regeringskansliet, 2005^[26]) (OECD, 2017^[25]). While recent figures for the number of federation are unavailable, the total spending by municipal federations in 2015 was SEK 16.5 billion, representing about 3% of total municipal spending.

Inter-municipal co-operation is practiced in several service areas, the most common being rescue services, education, public transport and energy services. Inter-municipal co-operation is indeed more common among the smallest municipalities or municipalities that are in fiscal stress (Anders Sundell, 2009^[27]); municipalities with populations above average engage in municipal federation also, especially for information technology (IT) services.

The biggest example of a voluntary municipal federation is the Kommuninvest, which is currently the main financing institution for subnational governments and the businesses they own. Kommuninvest is a credit company jointly owned by Swedish municipalities and County Councils. It was founded in 1991 because many municipalities had difficulty obtaining financing for their investments and had to pay high interest rates on loans. Kommuninvest's municipal borrowing could be obtained less expensively and it guaranteed access to secure access to capital during periods of financial market stress. Now, approximately 90% of Sweden's municipalities and County Councils/regions are members and is the largest lender to the subnational government sector.

Another form of inter-municipal collaboration in Sweden is the common committee (*gemensamma nämnd*). In this case, one municipality agrees to take responsibility to produce a certain service or set of services for the inhabitants of a group of municipalities. Unlike the municipal federations, the common committee is not a legal entity and therefore it is a less formal co-operation mechanism. The number common committees has increased rapidly: in 2008 there were about 70 committees and in 2011 the number had more than doubled to 148 committees (OECD, 2017^[25]).

Using subnational investment to support regional development goals

The level of public investment in Sweden is high, measured both in terms of spending per capita and as a share of GDP. In 2014, Sweden spent nearly USD 2 000 per capita and roughly 4.4% of GDP on public investment projects, which places Sweden near the top of the country comparison. Sweden's overall investment spending increased by USD 598 per capita in the 2000-14 period, due mostly to an expansion of subnational activity.

Where most countries in the OECD seem to have responded to economic downturn and lower tax revenues by investing less, Sweden has kept up –or even slightly increased- its public investment activity. Since 2009, public investment as a share of GDP increased by 2.3% in Sweden, compared to a decrease of 14.6% among OECD countries as a whole in the same period.

Sweden's need for public investment at the subnational level is presently driven by four main factors: population growth, population ageing, migration, and need to renovate and/or replace aged residential and public properties. All of this indicates that Sweden's subnational investments needs are not just in healthcare and social services, but also in education, transport and infrastructure. Over 70% of municipal investment activity – including by municipality-owned companies – focuses on three large investments categories: public housing (26%); real estate destined to facilitate municipal services, such as school buildings (25%); and infrastructure, such as roads, streets, parks and harbours (21%). The balance is spread across investments in water, sewage and energy equipment, vehicles, etc. (OECD, 2017^[25]).

In 2013, municipal investment levels reached nearly SEK 50 billion, representing about 80% of subnational investment and dominating subnational investment levels in Sweden. The yearly variance in investment growth has also been high, while the central government's investment growth has been stable. This indicates that subnational government investment plans are not well co-ordinated, or smoothed out over time; instead they appear pro-cyclical. Greater investment volumes in recent years have increased the fiscal liabilities in the municipal sector; however, municipalities and County Councils have typically funded a large part of their investments from their own savings, regardless of their ability to borrow freely.

The OECD Monitoring Progress Review has emitted recommendations to strengthen vertical and horizontal co-ordination mechanisms for public investments. The vertical co-ordination of public investment and regional growth policies in Sweden is mainly handled through dialogue, networking and information exchange between various stakeholders. This is very much in keeping Sweden's consensus-building approach. It also reflects the autonomous status of the government levels, where the central government must consult subnational governments prior to issuing new regulations that concern them. Thus, direct hierarchical involvement in investment projects is not how vertical co-ordination issues are typically dealt with in Sweden. Instead, the different levels of government together with central government agencies and all other relevant actors engage in continuous dialogue. The OECD Review recommended that it could be fruitful to better link dialogue with the evidence obtained from the indicator system and case-specific impact evaluations, as a means to make a stronger case for co-financing arrangements.

In terms of horizontal co-ordination, there are two approaches in Sweden: i) synchronisation among the central government players; and ii) co-ordination between subnational governments. At the central level, the Division for Regional Growth and Cohesion Policy at the Ministry of Enterprise and Innovation has the primary responsibility for co-ordinating central government measures and policies that promote regional growth. A set of indicators is used to monitor the development of the policies. The indicators are divided into three main themes connected to the National Strategy for Sustainable Regional Growth and Attractiveness: "innovation and entrepreneurship", "regional attractiveness" and "skills provision".

Horizontal co-ordination of subnational activity also includes co-ordinating with 240 central government agencies that work independently. The OECD Review recommended Sweden to consider promoting more strongly inter-municipal co-operation in investment with considerable externalities. This is particularly important for two reasons: i) presently, the bulk of subnational level investments are decided upon without much central government steering or interference, and thus may not be well linked to regional development policy; and ii) the benefits and costs of a particular investment may be spread

across jurisdictions and over time, which may not be fully taken into account by individual county or municipal governments. Therefore, at the heart of public policy making to support regional development should be measures to co-ordinate major investments, especially those in infrastructure and other significant initiatives, such as hospitals. One way to promote this strong inter-municipal coordination could be financial incentives, especially in cases where there are significant positive externalities. In such cases, the central government could use matching grants to partially finance subnational investments that are jointly decided upon by municipalities.

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