

## PROSPECTS FOR LOCAL ECONOMIES

### *Interest in Local Economies Mounting*

The local elections held on June 27 was a starting point for a full-fledged local autonomy in Korea. By implementing the system of local autonomy, Korea is expected to undergo major political, economic, and cultural changes. Autonomous local governance engenders special attention, as economic zones separated by markets or industrial areas play a pivotal role in international competition. As barriers of nations are lowered in the era of globalization, local economies will act as leading competitors in the world market.

The local autonomy will also change business environments for three main reasons. First, local governments will be able to take over more authority from the central government, and thus have more influence over business activities in their regions. Second, local economies will emerge as important markets for the regions and business corporations. Finally, local governments will be able to give various incentives to entice business corporations into provinces.

In short, this system offers numerous business opportunities to corporations. Accordingly, local economies will be able to create more business and employment opportunities. In this juncture, it is worthwhile to take a look at the general features of local economies, which have significant implications on their future economic growth.

### *Economic Concentration in Seoul*

The current local economies are grossly underdeveloped. The economic concentration in Seoul and its metropolitan area is so high that local economies plays a subordinate role

in the nation's economy. A cursory review of deposits and loans, for example, shows that Seoul is responsible for more than half of the total (population of Seoul is less than a fourth of the country's).

Such a concentration causes problems, such as over-population, soaring real estate prices and high rental costs, which provides a good reason for economic decentralization. The economic basis of the provinces is also vulnerable. Purchasing power is low and the market is limited. Additionally, there are few companies based on local economies. To make matters worse, a large portion of the economic value produced within provincial areas flows into the capital area. The amount and quality of resources, such as SOC(social overhead capital), human resources, information, and so forth that are available to the provinces are also inferior to those resources available to the capital area. Consequently, the concentration is becoming more dense.

### *Lack of Financial Independence*

To reverse the trend of concentration in the capital, outside forces are needed. The main source of such an outside force is the government. Government financial assistance should be the primary medicine to remedy such an imbalance. Lack of financial independence by local governments keeps them from taking the lead. It also is an obstacle to the implementation of local development projects which are independent of the assistance of the central government.

Another problem lies in the local self-government system itself. Currently, the governance of local government in personnel administration, legal justice, and budget management is restricted.

Furthermore, local governments lack expertise and experience in regional development. Hence, it is likely that some local development projects pursued by local governments may not be executed or result in failure.

### *Future of the Local Autonomy System Bright*

Long-term perspective of the local autonomy system is optimistic. It will take place gradually and local governments will actively carry out development projects. To this end, local governments will broaden the local tax base and issue government bonds to finance development

projects. Also, they will offer various incentives to firms as the competition among local governments becomes keen. In the long-run, the system is likely to result in balanced development among different regions in Korea.

Most significantly, the construction of SOC by private firms is expected to be actively pursued, which is likely to provide substantial business opportunities. According to the government plan, the total value of the projects amount to 1,400 trillion won. And the firms participating in the construction of SOC will receive many benefits, such as government financial assistance, and tax deductions. **VIP**

(Park Ki-Baeg)

### Major Socioeconomic Indicators by Region\*

(%)

		Population (1993)	GRP* (1992)	Financial Independence (1995)	Deposits (1993)
Seoul		24.2	25.5	98.0	51.0
Metro- politan Area	Pusan	8.6	7.0	84.8	7.8
	Taegu	5.1	3.9	90.5	5.3
	Inchon	4.6	5.0	92.8	3.7
	Kwangju	2.7	2.2	68.0	2.2
	Taejeon	2.6	2.3	83.0	2.4
Province	Kyonggi	15.8	15.9	78.7	10.4
	Kangwon	3.4	2.8	34.0	1.7
	Chungbuk	3.1	3.0	41.1	1.5
	Chungnam	4.3	3.7	34.0	1.6
	Chunbuk	4.4	3.7	34.0	1.6
	Chunnam	5.2	5.2	23.4	1.6
	Kyongbuk	6.3	6.7	37.2	2.9
	Kyongnam	8.5	12.2	52.2	5.2
	Cheju	1.2	1.0	41.5	0.7
Total(Average)		100.0	100.0	63.5	100.0

★ The figures denote component ratios(%).

\* GRP = Gross Regional Product

Source : National Statistical Office, *Annual Report of Local Statistics*, 1994.  
Department of Internal Affairs, 1995.